STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Louisiana Public Facilities Authority
Baton Rouge, Louisiana

March 2000

Performance Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

LEGISLATIVE AUDIT ADVISORY COUNCIL

MEMBERS

Representative Edwin R. Murray, Chairman
Senator J. "Tom" Schedler, Vice Chairman

Senator Robert J. Barham
Senator Foster L. Campbell, Jr.
Senator Lynn B. Dean
Senator Willie L. Mount
Representative Rick Farrar
Representative Victor T. Stelly
Representative T. Taylor Townsend

LEGISLATIVE AUDITOR

Daniel G. Kyle, Ph.D., CPA, CFE

DIRECTOR OF PERFORMANCE AUDIT

David K. Greer, CPA, CFE

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Ninety-eight copies of this public document were produced at an approximate cost of $540.00. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. An executive summary of this document is available on the Legislative Auditor's Web site at www.lla.state.la.us.

Louisiana Public Facilities Authority

March 2000

Performance Audit
Office of the Legislative Auditor
State of Louisiana

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

Table of Contents

Cost of Issuance for Louisiana Public Facilities Authority Bonds

Louisiana Public Facilities Authority Student Loans

Exhibits

Exhibits (Cont.)

Appendices

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

March 17, 2000

The Honorable John J. Hainkel, Jr.,
President of the Senate
The Honorable Charles W. DeWitt, Jr.,
Speaker of the House of Representatives

Dear Senator Hainkel and Representative DeWitt:

This report gives the results of our performance audit of the Louisiana Public Facilities Authority. This audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended.

This performance audit report contains our findings, conclusions, and recommendation. Appendix D contains the Louisiana Public Facilities Authority's response. I hope this report will benefit you in your legislative decision-making process.

Sincerely,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK/dl

[LPFA]

Office of Legislative Auditor

Executive Summary

Performance Audit
Louisiana Public Facilities Authority

The overall purpose of this performance audit is to review the 44 Louisiana Public Facilities Authority (LPFA) bond issues that closed between 1996 and 1998. In addition, we attempted to determine the cost of issuance for these bond issues and to determine if LPFA student loans are beneficial. We found that:

- LPFA has challenged the three legislative measures that were enacted in the 1999 Regular Legislative Session.
- For most of the LPFA project bond issues, it was the borrower's idea to use a bond issue to finance the activity. The majority of the borrowers selected their bond counsel because they had used them in the past. The Authority made few recommendations to the borrowers on which bond counsel to use.
- LPFA initiated all of its program bond issues and selected most of the parties involved in the bond closing.
- LPFA selected Foley and Judell as bond counsel for all (13) of its program bond issues.
- Foley and Judell served as bond counsel for nearly two-thirds (20 of 31) of the project bond issues.
- All of the bond issues were for an authorized public purpose as defined in state law.
- LPFA does not require borrowers to formally demonstrate what benefit their project will be to the state of Louisiana.
- LPFA does not track the final costs of bonds that it issues.
- For most LPFA borrowers, the benefit of obtaining a student loan through LPFA is nearly the same as obtaining a loan from any other lending institution.
- LPFA student loan purchases benefit banks and students.

Daniel G. Kyle, Ph.D., CPA, CFE, Legislative Auditor
Phone No. (225) 339-3800

AUDIT INITIATION

The Office of the Legislative Auditor conducted this performance audit of the Louisiana Public Facilities Authority (the Authority or LPFA) in response to a legislative request. The Legislative Audit Advisory Council approved the audit on August 12, 1999. The objectives of the audit were to:

- Determine how LPFA bond issues originate
- Determine if bond proceeds for the LPFA bond issues closed (finalized) between 1996 and 1998 were used for an authorized public purpose
- Determine who ensures that the LPFA bond issues benefit the state of Louisiana and determine what actual benefits (to the state) that the bond issues provide
- Determine the cost of issuance of the 44 LPFA bond issues that closed between 1996 and 1998
- Determine what benefit LPFA student loans provide to the post-secondary students of Louisiana

CREATION AND PURPOSE OF THE LOUISIANA PUBLIC FACILITIES AUTHORITY

Louisiana Public Facilities Authority Created by Indenture of Trust

The LFPA is a non-profit public trust and public corporation, which was created by an Indenture of Trust on August 21, 1974. The Authority has the ability to issue both taxable and tax-exempt bonds to finance activities involving education, health-care, student loans, industrial and economic development, and essential programs for state and local governmental units. According to the Indenture of Trust, the Authority's purposes are to promote, encourage, and further the accomplishments of all activities that are or may become of benefit to the state and that have a public purpose.

Louisiana Public Facilities Authority Programs and Projects

LPFA divides its bond issues into two categories: programs and projects. Programs pool similar entities together into one shared borrowing for the benefit of the participants, generally governmental or nonprofit 501(c)(3) entities. Project bond issues are for individual entities. Examples of these bond issues include issues for non-profit colleges, universities and hospitals. The Authority also issues tax-exempt Industrial Development Bonds (IDBs), which are for manufacturing and processing facilities. According to federal law, each IDB issue cannot exceed $10 million. Between 1996 and 1998, the Authority closed 44 (31 project and 13 program) bond issues totaling $1,359,807,000. The Authority receives no state appropriations nor do its profits return to the state. Rather, it generates its funds through investment earnings and program and project administrative fees. For 1998, LPFA's total revenues from all sources were $2,266,319.

Legislative Oversight Challenged

Three measures concerning the Authority were enacted during the 1999 Regular Legislative Session. However, the Authority filed suit before the effective date of the legislation asserting that these laws were unconstitutional. On August 10, 1999, a state district judge granted a preliminary injunction against enforcement of the new laws indicating that the trust agreement between LPFA and the state is a contract, and the state cannot unilaterally alter it. At the time this report was issued, this matter was not resolved.

ORIGINATION OF LOUISIANA PUBLIC FACILITIES AUTHORITY BOND ISSUES

How Louisiana Public Facilities Authority Bond Issues Originate

Projects: For most of the Authority project bond issues closed between 1996 and 1998 (25 out of 31, or 80.6%), we found that it was the borrower's idea to use a bond issue to finance the activity. We also found that in most cases the borrower first contacted the potential bond counsel who then contacted the Authority (16 out of 31, or 51.6%).

Programs: The Authority initiates the programs and invites potential borrowers to participate. The number of interested borrowers and the amount of funding requested determine the amount of the bond issue. The Authority organizes the bond issue and selects most of the parties involved in the bond closing.

Borrowers Selected Bond Counsel Based on Satisfaction With Prior Work and Reputation

Each bond issue is guided by a bond attorney, also referred to as bond counsel. For the 31 project bond issues closed between 1996 and 1998, the Authority made few recommendations to the borrowers on which bond counsel to use. Over half (18 of 31) of the borrowers stated that they selected their bond counsel based on reputation or because the borrower had used that bond counsel in the past.

Foley and Judell, a law firm based in New Orleans, was borrower bond counsel for approximately two-thirds of the project bond issues (20 out of 31, or 64.5%). For the remaining 11 bond issues, there were four different bond counsels and one instance of two bond counsels working together.

Authority Selected Foley and Judell as Bond Counsel for All Program Bond Issues

Because of legislative concerns regarding the amount of bond counsel fees paid for LPFA bond issues, we determined the amount of these fees for bond issues in our scope. We found that Foley and Judell was the bond counsel for all 13 of the Authority's program bond issues and 20 of the 31 project bond issues in our scope. We were able to obtain from the trustee banks the amount of the fee that Foley and Judell received for 11 of the 13 program bond issues and 16 of the 20 project bond issues. For the 11 project issues for which Foley and Judell was not bond counsel, we were able to obtain bond counsel fees for nine of these issues. See Exhibit A for the legal fees charged for these issues.

Exhibit A
Legal Fees Associated With Program and Project Bond Issues

Law Firm	Legal Fees Program Bond Issues	Legal Fees Project Bond Issues	Total Legal Fees
Foley and Judell	$382,750	$945,476	**$1,328,226**
Remaining Law Firms	N/A	$486,200	**$486,200**

PUBLIC TRUST AUTHORIZED PURPOSES LOUISIANA REVISED STATUTE 9:2341

Louisiana Public Facilities Authority Bond Issues Accomplish Authorized Public Purpose

Louisiana Revised Statute 9:2341 states that "Express trusts may be created or amended to issue obligations and to provide funds for the furtherance and accomplishment of any authorized public function or purpose of the state or of any parish. . . ." We found that the LPFA bond issues fell into five of the broad public purpose categories mentioned in state law. In addition to categorizing bond issues by public purpose, we further categorized them by how the bond proceeds were used. Many of the 31 Authority project bond issues had more than one use. Most of the bond issues used at least some of the bond proceeds to expand and/or renovate an existing facility. In addition, some proceeds for nearly half of the projects were used to refinance existing debt.

The Bond Proceeds Were Used for Intended Purpose

We found that the bond proceeds were used for the intended purpose/purposes listed in the bond transcripts.

BENEFIT TO THE STATE OF LOUISIANA

Louisiana Public Facilities Authority Does Not Require Borrowers to Demonstrate That the Bond Issue Benefits the State of Louisiana

According to the Indenture of Trust that created LPFA, the Authority's purposes are to promote, encourage, and further the accomplishments of all activities that are or may become of benefit to the state and that have a public purpose. According to the President and CEO of LPFA, the Authority does not require borrowers to make a formal demonstration of what benefit their project will be to the state since the potential benefit to the state must exist because the borrowers are limited to the types of projects they can finance through tax-exempt bond issues.

Does an Authorized Public Purpose Benefit the State of Louisiana?

Using the legal definition of authorized public purpose, LPFA's bond issues meet the criteria. However, these categories are very broad and the legislation allows the LPFA a great deal of latitude in deciding which projects/programs to finance. In fact, nearly all of the issues could be thought of as having an economic impact in the state of Louisiana.

COST OF ISSUANCE FOR LOUISIANA PUBLIC FACILITIES AUTHORITY BONDS

Complete Cost of Issuance Information Unavailable

We could not obtain complete cost of issuance information for all 44 bond issues. This is because the Authority does not keep a record of the final cost of issuance information for their bond issues and we could not obtain complete cost information from the trustee banks. As a result, LPFA has no way of knowing whether the costs associated with issuing its bonds are minimized.

RECOMMENDATION

LPFA *should keep records of the final cost of issuance in order to ensure that the cost of* issuing its bonds is minimized.

Borrowers' Bond Counsel Fees Equaled or Were Less Than the Maximum Allowable Fees

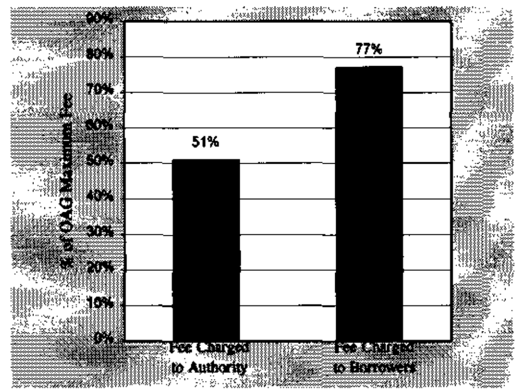
All of the borrowers' bond counsel fees for LPFA bond issues that we examined were at or below the maximum fee allowable as set by the Louisiana Office of the Attorney General. State Bond Commission rules require the attorney's fees associated with the issuance of bonds to be in accordance with the Attorney General's fee schedule. In accordance with this law, the attorney general sets the maximum fee schedule for the borrowers' bond counsel and approves the fee arrangements.

Comparison of Bond Counsel Fees

We compared the bond counsel fees charged for the bond counsels selected by the Authority and by the borrower to the maximum set by the attorney general. The Authority chose Foley and Judell as the bond counsel for all Authority programs. Foley and Judell charged borrowers an average of 77% of the maximum fee allowed by the attorney general. In contrast, Foley and Judell only charged the Authority 51% of the maximum fee allowed by the attorney general.

Exhibit B

Percentage of Maximum Bond Counsel Fee Charged by Foley and Judell to the Authority and to the Borrowers Bond Issues Closed Between 1996 and 1998



Source: Prepared by legislative auditor's staff using unaudited information obtained from bond issue trustees.

LOUISIANA PUBLIC FACILITIES AUTHORITY STUDENT LOANS

Louisiana Public Facilities Authority Does Not Own the Student Loans

LPFA is not an eligible student loan lender and, therefore, cannot own the student loans. The LPFA student loans are owned by the bond issue trusts. LPFA is the issuer of the student loan bonds and currently acts as the administrator of the student loan bond issues. For acting as an administrator, LPFA collects an annual administrative fee of .65 percent (65 basis points) of the outstanding student loan balance.

Student Loan Bond Proceeds Investments

The bond proceeds for the three Authority Student Loan Revenue Bonds issued during the period of our audit are invested in floating rate investment agreements. These investment agreements provide for a guaranteed interest rate for the invested bond proceeds. The interest rates on the investments are guaranteed to be a certain percentage over the student loan revenue bond rate. According to the President and CEO of LPFA, this additional interest is paid to the federal government as required by federal law.

Student Loans Issued by Louisiana Public Facilities Authority Benefit Some Borrowers

LPFA heavily markets its student loans. Money to fund the Authority's student loans comes from its student loan bond proceeds. These funds are maintained in the bond issue trusts. The funds in the trust are invested until they are disbursed to the borrowers as student loans. Borrowers who obtain loans through LPFA benefit by receiving money to pay for an education. In some cases, LPFA borrowers get the added benefit of a reduced interest rate for this financing. However, for most LPFA borrowers, the benefit of obtaining financing through LPFA is nearly the same as obtaining financing from any other lending institution. Since borrowers can get the benefit of student loans without LPFA, it is questionable as to whether the state has a need for LPFA to continue issuing student loans.

Few Borrowers Make All Payments Timely

Only a small percentage of borrowers make enough consecutive, timely payments to take advantage of LPFA's interest rate reduction incentive. LPFA's Vice President of Student Loans and Administration stated that a conservative projection (i.e., a larger percentage than may actually occur) in the LPFA student loan bond indenture estimates that 35% of the borrowers will make enough timely payments to take advantage of the interest rate reduction incentive offered by LPFA. Therefore, the LPFA loan is only more advantageous for the small percentage of borrowers that make timely payments. The larger percentage of borrowers who do not make timely payments will receive no added incentives by obtaining a loan through LPFA.

Louisiana Public Facilities Authority Student Loan Purchases Benefit Banks and Students

The benefits that banks receive by having LPFA purchase their student loans ultimately benefit borrowers by making more loans available and providing good customer service. The benefits to the banks include the following:

- Facilitating the bank's exit from the student loan business
- Allowing banks to make more loans
- Allowing students to consolidate loans
- Relieving banks from the cumbersome federal servicing requirements of student loans

Louisiana Public Facilities Authority

AUDIT INITIATION

The Office of the Legislative Auditor conducted this performance audit of the Louisiana Public Facilities Authority (the Authority or LPFA) in response to a legislative request. The Legislative Audit Advisory Council approved the audit on August 12, 1999. The objectives of the audit were to:

- Determine how LPFA bond issues originate
- Determine if bond proceeds for the LPFA bond issues closed (finalized) between 1996 and 1998 were used for an authorized public purpose
- Determine who ensures that the LPFA bond issues benefit the state of Louisiana and determine what actual benefits (to the state) that the bond issues provide
- Determine the cost of issuance of the 44 LPFA bond issues that closed between 1996 and 1998
- Determine what benefit LPFA student loans provide to the post-secondary students of Louisiana

SCOPE AND METHODOLOGY

This performance audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. We followed applicable generally accepted government auditing standards as promulgated by the Comptroller General of the United States.

The scope of our audit includes only the bonds issued by LPFA between 1996 and 1998. To obtain background information on LPFA, we reviewed public trust law, newly enacted state statutes, the indenture of trust that created the LPFA, attorney general opinions, financial statements, and documents related to the LPFA bond issues between 1996 and 1998. We also interviewed Authority personnel regarding the services provided by LPFA. Using this background information and concerns of legislators regarding LPFA, we created our audit objectives.

To accomplish our first objective of determining how LPFA bond issues originate, we interviewed borrowers for the LPFA issues closed between 1996 and 1998. We discussed with the borrowers how the bond issues began and how each one selected the parties involved in closing the bond issue. We also interviewed Authority personnel regarding LPFA bond issue origination.

To accomplish the second objective of determining if the LPFA bond proceeds were used for an authorized public purpose, we compared the purposes of the LPFA bond issues closed between 1996 and 1998 with the authorized public purposes in state law. To identify the purposes of the bond issues, we reviewed the bond transcript and interviewed borrowers. For a sample of bond issues, we physically verified by site visit that a project was in progress or had been completed that matched the purposes as outlined in the bond transcripts.

The third objective relates to the benefit the state of Louisiana receives from the LPFA bond issues. To address this objective, we interviewed Authority personnel, reviewed the purposes of the bond issues, and reviewed relevant state law. We also interviewed borrowers from the LPFA bond issues closed between 1996 and 1998.

To complete our fourth objective, we attempted to determine the cost of issuance for the 44 LPFA bond issues that closed between 1996 and 1998. We first contacted LPFA to obtain this information. However, LPFA does not maintain documentation related to the final cost of issuing its bonds. Instead, LPFA referred us to the trustee banks of the bond issues, which are responsible for holding and monitoring the proceeds of the bond issue. However, the trustee banks had difficulty providing complete information. Using the limited cost information, we compared the borrowers' bond attorney fees to the maximum fee allowable as set by the Office of the Attorney General.

The fifth objective relates to the benefit LPFA student loans provide to the post-secondary students in Louisiana. To complete this objective, we interviewed Authority personnel to determine the history of the LPFA student loan division. We also interviewed the director of student aid and scholarships at Louisiana State University to obtain background information on the student loan process. We compared the benefits of LPFA student loans to loans issued by other lending institutions. We also determined the process of originating the LPFA student loans and the benefit of the LPFA student loans to the borrowers. However, we did not physically verify the existence of the LPFA student loans because these loans are maintained out of state. In addition, we also conducted telephone interviews with a sample of lending institutions to determine why they sold their student loan portfolios to LPFA.

Creation and Purpose of the Louisiana Public Facilities Authority

Louisiana Public Facilities Authority Created by Indenture of Trust

The LFPA is a non-profit public trust and public corporation, which was created by an Indenture of Trust on August 21, 1974. The Authority has the ability to issue both taxable and tax-exempt bonds to finance activities involving education, health-care, student loans, industrial and economic development, and essential programs for state and local governmental units. According to the indenture of trust, the Authority's purposes are to promote, encourage, and further the accomplishments of all activities that are or may become of benefit to the state and that have a public purpose.

The Indenture of Trust names the state of Louisiana as the sole beneficiary of the public trust. According to Authority information, they can achieve lower-than-market-rate financing, passing the savings along to Louisiana, its governmental components and its people.

As stated in the Authority's 1998 annual report, LPFA is not a state agency; it is a public corporation. However, the Authority must comply with state laws regarding public records, public contracts, open meetings, public bids, the Bond Validation Procedures Law, and the State Code of Ethics. The Authority is audited annually by a private certified public accounting firm and files a copy of its audited financial statements with the Office of the Legislative Auditor.

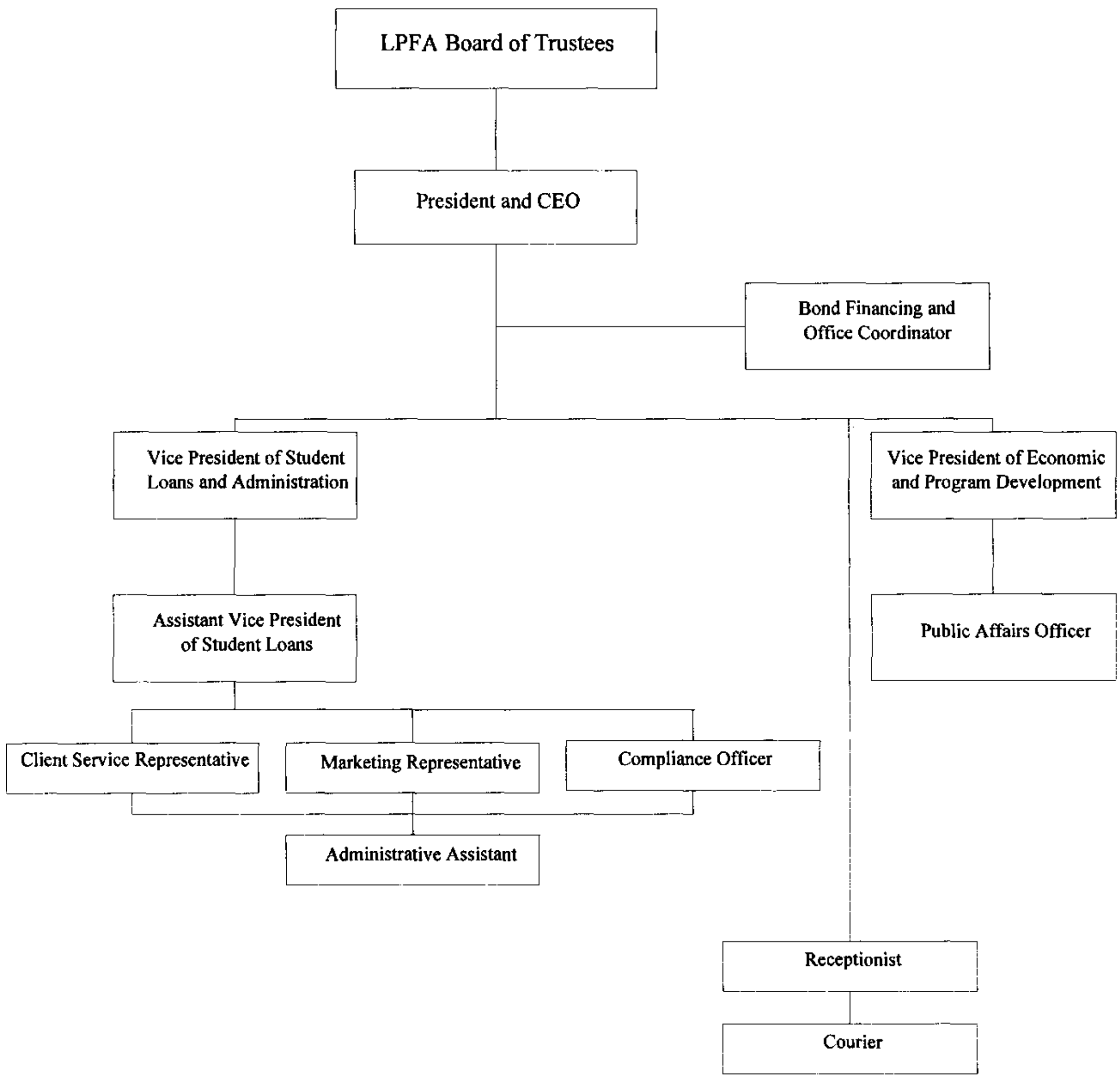
Bonds issued by the Authority are not state general obligation debt and therefore do not rely on the full faith and credit of the state of Louisiana. The bonds issued by the Authority are special obligation revenue bonds issued for eligible public and private entities throughout the state. Since its inception, the Authority has issued over $13 billion in bonds for 544 bond issues.

Organization of the Louisiana Public Facilities Authority

A five-member board of trustees oversees the Authority. The governor appoints each trustee for a six-year term from a list that the incumbent board prepares and submits. The Authority's board of trustees must approve all bonds issued through the Authority. In addition, LPFA bond issues must undergo review and acceptance by the State Bond Commission. According to State Bond Commission rules, any attorney fees paid related to the bond issue are subject to the review of the State Attorney General.

As seen in the organization chart in Exhibit 1, the Authority has 12 positions. Staff functions include administering student loans, issuing bonds, and promoting economic development. Student loans will be discussed in greater detail later in this report.

Exhibit 1
LPFA Organization Chart
As of September 1, 1999



Source: Prepared by legislative auditor's staff using information provided by LPFA.

Louisiana Public Facilities Authority Programs and Projects

LPFA divides its bond issues into two categories: programs and projects. Programs pool similar entities together into one shared borrowing for the benefit of the participants, generally governmental or non-profit 501(c)(3) entities. According to LPFA's annual report, this allows individual entities to benefit by achieving lower bond issue costs and lower interest rates. Examples of Authority programs include an advance funding program for school boards and the hospital equipment loan program.

Project bond issues are for individual entities. Examples of these bond issues include issues for non-profit colleges, universities and hospitals. The authority also issues tax-exempt Industrial Development Bonds (IDBs), which are for manufacturing and processing facilities. According to federal law, each IDB issue cannot exceed $10 million.

As shown in Exhibit 2, between 1996 and 1998, the Authority closed 44 (31 project and 13 program) bond issues totaling $1,359,807,000. Included in the 13 program bond issues were two student loan bond issues totaling $89,500,000.

Exhibit 2
Number and Amount of LPFA Bond Issues
Closed for 1996, 1997, and 1998

	Program Bond Issues		Project Bond Issues		All Bond Issues	
Year	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
1996	5	$83,430,000	8	108,230,000	13	$191,660,000
1997	6	196,685,000	8	431,710,000	14	628,395,000
1998	2	17,835,000	15	521,917,000	17	539,752,000
Total	**13**	**$297,950,000**	**31**	**$1,061,857,000**	**44**	**$1,359,807,000**

Source: Prepared by legislative auditor's staff using information provided by LPFA.

Funding

The Authority receives no state appropriations nor do its profits return to the state. Rather, it generates its funds through investment earnings and program and project administrative fees. For 1998, LPFA's total revenues from all sources were $2,266,319. The administrative fees include the following:

- A financing application fee of $500 (credited against the finance acceptance fee)
- A finance acceptance fee of usually one-tenth (reduced to 1/20 on March 17, 1999) of one percent of the face amount of the issued bonds
- Multi-family annual issuer fees
- Program administrative fees

The program administrative fees include fees the Authority pays itself from the program bond proceeds to administer the student loan revenue bonds and other programs. For 1998, these fees totaled $875,218. LPFA's student loan division is called the Louisiana Education Loan Authority (Lela). As seen in Exhibit 3, Lela accounted for over 50% of the Authority's operating revenues and expenses in 1998. In addition, LPFA had an operating loss of $6,792 in 1998, but with the income from operating Lela, the total income from operations exceeded $25,000. The non-operating revenues include investment earnings.

Exhibit 3
LPFA Statement of Revenues and Expenses
For the Years Ending December 31, 1997 and 1998

	December 31, 1997			December 31, 1998		
	LPFA	**Lela**	**Total**	**LPFA**	**Lela**	**Total**
Total Operating Revenues	$1,016,653	$736,981	$1,753,634	$667,898	$817,594	$1,485,492
% of Total Revenue	57.97%	42.03%	100.00%	44.96%	55.04%	100.00%
Total Operating Expenses	735,145	714,229	1,449,373	674,690	785,249	1,459,939
% of Total Expenses	50.72%	49.28%	100.00%	46.21%	53.79%	100.00%
Income From Operations	**281,508**	**22,752**	**304,261**	**(6,792)**	**32,345**	**25,553**
Total Non-Operating Revenues	**737,015**	**0**	**737,015**	**780,828**	**0**	**780,828**
Net Income	**$1,018,523**	**$22,752**	**$1,041,276**	**$774,036**	**$32,345**	**$806,381**

Source: Prepared by legislative auditor's staff using information provided by LPFA.

Legislative Oversight Challenged

Three measures concerning the Authority were enacted during the 1999 Regular Legislative Session. Specifically, the legislation created the following laws:

- Act 915 requires a public trust in which the state of Louisiana is beneficiary to submit its operating budget to the Joint Legislative Committee on the Budget for review and approval.

- Act 1238 increases the number of members who sit on the board of directors from five to seven. Furthermore, members of the board would be appointed by the governor, as they are now, but would be subject to Senate confirmation. Present board member terms would terminate on the effective date of the act.

- Act 1323 reduces the per diem paid to board members from $300 to $200 while on LPFA business.

However, the Authority filed suit before the effective date of the legislation asserting that these laws were unconstitutional. The Authority contended that its Indenture of Trust is a contract that cannot be unilaterally amended by the state and that since it is not a political subdivision of the state is not subject to management and control of the legislature without consent of its board of trustees. On August 10, 1999, a state district judge granted a preliminary injunction against enforcement of the new laws indicating that the trust agreement between LPFA and the state is a contract, and the state cannot unilaterally alter it. At the time this report was issued, this matter was not resolved.

Origination of Louisiana Public Facilities Authority Bond Issues

How Louisiana Public Facilities Authority Bond Issues Originate

As mentioned previously, LPFA's bond issues are categorized as either projects or programs. Each type of bond issue originates in a different way.

Projects: For most of the Authority project bond issues closed between 1996 and 1998 (25 out of 31, or 80.6%), we found that it was the borrower's idea to use a bond issue to finance the activity. For the remaining bond issues, it was the idea of a consultant or some other entity involved in the bond industry, such as an underwriter, to use a bond issue to obtain financing.

We also found that in most cases the borrower first contacted the potential bond counsel who then contacted the Authority (16 out of 31, or 51.6%). Approximately one-third of the borrowers contacted LPFA directly. For the remaining bond issues, two borrowers could not remember who first contacted the Authority and three borrowers had a party in the bond industry contact the Authority.

For project bond issues, potential borrowers obtain an application packet when they first contact LPFA. LPFA collects information concerning the activity to be financed and the number of jobs created or maintained using the application packet. The bonds must receive preliminary and final approval by the LPFA Board of Trustees and the State Bond Commission. In addition, LPFA holds a public hearing to allow members of the public to object to the issuance of the bonds. The borrower's bond counsel coordinates all of these activities for the borrower. In addition, LPFA coordinates activities with other parties involved in issuing the bonds. See Exhibit 4 for a listing of common parties involved in LPFA bond issues. Throughout this process, LPFA reviews the documents prepared by the bond counsel.

Exhibit 4
Common Parties Involved in an LPFA Bond Issue

Parties	Description
LPFA	Public trust issuing bonds "on behalf" of the state of Louisiana.
State Bond Commission	According to state law, all bond issues of a public trust shall be submitted to, approved, and sold by the State Bond Commission.
Bond Counsel	A law firm with expertise in municipal bond transactions. They coordinate the entire transaction and give a tax-exempt status opinion on the bonds and also act as an independent third party.
Issuer Counsel	Reviews documentation and structure of the bond issue and issues an opinion of the validity of the issuer process
Trustee	Represents and protects the interest of the bondholders including holding all funds and other security for the bonds
Trustee Counsel	Reviews all bond documents on behalf of the trustee and issues an opinion as to whether the trustee has provided the appropriate documents
Underwriter	Helps structure the bond issue and purchases and resells the bonds on behalf of the issuer
Underwriter's Counsel	Prepares the disclosure statement
Borrower's Counsel	Reviews all bond documents on behalf of the borrower and issues an opinion as to whether the borrower has provided the appropriate documents

Source: Prepared by legislative auditor's staff using information obtained from the National Association of Housing and Redevelopment Officials Web site and from LPFA.

Programs: The programs, however, are initiated in a different manner. The Authority initiates the programs and invites potential borrowers to participate. The number of interested borrowers and the amount of funding requested determine the amount of the bond issue. The Authority organizes the bond issue and selects most of the parties involved in the bond closing.

For example, the School Board Advance Funding Program is designed to enable any school district in the state to engage in short-term borrowing (via an LPFA bond issue) against the tax revenues it will receive later in the year. LPFA sends out letters each spring to each of the Louisiana school districts. LPFA asks those school districts that are interested in the advance funding program to respond to LPFA. At the time of the School Board Advance Funding Program bond issue closing in September, the amount of the bond issue has been determined based on actual demand.

Borrowers Selected Bond Counsel Based on Satisfaction With Prior Work and Reputation

Each bond issue is guided by a bond attorney, also referred to as bond counsel. For the 31 project bond issues closed between 1996 and 1998, the Authority made few recommendations to the borrowers on which bond counsel to use.

- Over half (16 of 31) of the borrowers stated that they selected their bond counsel because they had used them in the past.
- Slightly over one-third (12 of 31) of the borrowers stated that they selected the bond counsel based on a recommendation. These recommendations came from a variety of entities in the bond industry, such as underwriters. Only two of the recommendations came from the Authority.
- The remaining borrowers (3 of 31) stated that they selected their bond counsel based on reputation or that the bond counsel was part of a package financing.

Foley and Judell, a law firm based in New Orleans, was borrower bond counsel for approximately two-thirds of the project bond issues (20 out of 31, or 64.5%).

- Over half of the borrowers who used Foley and Judell said they did so because they had used them in the past (12 out of 20, or 60%).
- Six borrowers stated that they used Foley and Judell based on a recommendation from someone in the bond industry.
- The remaining two borrowers used Foley and Judell based on reputation and because Foley and Judell was part of a package deal.

For the remaining 11 bond issues there were four different bond counsels and one instance of co-bond counsel. These bond counsels were McGlinchey Stafford (five bond issues), Kutak Rock (two bond issues), Long Law Firm (two bond issues), Breazeale, Sachse, and Wilson (one bond issue), and Foley and Judell/McKenzie, McGhee and Auzenne (co-bond counsel on one issue).

Authority Selected Foley and Judell as Bond Counsel for All Program Bond Issues

Because of legislative concerns regarding the amount of bond counsel fees paid for LPFA bond issues, we determined the amount of these fees for the bond issues in our scope. We found that Foley and Judell was the bond counsel for all 13 of the Authority's program bond issues in our scope. According to the Authority's President and CEO, the Authority selects most of the parties involved in issuing program bond issues. As mentioned earlier, Foley and Judell was bond counsel for approximately two-thirds of the project bond issues.

We were able to obtain from the trustee banks the amount of the fee that Foley and Judell received for 11 of the 13 program bond issues. These fees totaled $382,750. Foley and Judell also acted as bond counsel for 20 of the 31 project bond issues. We were able to obtain the amount of the Foley and Judell fee for 16 of these 20 project bond issues. These fees totaled $945,476.

In addition to using Foley and Judell as bond counsel for the program bond issues, LPFA paid Foley and Judell $49,384 for legal services related to the 1996 and 1997 legislative sessions. LPFA financial records also show payments to Foley and Judell for legal services related to the student loan bond issues and the Tulane Educational Fund for $30,561.

For the 11 project bond issues for which Foley and Judell was not bond counsel we were able to obtain bond counsel fees for nine of these issues. These fees totaled $486,200.

PUBLIC TRUST AUTHORIZED PURPOSES
LOUISIANA REVISED STATUTE 9:2341

Louisiana Public Facilities Authority Bond Issues Accomplish Authorized Public Purpose

We found that all 44 LPFA bond issues were issued for an authorized public purpose. That is, the bond issues were issued for a public purpose as defined in state law. However, a "public purpose" is broadly defined.

Louisiana Revised Statute 9:2341 states that "Express trusts may be created or amended to issue obligations and to provide funds for the furtherance and accomplishment of any authorized public function or purpose of the state or of any parish. . . ." This statute defines an authorized public purpose to include but not be limited to 15 different categories, with several topics within each category. *A complete listing of these categories can be found in Appendix A.* Topics within the categories include such things as hospitals, housing, educational services and facilities, community development, and economic development facilities and activities. These topics are so broad that almost any type of activity could be considered to be for a public purpose.

We found that the 44 LPFA bond issues that closed between 1996 and 1998 fell into five of the broad public purpose categories mentioned in state law. As shown in Exhibit 5, the largest number by category of bond issues is education, with the next largest number being health-care.

Exhibit 5
Authorized Public Purpose of 44 LPFA Bond Issues
Closed Between 1996 and 1998

Category	No. of Programs	No. of Projects	Totals	Percentage of Total
Education	7	9	16	36.4%
Health-care	1	9	10	22.7%
Housing	1	7	8	18.2%
Industry	0	5	5	11.4%
State Agency	4	1	5	11.4%
Totals	**13**	**31**	**44**	**100%**

Note: Percentages do not add to 100% because of rounding.
Source: Prepared by legislative auditor's staff using information provided by LPFA.

Uses of Louisiana Public Facilities Authority Project Bond Issues

In addition to categorizing bond issues by public purpose, we further categorized them by how the bond proceeds were used. Many of the 31 Authority project bond issues had more than one use. As shown in Exhibit 6, most of the bond issues used at least some of the bond proceeds to expand and/or renovate an existing facility. In addition, some proceeds for nearly half of the projects were used to refinance existing debt.

We organized the uses of the 31 Authority project bond issues into the following four categories:

(1) refinancing existing debt;

(2) expanding/renovating an existing facility;

(3) building and equipping a new facility; and/or

(4) purchasing and renovating (if necessary) an existing facility/equipment.

As shown in Appendix B, many of the bond issues had more than one use. Therefore, a bond issue could be included in more than one category of use.

Exhibit 6
Uses of 31 Project Bond Issues
Closed Between 1996 and 1998

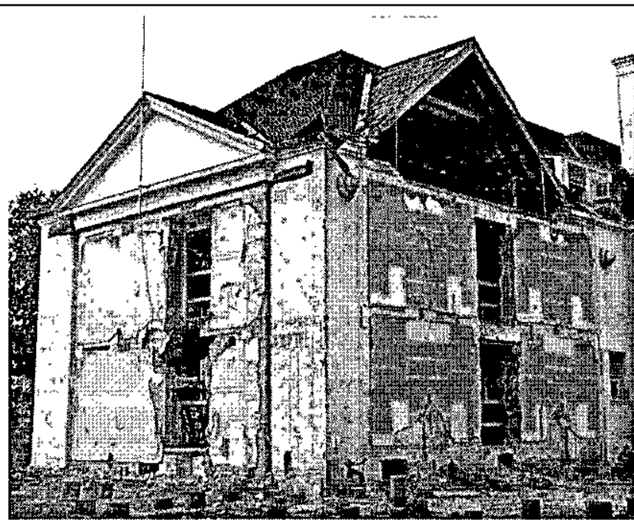
Use	Number	Percent of Total*
To Expand/Renovate an Existing Facility	16	51.6%
To Refinance Existing Debt	14	45.2%
To Purchase and Renovate (if necessary) an Existing Facility/Equipment	12	38.7%
To Build and Equip a New Facility	11	35.5%

*Will not total to 100% because the bond issues can be used for more than one purpose and therefore be included in more than one category.

Source: Prepared by legislative auditor's staff using information from project bond transcripts.

Expanding and/or Renovating Existing Facility

As shown in Exhibit 6, the most common use of the project bond issues was expanding/renovating of an existing facility. Just over half of the project bond issues included at least some expanding/renovating an existing facility (16 out of 31, or 51.6%). For example, Dillard University in New Orleans used part of the proceeds from its 1998 bond issue of $26.5 million to renovate existing dormitories (see photo at left). In another bond issue, Alma Plantation in Pointe Coupee Parish issued $1.7 million worth of bonds in 1998 to help finance the expansion of its sugar mill.



Dormitory Renovation at Dillard University

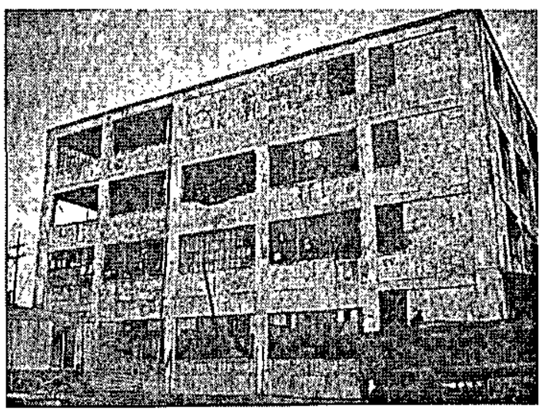
Refinancing Existing Debt

About 45% (14 out of 31, or 45.2%) of the project bond issues included at least some refinancing of existing debt. The proceeds from some of these bond issues, such as the 1996 Gulf Breeze bond issue totaling $9.4 million, were used entirely for refunding the debt from previous bond issues. The proceeds from the original bond issue were used to help finance the construction of two Hampton Inn hotel facilities in Baton Rouge. Only a portion of the bond proceeds for the remainder of these issues, such as the Franciscan Missionaries of Our Lady Health System bond issue of

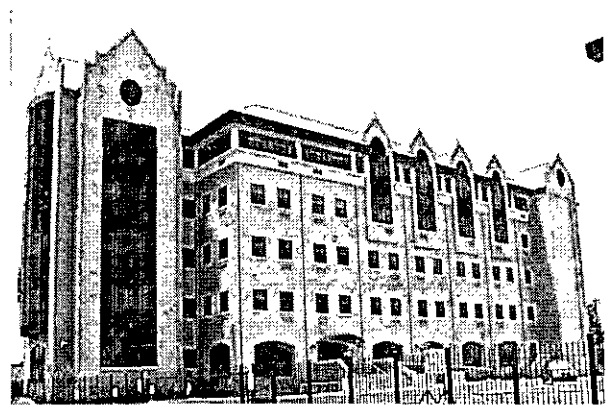
$332 million, was used for refinancing of existing debt. The remainder of the proceeds was used to build a new senior living center and to expand and renovate existing hospitals.

Purchase and Renovate (if necessary) an Existing Facility/Equipment

Slightly over one-third (12 out of 31, or 38.7%) of the project bond issues used at least some of the bond proceeds to purchase and renovate (if necessary) existing facilities and/or equipment. For example, the bond proceeds from the Monroe Affordable Housing bond issue in 1998 totaling $11.3 million were used to acquire and renovate two multi-family apartment complexes in Monroe, Louisiana. In another bond issue, Xavier University used a portion of the bond proceeds from its 1997 issue totaling $30 million to convert an old warehouse into a new residence hall. The photos below show the old warehouse (left) before it was renovated into a residence hall (right).

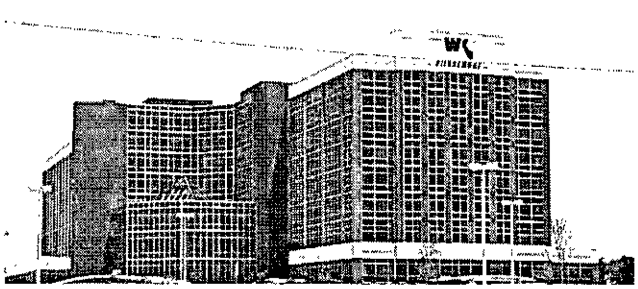


Old Warehouse Purchased by Xavier



Old Warehouse After Renovations to Create New Residence Hall

Build and Equip a New Facility



New Willis-Knighton Health-Care Facility

Approximately one-third of the project bond issues used at least some of the bond proceeds to build and equip a new facility. For example, a portion of the bond proceeds from the 1997 Willis-Knighton Medical Center Bond issue totaling $125 million was used to build and equip a new health-care facility in Shreveport, Louisiana, called the Willis-Knighton Pierremont Health Center. In addition, a bond issue for Barriere Construction Company of New Orleans in

1998 totaling nearly $3 million was used to help finance the construction of a permanent asphalt manufacturing facility in St. Charles Parish.

Nearly all of the project bond issues that had a public purpose related to health-care or education had more than one use. In contrast, the housing and industry bond issues only had a single use. The housing bond issue proceeds were used to either expand/renovate an existing facility or to refinance existing debt. The industry bond issues were used to either expand an existing facility or to build and equip a new facility. Most of the education bond issues used some portions of the bond proceeds for three or all four of these uses. The bond proceeds from the one issue in the state agency category were used to purchase new equipment.

The Bond Proceeds Were Used for Intended Purpose

We found that the bond proceeds were used for the intended purpose/purposes listed in the bond transcripts. In order to determine that the bond proceeds were used for their intended purpose, we selected 16 of the 31 project bond issues to visit. In visiting the sites, we photographed the progress that had been made with the bond proceeds. Several of the projects were still in progress, but we were able to view what had been completed so far. Although we did not review actual invoices and bank accounts to determine if the project financings were actually paid out of the bond proceeds, we found that all of the sites we visisted were completing the projects that were listed in the bond transcripts as the purpose of the project.

Benefit to the State of Louisiana

Louisiana Public Facilities Authority Does Not Require Borrowers to Demonstrate That the Bond Issue Benefits the State of Louisiana

According to the Indenture of Trust that created LPFA, the Authority's purposes are to promote, encourage, and further the accomplishments of all activities that are or may become of benefit to the state and that have a public purpose. In an interview with the President and CEO of LPFA, he stated that LPFA does not require borrowers to make a formal demonstration of what benefit their project will be to the state since the potential benefit to the state must exist because the borrowers are limited to the types of projects they can finance through tax-exempt bond issues. For example, for-profit borrowers can only finance the construction of small manufacturing facilities or single family housing developments to qualify for tax-exempt bonds. Not-for-profit borrowers must have projects that align with their mission to qualify for tax-exempt bonds.

Does an Authorized Public Purpose Benefit the State of Louisiana?

Using the legal definition of authorized public purpose, LPFA's bond issues meet the criteria. However, these categories are very broad and the legislation allows the LPFA a great deal of latitude in deciding which projects/programs to finance. In fact, nearly all of the issues could be thought of as having an economic impact in the state of Louisiana.

Whether authorized public purposes serve as a benefit to the state of Louisiana is a matter of interpretation. In part, the interpretation depends on one's definition of the term "State of Louisiana." For example, if one narrowly views benefit to the "state" to mean the state as a legal entity, then the majority of the LPFA bond issues would not be a benefit to the state since the state as a legal entity did not profit from the bond issues. Furthermore, only one of the 31 LPFA project bond issues was issued for a public entity and nine of the 13 program bond issues were issued for public entities. However, if one broadly views the benefit to the "state" to mean providing a benefit to the taxpayers of Louisiana then all of the bond issues would meet this criterion. All of the projects/programs provided some benefit to the taxpayers in one way or another. The bond issues either provided temporary construction jobs during the projects, created permanent jobs once the projects were completed, or provided new or additional tax revenue, additional housing, or better health and educational facilities.

An additional point of interest lies in distinguishing whether issuing a bond for a Louisiana project for an out-of-state corporation provides a benefit to the state of Louisiana. We found that seven of the 31 project bond issues were for corporations that are domiciled outside Louisiana. While the taxpayers of Louisiana may benefit from these bond issues in the sense of tax revenue and additional employment, ultimately the out-of-state corporation receives the monetary benefit of a cheaper bond issue.

Finally, in speaking to the borrowers, we found that 60% of the project bond borrowers would have done or probably would have done the project without the assistance of LPFA had it not been an option.

COST OF ISSUANCE FOR LOUISIANA PUBLIC FACILITIES AUTHORITY BONDS

Complete Cost of Issuance Information Unavailable

We could not obtain complete cost of issuance information for all 44 Authority bond issues because the Authority does not keep a record of the final cost of issuance information for its bond issues, and we could not obtain complete cost information from the trustee banks. As a result, LPFA has no way of knowing whether the costs associated with issuing its bonds are minimized.

According to the President and CEO of the Authority, LPFA does not keep records of the final cost of issuance for the Authority bond issues. The President directed us to the bond issue trustees to obtain this information. Trustees for bond issues are responsible for holding and monitoring the proceeds of the bond issues. Part of this responsibility includes paying requisitions from the bond proceeds for such things as charges by finance professionals used to close the bond issue and for project costs.

We attempted to obtain actual cost of issuance information from the seven financial institutions that acted as trustee for the 44 Authority bond issues. After two written requests to the trustees and numerous phone calls, we still did not get complete cost of issuance information for all of the issues. We were only able to get at least some cost of issuance information for 37 of the 44 issues (84.1%). The reasons that we could not obtain information for seven of the bond issues include the following:

- The trustee bank had closed the account and no records were available.
- The trustee bank was not able to locate the records.
- The trustee bank did not make cost of issuance payments because the borrower paid all of the cost of issuance directly.
- An alternative method was used instead of a trustee and because of an oversight the Authority did not provide us with a contact name upon our request.

For the bond issues for which we collected information, there is no way to ensure that the information is complete. We were unable to identify an accurate list of all parties that should have been paid for each issue. In addition, the borrower sometimes pays parties associated with the bond issue directly instead of using the bond proceeds.

For the 37 Authority bond issues for which data were available, we identified 32 different types of financing services that were paid with bond proceeds. As seen in Exhibit 7, the cost of issuance includes payments to parties such as borrower bond counsel, the Authority's bond counsel, underwriters, underwriter's counsel, bond insurers, rating agencies, and the State Bond Commission.

The average payments to the parties involved in the bond issues varied greatly. For example, the average payment to borrowers' bond counsel was $54,983 while the average payment to the trustee counsel was $4,990.

The total cost of issuance also varied greatly from one bond issue to another. Typically, the cost of issuance was greater for larger bond issues. For example, we identified cost of issuance payments of $130,443 for the $2.5 million One Lakeshore bond issue in 1996. In contrast, we identified cost of issuance payments totaling $1.9 million for the $332 million Franciscan Missionaries 1998 bond issue.

Exhibit 7
Summary of the Costs of Issuance Information for 37 of the 44 LPFA Bond Issues

Parties and Fees for Bond Issues	Number of Times Expense Occurred	Expense Total	Average Dollars	Minimum Expense	Maximum Expense
Bond Counsel Fees	36	$1,814,426	$54,983	$11,000	$275,756
Trustee Fees & Expenses	29	244,147	8,419	1,000	69,700
LPFA Application Fee & Expenses	28	953,900	34,068	2,379	183,011
Issuer Counsel Fees	27	230,829	8,549	2,735	32,890
Trustee Counsel	27	134,717	4,990	1,000	17,900
State Bond Commission	26	933,885	35,919	625	310,341
Bond Counsel Expenses	25	160,613	6,425	1,180	30,502
Printing	22	212,279	9,649	1,891	59,158
Rating Agency	20	645,450	32,273	4,500	124,980
Underwriter Counsel	17	710,030	41,766	1,500	173,778
Borrower's Counsel	15	418,367	27,891	3,938	125,256
Bond Insurer	13	6,799,085	523,007	30,581	2,134,274
Other	13	273,451	21,035	78	79,355
Blue Sky Fee	11	30,093	2,736	1,333	4,585
Underwriter Fees	10	2,719,858	271,986	26,975	864,314
Accountant	10	100,606	10,061	2,500	25,000
Other Counsel	9	187,028	20,781	3,675	50,000
Verification Agent/Accountant	7	26,550	3,793	1,950	10,000
Financial Advisor	6	608,912	101,485	10,733	495,029
Publishing	6	9,400	1,567	168	3,546
Issuer Counsel Expenses	5	2,099	420	285	674
Master Trustee	3	13,750	4,583	1,500	8,750
Assignee Trustee Counsel	3	2,250	750	750	750
Assignee Trustee	3	1,285	428	375	531
Purchaser Commitment Fee	2	153,829	76,915	66,677	87,152
Co-Underwriter Counsel	2	27,075	13,538	11,000	16,075
Underwriter Expenses	2	14,106	7,053	6,894	7,212
Lender	1	11,675	11,675	11,675	11,675
Lender Counsel	1	11,100	11,100	11,100	11,100
Escrow Agent Counsel	1	3,000	3,000	3,000	3,000
Master Trustee Counsel	1	2,500	2,500	2,500	2,500

Note: We identified payments made to the categories listed above. However, we cannot be certain that the amounts paid were absolute. We do know that the figure in each expense category is at least that amount. Therefore, actual amounts paid may be higher.

Source: Prepared by legislative auditor's staff using information obtained from trustees.

RECOMMENDATION

LPFA should keep records of the final cost of issuance in order to ensure that the cost of issuing its bonds is minimized.

Borrowers Bond Counsel Fees Equaled or Were Less Than the Maximum Allowable Fees

All of the borrower bond counsel fees for LPFA bond issues that we examined were at or below the maximum fee allowable as set by the Louisiana Office of the Attorney General. State Bond Commission rules require the attorney's fees associated with the issuance of bonds to be in accordance with the Attorney General's fee schedule. In accordance with these rules, the attorney general sets the maximum fee schedule for the borrower's bond counsel and approves the fee arrangements.

The Louisiana State Bond Commission's Rules and Regulations handbook states that:

"All legal fees to be paid in connection with all applications shall be in accordance with the Attorney General's fee schedule and shall be subject to his approval. Each applicant shall state the amount of attorney's fees or that the said fee does not exceed said schedule, in order to comply with this rule."

According to a representative of the attorney general, the office does not approve the specific fees charged by the bond counsel for Authority bond issues. Instead, it approves a resolution from the Authority that states the borrower bond counsel fee will not exceed the maximum fees as determined by the attorney general's maximum fee schedules. When approving this resolution, the attorney general does not calculate the amount of the maximum fee as set by the schedule. In addition, the resolution does not include a calculation of what the maximum fee would be. Furthermore, the attorney general is not required to know what the actual fee was to ensure the fee did not exceed the schedule.

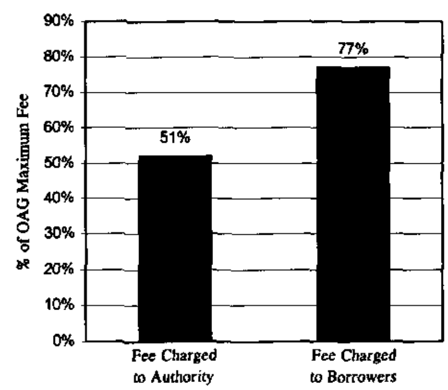
We attempted to compare the bond counsel fees for all 44 of the Authority bond issues to the attorney general's maximum fee allowable. However, we were only able to obtain bond counsel fees for 36 of the 44 issues from the trustee banks. Of the 36 bond issues for which we had bond counsel fee data, all were at or below the maximum fee allowable by the Attorney General. On average, the fees were 29.40% below the maximum fee allowable.

According to a representative from the law firm that acted as bond counsel for several of these Authority bond issues, the firm calculates the attorney general's maximum fee allowable to ensure that the counsel's fee is within limits. He stated that the firm performs this calculation according to the attorney general fee schedule. In the past, the firm tried to get the maximum fee allowable, but because of competition, the firm now charges below the maximum fee.

Comparison of Bond Counsel Fees

As discussed earlier, the Office of the Attorney General sets the maximum fee that a bond counsel can charge. We compared the bond counsel fees charged for the bond counsels selected by the Authority and by the borrower to the maximum set by the attorney general. Also, as stated earlier, the Authority chose Foley and Judell as the bond counsel for all Authority programs. Therefore, we compared the Authority bond counsel fees to the fees of the borrowers who selected Foley and Judell as bond counsel. We were able to obtain from the trustee banks bond counsel fee information for 11 of the 13 programs. In addition, we were able to obtain bond counsel fee information for 16 of the projects where Foley and Judell was bond counsel. We found that the fees Foley and Judell charged the other borrowers were closer to the attorney general maximum than the fees they charged the Authority.

Exhibit 8
Percentage of Maximum Bond Counsel Fee Charged by Foley and Judell to the Authority and to the Borrowers for Bond Issues Closed Between 1996 and 1998



Source: Prepared by legislative auditor's staff using unaudited information obtained from bond issue trustees.

As shown in Exhibit 8, Foley and Judell charged borrowers an average of 77% of the maximum fee allowed by the attorney general. In contrast, Foley and Judell only charged the Authority 51% of the maximum fee allowed by the attorney general.

Louisiana Public Facilities Authority Student Loans

Summary of Findings

In addition to its traditional bond issues, the Authority has a separate division that administers its student loan programs. Authority student loan bond issues purchase student loans in the Louisiana secondary market, allow other lending institutions to refer student loans for origination through a special program, and make loans directly to students. The funds for these activities come from the Authority's student loan revenue bond issue proceeds. According to the Authority's 1998 annual report, it has funded over $938 million in student loan initiatives since 1984, when it issued its first student loan bonds. However, LPFA is not an eligible student loan lender and, therefore, does not own the student loans. Instead, the student loans are owned by the trusts created by LPFA within the student loan bond issues.

It appears that most borrowers benefit little from LPFA issuing student loans directly. Since there is a sufficient supply of lenders for the student loan market to survive without LPFA issuing student loans, it is questionable whether LPFA needs to continue issuing student loans. However, student borrowers benefit from LPFA purchasing student loan portfolios from lending institutions and from the student loan referral program.

History of Louisiana Public Facilities Authority Student Loan Activity

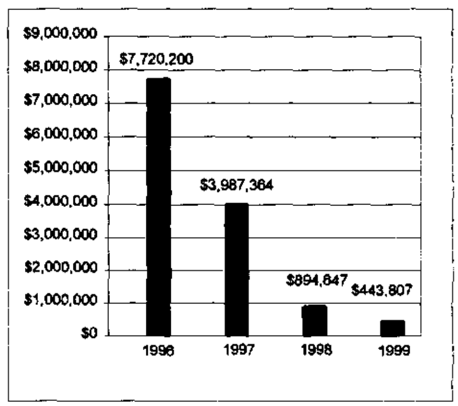
In 1986, the Authority began using proceeds from a 1984 bond issue to purchase student loan portfolios from other student loan lenders. According to the Authority's 1998 Annual Report, LPFA assists lending institutions by purchasing existing student loan portfolios, thus enabling the institutions to make more student loans, or to give the institutions relief from complying with federal regulations. However, as shown in Exhibits 9 and 10, the amount of student loan portfolios that LPFA has purchased from other lending institutions over the past three years has declined significantly (declined by 94%).

Exhibit 9
Dollar Amount of Student Loan Portfolios Purchased by LPFA From Other Lending Institutions Between 1996 and 1999

	Purchase Price	Premium/ Transfer Fee	Total Paid For Student Loans
1996	$7,667,262	$52,938	$7,720,200
1997	3,966,438	20,926	3,987,364
1998	885,261	12,597	894,647
1999	437,349	6,458	443,807
Total	**$12,956,310**	**$92,919**	**$13,046,018**

Source: Prepared by legislative auditor's staff using unaudited information obtained from LPFA.

Exhibit 10
Declining Student Loan Portfolio Purchases by LPFA Between 1996 and 1999



Source: Prepared by legislative auditor's staff using unaudited information obtained from LPFA.

In 1993, the Authority created the Super TOP (Trust Origination Program) Trust, which enabled it to begin making loans directly to students. These loans are standard Federal Title IV loans, such as subsidized and unsubsidized Stafford, and PLUS (Parent Loan for Undergraduate Students) loans. The subsidized Stafford loans are based on financial need. The borrower is not charged interest before repayment or during authorized periods of deferment. The unsubsidized Stafford loans are not awarded on the basis of need. The borrower is charged interest from the time the loan is disbursed until it is paid in full. The PLUS loan enables parents with good credit histories to borrow to pay the education expenses of each child who is a dependent undergraduate student enrolled at least half-time.

According to the Vice President of Student Loans, the Authority began a loan-originating program because LPFA identified a need for a mechanism for small- to medium-sized banks to remain in the student loan business. However, she also stated that now there is enough of a supply for student loans that other lenders could pick up the LPFA volume if LPFA discontinued its student loan origination program.

In addition to originating student loans, the Authority began a referral program. This referral program allows banks to market student loans and then issue the student loans from the Authority's Super TOP trust. This arrangement gives the referral banks the advantage of offering student loans while relieving them of the burden of servicing the loans.

State or private nonprofit agencies guarantee (insure) the federal student loans offered by the Authority. These guarantee agencies are allowed to charge an origination fee to the borrower. For the loans to keep the federal guarantee, certain servicing requirements must be met, such as notifying students in writing of delinquent student loan payments. The Authority contracts out all of the servicing related to its student loans. The servicers are UNIPAC (located in Denver) and USA Group, Inc. (located in Indianapolis). For example, the contracted loan servicers initiate and document contacts with student borrowers who are delinquent with their payments in order to keep the federal guarantee. According to the Vice President of Student Loans, the servicing requirements can be cumbersome and confusing.

According to the Vice President of Student Loans, the Authority identified a need in 1995 for discounted student loans. In response to this need, the Authority began offering student loans at a discounted rate of one percentage point below the federal loan rate in 1995. Currently, the Authority offers a 3% interest rate reduction after the borrower makes 42 timely consecutive payments (payments within 15 days of due date).

As shown in Exhibit 11, the total number of LPFA student loans guaranteed increased each year from 1997 to 1999. These figures are all loans originated by LPFA through the Super TOP Program, including referral loans. Student loans are certified by the school and guaranteed before the loan funds are disbursed to the borrower. In some cases, the borrower decides not to take the loan funds and the loan is then cancelled. In these cases, the loan funds are returned to the lender. The LPFA data in Exhibit 11 present the amount of cancellations from prior periods. This is because the cancellations are recorded in the period that they occur, not the period in which the original loan guarantee occurred. The net loan volume, which subtracts the cancellations from prior periods, has also increased in the last three years. Note, however, that all cancellations are not included in this information. According to the LPFA Vice President of Student Loans, the loan cancellation numbers are understated because of an error by the guarantors that provide the data to LPFA. Therefore, the net loan volumes in Exhibit 11 are overstated.

Exhibit 11
Net Student Loan Volume for LPFA Super TOP Student Loans Originated Between 1997 and 1998

Year	Loans Guaranteed	Cancellations from Prior Periods*	Net Loan Volume
1997	$30,965,505	$6,074,088	$24,891,417
1998	33,385,256	4,345,637	29,039,619
1999	35,723,007	1,793,070	33,929,937
Total	**$100,073,768**	**$12,212,795**	**$87,860,973**

According to an LPFA official, the figures provided by the guarantors in the cancellation column contain errors. Therefore, these data are incorrect.

Source: Prepared by legislative auditor's staff using unaudited information provided by LPFA.

Louisiana Public Facilities Authority Does Not Own the Student Loans

LPFA is not an eligible student loan lender and, therefore, cannot own the student loans. The LPFA student loans are owned by the bond issue trusts. LPFA is the issuer of the student loan bonds and currently acts as the administrator of the student loan bond issues. For acting as an administrator, LPFA collects an annual administrative fee of .65 percent of the outstanding student loan balance. This fee is paid on a monthly basis. The fee is used to pay the costs of administering the student loan program. Examples of the costs include office rent, salaries and benefits, audit fees, accounting fees, student loan conferences and promotion of the Super TOP Program. The student loan program administrative fee LPFA collected in 1998 totaled $817,594.

Student Loan Bond Proceeds Investments

The bond proceeds for the three Authority Student Loan Revenue Bonds issued during the period of our audit are invested in floating rate investment agreements. These investment agreements provide for a guaranteed interest rate for the invested bond proceeds. The interest rates on the investments are guaranteed to be a certain percentage over the student loan revenue bond rate. According to the President and CEO of LPFA, this additional interest is paid to the federal government as required by federal law.

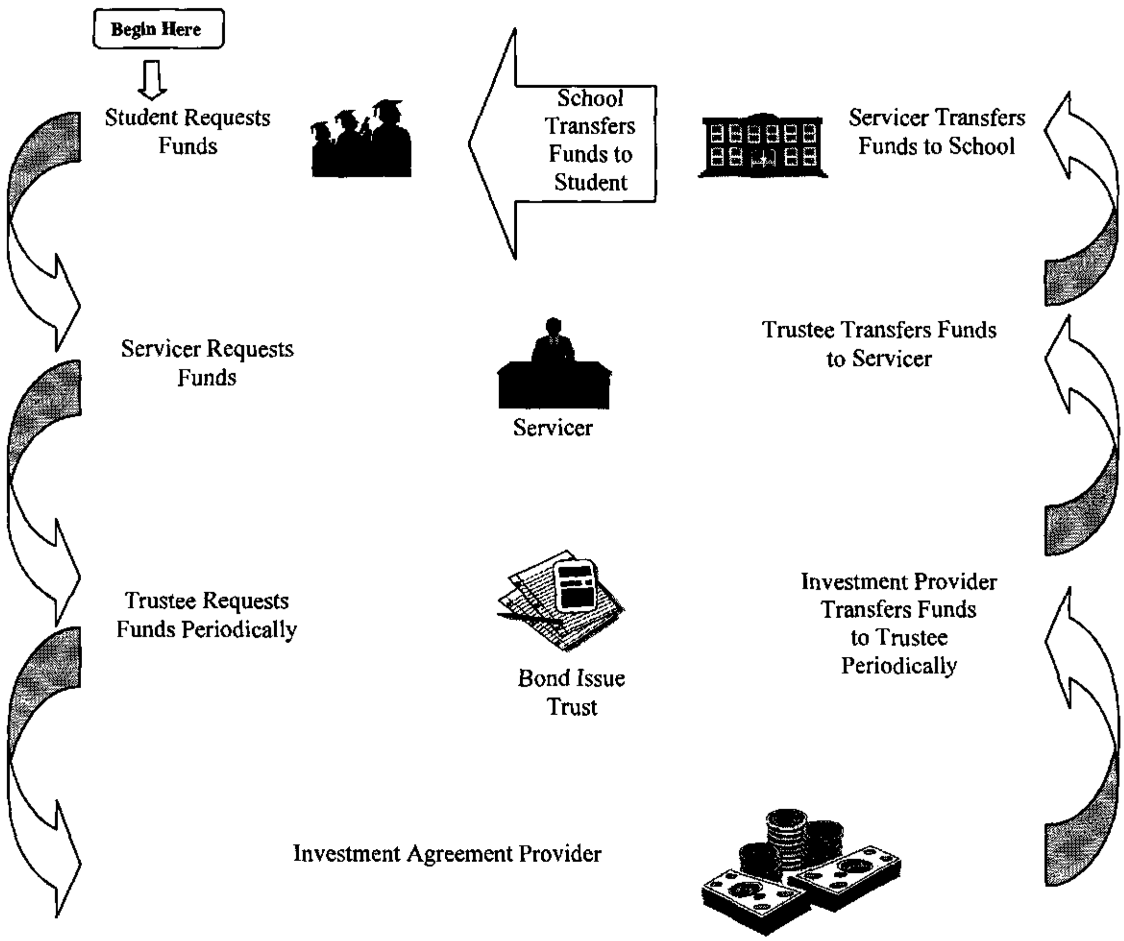
Process of Originating Louisiana Public Facilities Authority Student Loans

LFPA heavily markets its student loans. Money to fund the Authority's student loans comes from its student loan bond proceeds. These funds are maintained in the bond issue trust. The funds in the trust are invested until they are disbursed to the borrowers as student loans. According to the President and CEO of LPFA, the student loans are owned by the bond issue trusts and not by LPFA.

Exhibit 12 illustrates the complex process of originating LPFA student loans that went into effect in May 1999. The process of getting LPFA student loan funds into the borrower's hands occurs in multiple steps. Once the student loan is certified by the school and guaranteed by a federal guarantee agency, the student signs and sends the promissory note, which lists the amount of the loan, to the servicer. The servicer is responsible for disbursing student loan funds to the school and collecting the student loan payments for the Authority bond issues. The servicer requests funds from the Authority's student loan bond issue trustee (Bank One) in an amount sufficient to cover the amount of the student loan. The bond issue trustee then forwards these funds to the servicer. The servicer then forwards the funds to the student's school, which then transfers the funds to the student.

Approximately once each week LPFA, as program administrator, directs the bond issue trustee to draw funds from the investment agreement provider based upon anticipated future disbursements.

Exhibit 12
How Students Receive Funds for an LPFA Super TOP Loan Once Loan Is Certified by School and Guaranteed by a Guarantee Agency For Student Loans Made on or After 5/1/99



Source: Prepared by legislative auditor's staff using information provided by LPFA.

Student Loans Issued by Louisiana Public Facilities Authority Benefit Some Borrowers

Borrowers who obtain loans through LPFA benefit by receiving money to pay for an education. In some cases, LPFA borrowers get the added benefit of a reduced interest rate for this financing. However, for most LPFA borrowers, the benefit of obtaining financing through LPFA is nearly the same as obtaining financing from any other lending institution. Since borrowers can get the benefit of a student loan without LPFA, it is questionable as to whether the state has a need for LPFA to continue issuing student loans.

LPFA offers student loans (Stafford Loans) and parent loans (Parent PLUS Loan) to pay educational expenses. The loans to parents only comprise 4.7% of its total loans. Before May 1, 1999, all LPFA borrowers received a one percent reduction in interest rate. Since May 1, 1999, LPFA borrowers receive a 3% interest rate reduction if they make 42 consecutive timely payments.

Parent PLUS Loans: An LPFA Parent PLUS Loan is more competitive than the loans offered by our sample of other lenders, but only if a parent makes the first 42 payments on time. However, Parent PLUS Loans make up a very small percentage of LPFA's total loans (only 4.7%). LPFA is the only lender that we identified that offers an interest rate reduction to parents for making timely payments. Other lenders only offer parents a one-fourth percentage point interest rate reduction for electronic payment.

Stafford Loans: An LPFA Stafford Loan is more competitive than most loans offered by our sample of other lenders, but only if a student makes 42 consecutive timely payments. The incentive offered by LPFA, and most of the incentives offered by other lenders, are dependent on a student making timely student loan payments. However, based on the projections contained in the LPFA student loan bond issue, only about one-third of borrowers are expected to make enough timely payments to qualify for the benefit. When students do not make timely payments, there is little difference between the loans offered by the different lenders contained in our sample.

LPFA offers student loans with an interest rate reduction of three percentage points after the borrower makes 42 consecutive timely payments once the loan is in repayment. We compared this LPFA incentive of reduced interest rate to the incentives offered by a sample of 12 other lenders to determine if the LPFA student loan is more competitive. We identified six basic incentives offered by these 12 sample lenders, as seen in Exhibit 13 below.

Exhibit 13
Incentives Offered by 12 Sampled Lenders
For Fiscal Year 1999-2000

Incentive	Number of Times Offered
¼ percentage point interest rate reduction for electronic payment	9
Rebate of origination fees paid in excess of $250 after first 24 monthly Stafford loan payments are made on time	5
2 percentage point interest rate reduction after first <u>36</u> monthly Stafford loan payments are made on time	1
2 percentage point interest rate reduction after first <u>48</u> monthly Stafford loan payments are made on time	11
Pay off last six months of loan after first 48 monthly Stafford loan payments are made on time	1
1 percentage point reduction on origination fee on subsidized and unsubsidized Stafford loans	1

Source: Lender Comparison Chart for the Federal Family Education Loan Programs for Louisiana State University and A&M College (1999-2000).

The 12 lenders offer different combinations of the incentives mentioned in Exhibit 13. As seen in Appendix C, the 12 lenders offered seven different combinations of these incentives. To determine if an LPFA student loan is competitive with a loan from the 12 other lenders, we calculated the amount of principal and interest that would be paid on an $8,000 and $20,000 student loan from each of these lending institutions. Our calculations assumed that the loan is for a ten-year period and that all payments are made timely.

Results of Loan Comparisons. We found that LPFA offers the cheapest $8,000 ten-year student loan if payments are made timely. The total principal and interest payments over the life of this LPFA student loan was $27 cheaper than the next cheapest student loan and $769 cheaper than if a borrower received no incentives at all.

For the $20,000 loan, only four of the 12 lenders offered a cheaper loan than LPFA if the borrower makes timely payments. All four lenders offered the same incentive package. The total principal and interest payments over the life of a loan from these four lenders was only $73 cheaper than the LPFA student loan. In addition, the LPFA student loan with incentives was $1,921 cheaper than if the borrower received no incentives at all. The complete results from both examples can be found in Appendix C.

Few Borrowers Make All Payments Timely

Only a small percentage of borrowers make enough consecutive timely payments to take advantage of LPFA's interest rate reduction incentive. LPFA's Vice President of Student Loans and Administration stated that a conservative projection (i.e., a larger percentage than may actually occur) in the LPFA student loan bond indenture estimates that 35% of the borrowers will make enough timely payments to take advantage of the interest rate reduction incentive offered by LPFA. Therefore, the LPFA loan is only more advantageous for the small percentage of borrowers that make timely payments. The larger percentage of borrowers who do not make timely payments will receive no added incentives by obtaining a loan through LPFA.

When borrowers do not make timely payments, there is not much difference between the costs of the loans in our sample. Most of the incentives offered by the Louisiana lenders in our sample are contingent upon borrowers making timely payments.

LPFA and two of the 12 lenders that we examined only offer incentives that are contingent upon the borrower making timely payments. Nine of the remaining ten lenders offer a one-fourth percentage point interest rate reduction for electronic payment and one lender offers a one percentage point reduction on origination fee on subsidized and unsubsidized Stafford loans. However, these incentives by themselves do not offer a big advantage over a loan with no incentives. In addition, the benefit of one-fourth percentage point reduction for electronic payments is partially tied to making timely payments.

Therefore, when borrowers do not make timely payments, there is not much difference between the loans offered by LPFA and the other lenders in our sample. According to the LPFA Vice President of Student Loans and Administration, LPFA encourages borrowers to use electronic debits for their payments in order to encourage timely payments, but LPFA does not provide a specific incentive for doing so.

Louisiana Public Facilities Authority Student Loan Purchases Benefit Banks and Students

The benefits that banks receive by having LPFA purchase their student loans ultimately benefit borrowers by making more loans available and providing good customer service. However, as shown earlier in Exhibits 9 and 10 on page 20, the amount of student loan portfolios that LPFA has purchased over the past three years has declined by 94%. This decline could be due to banks getting out of the student loan business. The benefits to the banks include:

- Facilitating the bank's exit from the student loan business
- Allowing banks to make more loans
- Allowing students to consolidate loans
- Relieving banks from the cumbersome federal servicing requirements of student loans

Appendix A

Louisiana Revised Statute 9:2341: Definition of Authorized Public Functions

APPENDIX A: LOUISIANA REVISED STATUTE 9:2341: DEFINITION OF AUTHORIZED PUBLIC FUNCTIONS

B. (1) For purposes of this Chapter, **authorized public functions or purposes** of the state and of any parish, municipality, political or governmental subdivision or any other governmental unit in this state, except as otherwise and to the contrary provided by the laws of this state, shall mean and include but not be limited to:

(a) Hospital, medical, health, nursery care, nursing care, clinical, ambulance, laboratory, and related services and facilities.

(b) Housing, mortgage finance and related services, activities, facilities, and properties.

(c) Penitentiary, rehabilitation, incarceration, and other correctional services and facilities.

(d) Educational services and facilities and related housing and dormitory services and facilities.

(e) Providing, developing, securing, and improving water storage, treatment, supply, and distribution services and facilities.

(f) Sanitary and storm sewer and other liquid and solid waste collection, disposal, treatment, and drainage services and facilities.

(g) Educational or commercial communication equipment and facilities.

(h) Mass transit, commuting and transportation, and parking services, equipment, and facilities.

(i) Cultural and civic facilities, services and activities.

(j) Community development and redevelopment facilities and activities.

(k) Gas, electric, petroleum, coal and other energy collection, recovery, generation, storage, transportation, and distribution facilities and activities.

(l) Industrial, manufacturing, and other economic development facilities and activities.

(m) Antipollution and air, water, ground, and subsurface pollution abatement and control facilities and activities.

(n) Airport and water port and related facilities, services, and activities.

(o) Facilities, property and equipment of any nature for the use or occupancy of the state or the United States, or any agencies or instrumentalities thereof or of any governmental units in the state.

Source: Excerpt from LSA R.S. 9:2341, Public trusts authorized; purposes

Appendix B

Summary of LPFA Bond Issue Purposes

Appendix B: Summary of LPFA Bond Issue Purposes

PURPOSES FOR THE 1996 LPFA PROJECT BOND ISSUES

	Location of Project	Dollar Amount of Bond Issue	To Expand/ Renovate an Existing Facility	To Build and Equip a New Facility	To Purchase and Renovate (if necessary) an Existing Facility/ Equipment	To Refinance Existing Debt
Education						
Tulane University Project	New Orleans	$30,280,000	X	X	X	
Remington College Project	Lafayette	$2,450,000			X	
Housing						
Windsor Housing Foundation	• New Orleans • Baton Rouge	$18,670,000			X	
Gulf Breeze Hotel Project	Baton Rouge	$9,400,000				X
One Lakeshore Place Apartments	Baton Rouge	$2,510,000				X
Louisiana Housing Finance Agency	• Shreveport • Lafayette	$3,040,000			X	
Industry						
None						
Healthcare						
General Health Systems Project	Baton Rouge	$20,000,000	X			
State Agencies						
State Equipment Leasing Program (DPS)*	Statewide	$21,880,000			X	

Source: Prepared by the legislative auditor's staff using information provided by LPFA.

*Department of Public Safety

PURPOSES FOR THE 1997 LPFA PROJECT BOND ISSUES

	Location of Project	Dollar Amount of Bond Issues	To Expand/ Renovate an Existing Facility	To Build and Equip a New Facility	To Purchase and Renovate (if necessary) an Existing Facility/ Equipment	To Refinance Existing Debt
Education						
Centenary College Project	Shreveport	$7,265,000	X		X	
Loyola University Project	New Orleans	$45,000,000	X	X		X
Tulane University Project (June 1997)	New Orleans	$6,795,000	X	X	X	
Tulane University Project (December 1997)	New Orleans	$57,740,000	X	X	X	X
Xavier University Project	New Orleans	$39,000,000	X	X	X	X
Housing						
None						
Industry						
None						
Healthcare						
Sisters of Charity of the Incarnate Word Project	• Shreveport • Lake Charles • Alexandria	$121,900,000				X
Willis-Knighton Medical Center Project	Shreveport	$125,000,000	X	X		
Woman's Hospital Foundation Project	Baton Rouge	$29,010,000	X	X		
State Agencies						
None						

Source: Prepared by legislative auditor's staff using information provided by LPFA.

PURPOSES FOR THE 1998 LPFA PROJECT BOND ISSUES

	Location of Project	Dollar Amount of Bond Issues	To Expand/ Renovate an Existing Facility	To Build and Equip a New Facility	To Purchase and Renovate (if necessary) an Existing Facility/ Equipment	To Refinance Existing Debt
Education						
Dillard University Project	New Orleans	$26,500,000	X			X
UNO Research and Technology Project	New Orleans	$16,695,000		X		
Housing						
Monroe Affordable Housing Project	Monroe	$11,287,000			X	
Wright Island Apartments Project	Bossier Parish	$6,360,000				X
Whitten Foundation Project	Lake Charles	$13,615,000			X	
Industry						
Alma Plantation, Ltd. Project	Lakeland	$1,700,000	X			
AMS Tube Corporation	Hammond	$1,200,000	X			
Barriere Construction Company, L.L.C. Project	Boutte	$2,950,000		X		
Field Container Company, L.P. Project	West Monroe	$5,200,000		X		
Westside Coating Services Inc., Project	Port Allen	$2,670,000	X			
Healthcare						
Franciscan Missionaries of Our Lady Health System Project	• *Ouachita Parish* • Lafayette Parish • Baton Rouge	$332,045,000	X	X		X
Lincoln Health System Corporation Project	Ruston	$15,400,000	X			X
Louisiana Health System Corporation Project	Lafayette	$36,945,000				X

PURPOSES FOR THE 1998 LPFA PROJECT BOND ISSUES

	Location of Project	Dollar Amount of Bond Issues	To Expand/ Renovate an Existing Facility	To Build and Equip a New Facility	To Purchase and Renovate (if necessary) an Existing Facility/ Equipment	To Refinance Existing Debt
Healthcare (Cont.)						
Pendleton Memorial Hospital Project	New Orleans	$29,075,000	X			X
Progressive Healthcare Providers, Inc., Project	• Shreveport • Baton Rouge • Thibodaux • Kenner • New Orleans	$20,275,000			X	X
State Agencies						
None						

Source: Prepared by legislative auditor's staff using information provided by LPFA.

PURPOSES FOR THE LPFA PROGRAM BOND ISSUES

	Location of Program	Dollar Amount of Bond Issues	Education	Healthcare	Housing	Environmental Quality
1996						
Orleans Parish School Board	Orleans Parish	$11,175,000	X			
Municipal Facilities Revolving Fund Loan Match Program (May 1996)	Statewide	$4,000,000				X
Student Loan Revenue and Refunding Bonds	Statewide	$46,000,000	X			
School Board Advance Funding Notes	• East Baton Rouge Parish • Orleans Parish • St. James Parish	$20,605,000	X			
Municipal Facilities Revolving Fund Loan Match (December 1996)	Statewide	$1,650,000				X
1997						
Municipal Facilities Revolving Fund Loan Match Program	Statewide	$1,350,000				X
Health and Education Capital Facilities	Baton Rouge	$90,000,000		X		
Student Loan Revenue and Refunding Bonds	Statewide	$43,500,000	X			
Single Family Mortgage Purchase Revenue and Refunding Bonds	Statewide	$38,240,000			X	
School Board Advance Funding Notes	East Baton Rouge Parish St. James Parish	$9,535,000	X			
School Board Advance Funding Notes	Orleans Parish	$14,060,000	X			
1998						
School Board Advance Funding Notes	• East Baton Rouge Parish • Jefferson Parish • Monroe City • St. James Parish	$13,835,000	X			
Municipal Facilities Revolving Fund Loan Match Program	Statewide	$4,000,000				X

Source: Prepared by the legislative auditor's staff using information provided by the LPFA.

Appendix C

Summary of Student Loans

Appendix C: Summary of Student Loans

Comparison of LPFA/LELA Stafford Student Loan Costs to Other Loan Originators

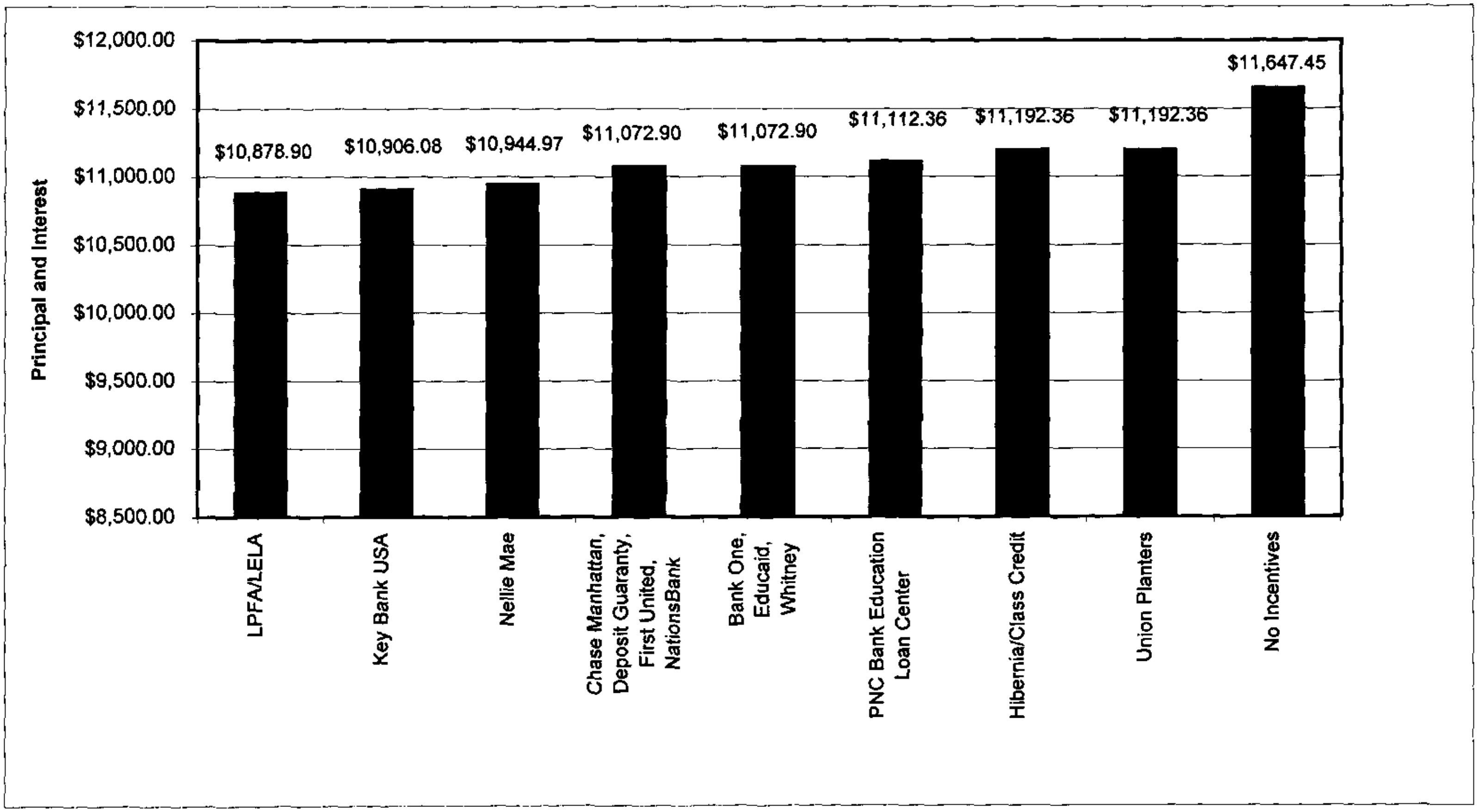
Based on $8,000 student loan with a 10-year repayment at 8% (assuming all payments are timely)

Lending Institutions	Total Principal Paid	Total Interest Paid	Up Front Reduction of Origination Fees	Total Principal and Interest	Total Loan Cost Compared to LPFA	Special Benefits/Incentives
LPFA/LELA	**$8,000.00**	**$2,878.90**	**N/A**	**$10,878.90**	**$ -**	**3 percentage point interest rate reduction after making 42 timely payments**
Key Bank USA	$8,000.00	$2,906.08	N/A	$10,906.08	$27.18	1/4 percentage point interest rate reduction for electronic payment 2 percentage point interest rate reduction after first 36 monthly Stafford loan payments are made on time
Nellie Mae Foundation, Inc.	$7,436.75	$3,508.22	N/A	$10,944.97	$66.07	1/4 percentage point interest rate reduction for electronic payment 2 percentage point interest rate reduction or Nellie Mae will pay off last six months of loan after first 48 monthly Stafford loan payments are made on time
- Chase Manhattan - Deposit Guaranty - First United Bank - NationsBank	$8,000.00	$3,072.90	N/A	$11,072.90	$194.00	1/4 percentage point interest rate reduction for electronic payment Rebate of origination fees paid in excess of $250 after first 24 monthly Stafford loan payments are made on time 2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
- Bank One - Educaid - Whitney	$8,000.00	$3,072.90	N/A	$11,072.90	$194.00	1/4 percentage point interest rate reduction for electronic payment 2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
PNC Bank Education Loan Center	$8,000.00	$3,192.36	($80.00)	$11,112.36	$233.46	1 percentage point reduction on origination fee on subsidized and unsubsidized Stafford loans 2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
Hibernia/Class Credit	$8,000.00	$3,192.36	N/A	$11,192.36	$313.46	Rebate of origination fees paid in excess of $250 after first 24 monthly Stafford loan payments are made on time 2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
Union Planters Bank	$8,000.00	$3,192.36	N/A	$11,192.36	$313.46	2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
No Incentives	$8,000.00	$3,647.45	N/A	$11,647.45	$768.55	No Incentives

Source: Prepared by *legislative auditor's staff using information* provided by the lending institutions.

Comparison of LPFA/LELA Stafford Student Loan Costs to Other Loan Originators

Based on $8,000 student loan with a 10-year repayment at 8% (assuming all payments are timely)



Source: Prepared by legislative auditor's staff using information provided by the lending institutions.

Comparison of LPFA/LELA Stafford Student Loan Costs to Other Loan Originators

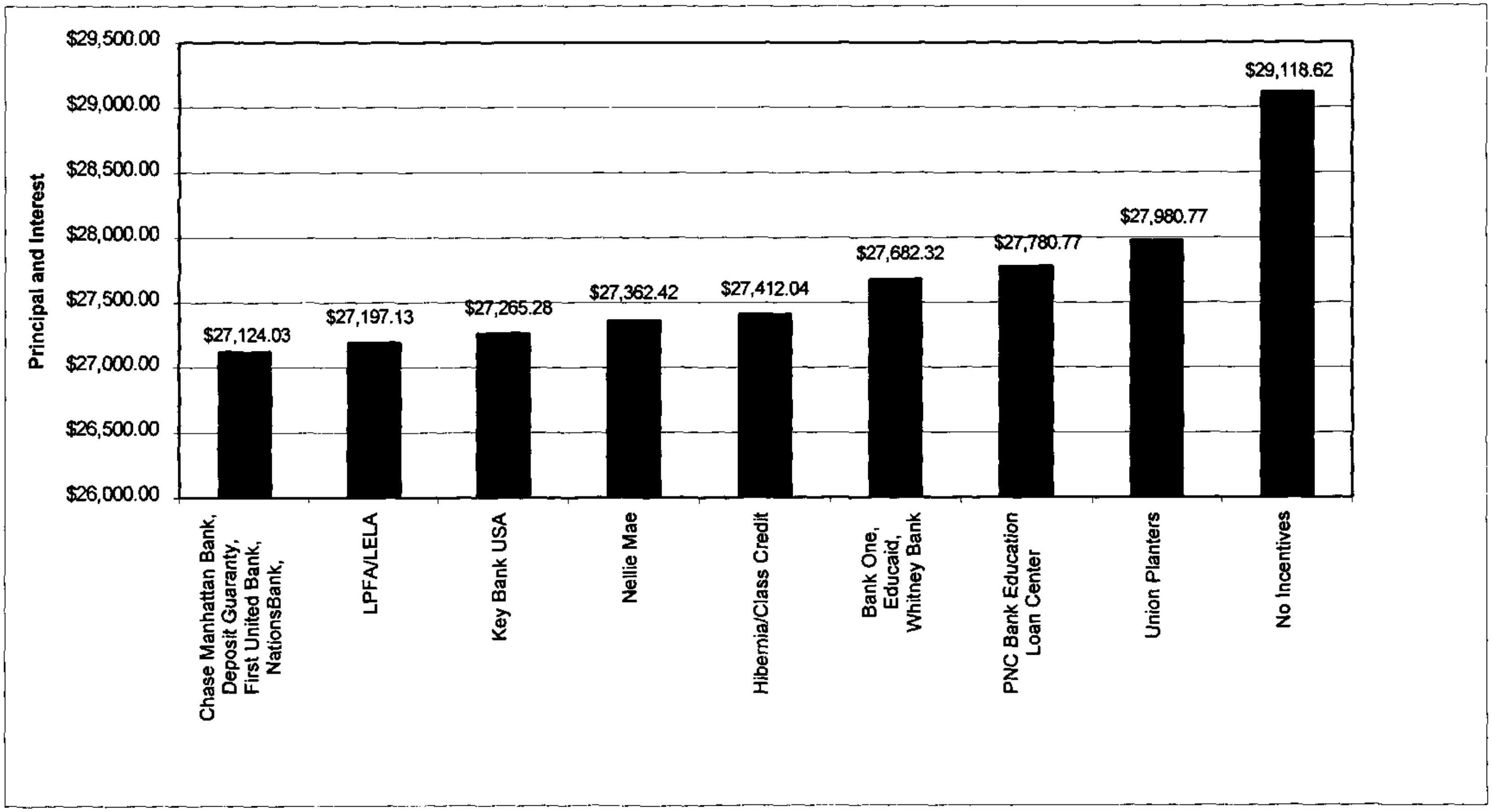
Based on $20,000 student loan with a 10-year repayment at 8% (assuming all payments are timely)

Lending Institutions	Total Principal Paid	Total Interest Paid	Up Front Reduction of Origination Fees	Total Principal and Interest	Total Loan Cost Compared to LPFA	Special Benefits/Incentives
- Chase Manhattan Bank - Deposit Guaranty - First United Bank - NationsBank	$19,650.00	$7,474.03	N/A	$27,124.03	($73.10)	1/4 percentage point interest rate reduction for electronic payment Rebate of origination fees paid in excess of $250 after first 24 monthly Stafford loan payments are made on time 2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
LPFA/LELA	$20,000.00	$7,197.13	N/A	$27,197.13	$ -	3 percentage point interest rate reduction after making 42 timely payments
Key Bank USA	$20,000.00	$7,265.28	N/A	$27,265.28	$68.15	1/4 percentage point interest rate reduction for electronic payment 2 percentage point interest rate reduction after first 36 monthly Stafford loan payments are made on time
Nellie Mae Foundation, Inc.	$18,591.87	$8,770.55	N/A	$27,362.42	$165.29	1/4 percentage point interest rate reduction for electronic payment 2 percentage point interest rate reduction or Nellie Mae will pay off last six months of loan after first 48 monthly Stafford loan payments are made on time
Hibernia/Class Credit	$19,650.00	$7,762.04	N/A	$27,412.04	$214.91	Rebate of orignination fees paid in excess of $250 after first 24 montlhy Stafford loan payments are made on time 2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
Bank One Educaid Whitney Bank	$20,000.00	$7,682.32	N/A	$27,682.32	$485.19	1/4 percentage point interest rate reduction for electronic payment 2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
PNC Bank Education Loan Center	$20,000.00	$7,980.77	($200.00)	$27,780.77	$583.64	1 percentage point reduction on origination fee on subsidized and unsubsidized Stafford loans 2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
Union Planters	$20,000.00	$7,980.77	N/A	$27,980.77	$783.64	2 percentage point interest rate reduction after first 48 monthly Stafford loan payments are made on time
No Incentives	$20,000.00	$9,118.62	N/A	$29,118.62	$1,921.49	No Incentives

Source: Prepared by legislative auditor's staff using information provided by the lending institutions.

Comparison of LPFA/LELA Stafford Student Loan Costs to Other Loan Originators

Based on $20,000 student loan with a 10-year repayment at 8% (assuming all payments are timely)



Source: Prepared by legislative auditor's staff using information provided by the lending institutions.

Appendix D

Louisiana Public Facilities Authority's Response

LPFA
LOUISIANA PUBLIC FACILITIES AUTHORITY

March 6, 2000

Dr. Daniel G. Kyle
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

Thank you for the opportunity to respond to your preliminary draft audit report (the "Draft Report") regarding the Louisiana Public Facilities Authority (the "LPFA"). We commend you on the professional and courteous manner by which your staff members conducted their research, and we appreciate the opportunity to comment on the Draft Report.

Mission of LPFA; LPFA Receives no State or Federal Funding

LPFA was formed in 1974 by a private corporation pursuant to an Indenture of Trust (the "LPFA Indenture") in accordance with the laws of Louisiana as a self supporting public trust and public corporation. LPFA, as a trust, is governed by a Board of Trustees and the beneficiary of the LPFA trust is the State of Louisiana. LPFA is not a state agency and its employees are not state employees. Additionally, LPFA does not receive and has never received any appropriation from the State for its operations. LPFA is completely self supporting and has in fact utilized a substantial part of its assets to help buy down interest rates for state and local governments, spur economic development, and promote job creation.

LPFA serves Louisiana and its citizens as a conduit issuer of bonds. That is, LPFA provides the means for qualifying projects and entities to receive tax-exempt financing and therefore achieve substantial interest cost savings. LPFA does not enhance the credit of the underlying borrower but merely assists the borrower by issuing bonds on behalf of the borrower in order to allow the borrower to obtain the savings afforded by a tax-exempt borrowing. The borrower could pursue financing directly with the bondholders, in which case the interest received by the bondholders would be taxable. If, instead, the payments from the borrower "pass through" LPFA as a result of a bond issue, the interest received by the bondholders, in certain circumstances, is tax-exempt. LPFA's purpose is to act as a conduit to pass through the payments from the borrower to the bondholder to reduce the financing costs for the borrower.

LPFA only issues special obligation revenue bonds. LPFA bonds are not general obligations of LPFA and are not an obligation, general or special, of the State of Louisiana or any political

2237 South Acadian Thruway Suite 650 · Baton Rouge, Louisiana 70808
PHONE: (225) 923-0020 FAX: (225) 923-0021 www.lpfa.com

subdivision thereof. No funds of the LPFA, the State of Louisiana, or any political subdivision are pledged to the payment of LPFA bonds (unless the State or political subdivision is the underlying borrower on the bonds). Therefore, no LPFA funds are at risk in connection with the financing and no funds of the State of Louisiana or any political subdivision thereof are at risk. The bonds are payable solely by the underlying borrower from the funds and assets pledged for each individual bond issue.

The LPFA Indenture sets forth the purposes of the LPFA. The first purpose listed is:

> The development of industry and commerce for the purpose of fostering economic growth and stability and providing employment opportunities for the citizens and residents of the Beneficiary, the State of Louisiana.

See Section 3.1(a)(i) of the LPFA Indenture. Section 8.2 of the LPFA Indenture also provides that:

> The Beneficiary [the State of Louisiana] shall have no legal title, claim or rights to the Trust Estate, its income, or any part hereof, or to demand or require any partition or distribution thereof. Neither shall the Beneficiary have any authority power or right whatsoever, to do or transact any business for, or on behalf of, or binding upon the Trustees or upon the Trust Estate, nor the right to control or direct the actions of the Trustees.

More information about LPFA and its role in a financing is attached hereto as **Exhibit A.**

Bond Counsel Fees Averaged 70.6% of the Maximum Fee Permitted by the Attorney General's Fee Schedule

As shown in the Draft Report, Bond Counsel for financings is selected based upon a number of different factors. The Draft Report notes that five (5) different law firms served as bond counsel on LPFA financings closed during 1996 to 1998 and that a sixth law firm served as co-bond counsel on one issue. The Draft Report also indicates that Bond Counsel fees on LPFA bond issues were far below the maximum fees permitted by the Attorney General's fee schedule. In fact, the Draft Report shows that Bond Counsel fees averaged 70.6% of the maximum permitted fee, meaning that Bond Counsel fees were approximately $755,582 below the maximum permitted fee. This wide range of Bond Counsel demonstrates LPFA's "open door" policy, shows a greater diversity than most, if not all, other issuers in the State, and helped contribute to the low fees shown in the Draft Report.

Bond Counsel Fees For Program Bond Issues Averaged 51% of the Maximum Fee Permitted by the Attorney General's Fee Schedule

The 13 program bond issues identified in the Draft Report represent continuations of very successful and longstanding LPFA Programs. Foley & Judell was Bond Counsel for each of the 13 program bond issues closed during 1996, 1997, and 1998, but it is important to recognize that these bond issues really only represent **five (5)** different LPFA Programs. These programs are:

1. **School Board Advance Funding Program** - 5 of the 13 bond issues involved deliveries of bonds to fund LPFA's School Board Advance Funding Program. The School Board Advance Funding Program permits school boards in Louisiana to borrow money at below market interest rates to alleviate their cash flow shortages due to the timing of the collection of their revenues.

2. **Municipal Facilities Revolving Loan Fund Program** - 4 bond issues involved deliveries of bonds to fund the Municipal Facilities Revolving Loan Fund Program. The Municipal Facilities Revolving Loan Program enabled the Department of Environmental Quality to borrow the matching funds needed by the State of Louisiana in order for the State of Louisiana to receive federal funds for the state wastewater revolving loan fund. This enabled the Department of Environmental Quality to obtain the federal monies without the State having to appropriate the required matching funds.

3. **Student Loan Program** - 2 bond issues involved deliveries of bonds to fund the Student Loan Program. The Student Loan Program, discussed more fully below, provides students and parents the opportunity to save money on loans to finance post secondary education.

4. **Single Family Mortgage Revenue Bond Program** - a single bond issue funded a continuation of LPFA's Single Family Mortgage Revenue Bond Program. The Single Family Mortgage Revenue Bond Program funded below market interest rate mortgages to low and moderate income individuals and families.

5. **Health and Education Capital Facilities Loan Program** - a single bond issue funded an extension of LPFA's Health and Education Capital Facilities Loan Program. The Health and Education Capital Facilities Loan Program was originally used by LSU to fund the start up costs of the Pennington Biomedical Research Center and these funds are now available to be relent to governmental and nonprofit 501(c)(3) entities.

As noted above, these are longstanding and successful LPFA programs. As Bond Counsel, Foley & Judell has helped develop and maintain each of these bond programs and has performed these services for a very reasonable fee. The Draft Report states that the fees charged by Foley & Judell on these program issues averaged 51% of the maximum fee permitted by the Attorney General's Fee Schedule (a savings in fees of approximately $367,740 over the maximum permitted). The continuity provided by maintaining the same Bond Counsel on an ongoing program translates into reduced costs to LPFA, reduced fees to the program, and lower interest rates to the program borrowers. As a result, LPFA has continued to utilize their services on these programs.

The Draft Report, however, only deals with program bond issues that were actually closed during 1996 to 1998. During this same time period, LPFA approved six (6) other programs for which bonds have not been issued and one (1) program for which bonds have been issued, including five (5) programs on which LPFA hired bond counsel other than Foley & Judell. LPFA encourages bond counsel and underwriters to develop beneficial programs for Louisiana and its inhabitants. LPFA works hard to bring the most beneficial and cost effective financing programs to Louisiana and is very proud of these innovative financings.

Federal Law Limits the Purposes of Tax-Exempt Financing and by Definition Produces a Public Benefit

The Draft Report notes that LPFA does not make borrowers formally demonstrate the benefits of their projects to Louisiana. This is because the types of entities and facilities that can be financed on a tax-exempt basis are limited by federal law to those already deemed by the federal government to be of a public benefit and therefore eligible for tax-exempt financing. Federal law limits what facilities and the type of entities that are eligible for tax-exempt financing. For profit entities, for the most part, are limited to borrowing money tax-exempt to finance multifamily housing facilities, small manufacturing facilities, solid waste disposal facilities, or pollution control facilities. Nonprofit 501(c)(3) organizations are eligible for tax-exempt financing, but the borrowings must be for projects within the scope of their tax exemption. The federal government has already determined that these types of entities and facilities are of a benefit to the public and therefore should be allowed to be financed on a tax-exempt basis. No further formal showing is necessary to demonstrate this fact. Additionally, LPFA does collect in its application materials the employment impact information regarding each project. As noted above, the first purpose in LPFA's Indenture is to foster economic growth and stability and to provide employment opportunities for the citizens and residents of the State.

Furthermore, all of LPFA's financings did in fact benefit the State and its citizens. The Draft Report states that: "All of the projects/programs provided some benefit to the citizens in one way or another. The bond issues either provided temporary construction jobs during the projects, created permanent jobs once the projects were completed, provided new or additional tax revenue, additional housing or better health and educational facilities." Draft Report at page 15.

LPFA's Benefits to Louisiana

The Draft Report states that sixty percent (60%) of the projects financed between 1996 and 1998 would have or probably would have been done without LPFA financing. **Conversely, then, at least forty percent (40%) of the projects financed from 1996 to 1998 would not have occurred if LPFA financing was not available.** Dr. James A. Richardson of LSU recently conducted a study on the economic impact of LPFA financings over the past twenty-five (25) years. A copy of the Executive Summary of this report is attached hereto as **Exhibit B**. Dr. Richardson states on page five (5) of the Executive Summary that: "Jobs and personal earnings are the bottom line in terms of defining economic progress. LPFA during the past 25 years has facilitated economic activities that has 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." Dr. Richardson also found that LPFA activity was greatest during the difficult economic times from 1985 to 1989. *See* page 2 of the Executive Summary. Using the forty percent (40%) figure from the Draft Report (which is conservative since this figure relates to the good economic times experienced in 1996 to 1998), **LPFA activities have led to an average of 3,333 additional jobs per year and additional personal earnings of $63.44 million per year for each of the past twenty-five (25) years that would not have occurred but for LPFA financing**, and all without any cost to or obligation of the State of Louisiana.

Despite finding that all of the financings provided benefits to Louisiana and its citizens, the Draft Report seemed to question the benefit of providing financing to out-of-state corporations for facilities located in Louisiana. Louisiana has recently been criticized and ranked low on lists that supposedly measure the State's ability to conduct business in the global economy of the 21st century. One of the prime factors for these low rankings has been the lack of outside capital investment in Louisiana. These financings are an excellent way to reverse that trend by bringing outside investment capital into Louisiana. The State Department of Economic Development spends considerable time and money trying to attract such outside investment into Louisiana. These financings should be encouraged as a means to further attract outside investment into Louisiana. Furthermore, the Draft Report acknowledges that all of these financings did in fact benefit the citizens of Louisiana by providing additional tax revenue and additional employment.

These financings also demonstrate exactly the type of benefit that LPFA has helped bring to Louisiana without any cost or expense to the State of Louisiana. LPFA provides both Louisiana entities and out of state entities access to tax-exempt financing as permitted by federal law. Without this access, Louisiana would be at a disadvantage when trying to compete for business against the other 49 states who do provide this assistance. LPFA is merely a vehicle for these entities to obtain the financing permitted by federal law and for Louisiana to compete in the national and global economy.

Costs of Issuance

The Draft Report also reviewed issuance cost paid in connection with LPFA bond issues. LPFA maintains a record of the "not to exceed" fees and expenses approved by the State Bond Commission but does not currently maintain a record of the final amounts paid on each bond issue. Fees and expenses are continually negotiated until the bonds are actually issued and delivered. These fees are negotiated by the borrower with the various third parties selected by the borrower in connection with the financing. LPFA does not become involved in these negotiations unless requested to do so by the borrower. The Draft Report recommends that LPFA keep records of the final cost of issuance. Attached as **Exhibit C** is a reporting form that LPFA is now requiring be filed with it in connection with any bond issue.

Student Loan Program

The last portion of the Draft Report deals with LPFA's Student Loan Program. LPFA has maintained a Student Loan Program since 1984. The federal government sets the interest rates on loans to students and parents. These loans bear interest at a variable rate reset annually by the federal government.

Initially, the LPFA program acted as a secondary market purchasing existing student loans from banks to allow them to make additional student loans. The student loan industry is very complex and highly regulated by the federal government. In 1993 when LPFA noticed that a number of the small to medium sized Louisiana banks were exiting the industry due to federal cuts in profit margins and increased federal regulation, LPFA developed a referral program to allow these banks to continue to offer student loans to their Louisiana customers. Currently there are forty-one (41) banks participating in LPFA's Super TOP Lender Program.

At about the same time, LPFA, working with then State Treasurer Mary Landrieu, wanted to develop a program to pass the benefits of tax-exempt financing on to the parent and student borrowers. Treasurer Landrieu and LPFA wanted LPFA to move from just secondary market acquisitions to providing a direct economic benefit to the student and parent borrowers. The result of this teamwork is LPFA's Super TOP Loan Program. In 1995 LPFA issued bonds to fund discounted loans to students and parents. The original Super TOP Loan Program reduced the interest rate paid by every borrower in the Program to one (1) percentage point below the interest rate set by the federal government. This discount was in effect for every loan disbursed by the Program from

May 1, 1995 through April 30, 1999. Approximately 20,790 borrowers obtained loans through this Program **resulting in definite savings to borrowers of approximately $6.26 million** (based upon an 8% interest rate as used in the Draft Report).

Unfortunately, the cash flows required by the rating agencies and bond insurer demonstrated that this discount could not be maintained after the federal government cut the interest earnings on student loans in 1998. The Super Top Program was then amended to offer a larger discount but with a requirement that borrowers earn this discount by making timely payments on their loans for a certain period of time. The Super Top Program currently offers borrowers a 3% reduction in the interest rate on their loan if the borrower makes 42 consecutive timely payments on their loan. While not all borrowers will qualify, the ones who do qualify are rewarded and will receive approximately 50% more in savings over the original Super Top Program. Additionally, the timely payment incentive encourages borrowers to pay back their loans, thus helping to reduce default rates. **The potential savings for borrowers under this program for all loans disbursed from May 1, 1999 through January 31, 2000 is $3.2 million.**

The Draft Report seems to dismiss the fact that **the Super TOP Program's 3% interest rate discount is available to parents as well as students. None of the other lenders named in the Draft Report offer discounts to parents.** LPFA believes this fact alone shows that there is substantial benefit to borrowers and to the State from the Super TOP Program.

The Super TOP Program provides all parents and the vast majority of students with the opportunity to save the most on their student loans. It is true that if a student or parent does not meet the requirements for the discounts offered, the interest paid by the student or parent would be same at all lenders since this interest rate is set annually by the federal government. The Super TOP Program discount, however, is available to all student and parent borrowers. It is up to the student and parent borrowers and out of LPFA's hands as to how many students and parents qualify for the discount. The 42 month qualifying period for the Super TOP Program is shorter than all but two (2) of the lenders mentioned in the Draft Report. This should translate into more students and parents qualifying for the discount under the Super TOP Program than the other programs with longer qualifying periods. Additionally, the 3% reduction of the interest rate is more than any other lender mentioned in the Draft Report, again making the Super TOP Program the most affordable loan for all but the largest borrowers.

LPFA believes that students and parents in Louisiana deserve to have the discounts provided by the Super TOP Program available to them. The availability of these discounts is the benefit to the State and its citizens. As shown in the Draft Report, the Super TOP Program offers the best loan for all parents and for the vast majority of all students. Additionally, as discussed below, LPFA is committed to making the Super TOP Program the best it can be and hopefully the best loan program in the country. If LPFA discontinued the Super TOP Program, parents would not be able to receive a discount on their loans at all, and students would not have available the greater discounts provided by the Super TOP Program. LPFA is helping make post secondary education as affordable as possible in line with its mission and purposes. Making education as affordable as possible is clearly a benefit to Louisiana and its citizens.

Attached to the Draft Report are schedules showing the total borrowing costs for borrowings of $8,000 and $20,000. Once again, the savings set forth in these schedules for the lenders other than the Super TOP Program are only available to students and not to parents. The $20,000 amount set forth in the Draft Report is far in excess of the national average for borrower indebtedness and appears to be applicable to few Louisiana students. The current average borrower indebtedness for the Super TOP Program is $4,769. The latest statistical information on borrower indebtedness available from the U.S. Department of Education provides that the national averages for 1995-96 are $7,904 for a 4-year public school and $8,682 for a 4-year private school. The most recent statistical information on average borrower indebtedness from USA Group, Inc., a national guarantor, indicates that its average borrower indebtedness for January 1, 1997 to June 30, 1997 was $9,448. The statistical information from USA Group, Inc. also indicates that during that same period 63% of its borrowers owed $9,999 or less and 79.2% of its borrowers owed $14,999 or less.

These national averages must be viewed in light of the State's TOP tuition program which should have the effect of reducing the overall borrowing of students in Louisiana. When viewed in connection with these statistics, the $20,000 borrowing amount used in the Draft Report appears to have little relevance to Louisiana. Additionally, the only program more cost effective than the Super TOP Program for the $20,000 borrowing includes a rebate of a portion of the origination fees paid by the student. It is this rebate of origination fees that makes this program more cost effective than the Super TOP Program on such a large borrowing. Lenders are able give a greater discount to such large borrowers because, unlike the Super TOP Program, they are not providing the discount to smaller borrowers. In order for a student to receive any rebate of origination fees, the student's total borrowing must be greater than $8,333.33, far above the current average borrower indebtedness in the Super TOP Program ($4,769).

LPFA continuously reviews the Super TOP Program and is committed to offering the largest discount permitted by the bond issue financings, thus passing the benefit of these financings along to the student and parent borrowers. When viewed against the other programs shown in the Draft Report, the Super TOP Program is the best program for students with a cumulative borrowing of $13,784 and below. The Super TOP Program is also one of the best discount programs in the country. LPFA is, however, committed to working with the Program's underwriters, rating agencies, and bond insurer to make the Super TOP Program **the** very best discount program in the country.

Making discounted loans available to Louisiana parents and students helps fulfill one of LPFA's missions, to promote and foster education in Louisiana. It also provides a substantial benefit to Louisiana's parent and student borrowers.

Once again, thank you for the opportunity to respond to the Draft Report. Please contact me if you have any questions regarding the information herein or need any additional information or clarifications from me.

Very truly yours,

LOUISIANA PUBLIC FACILITES
AUTHORITY

James W. Parks II

James W. Parks II

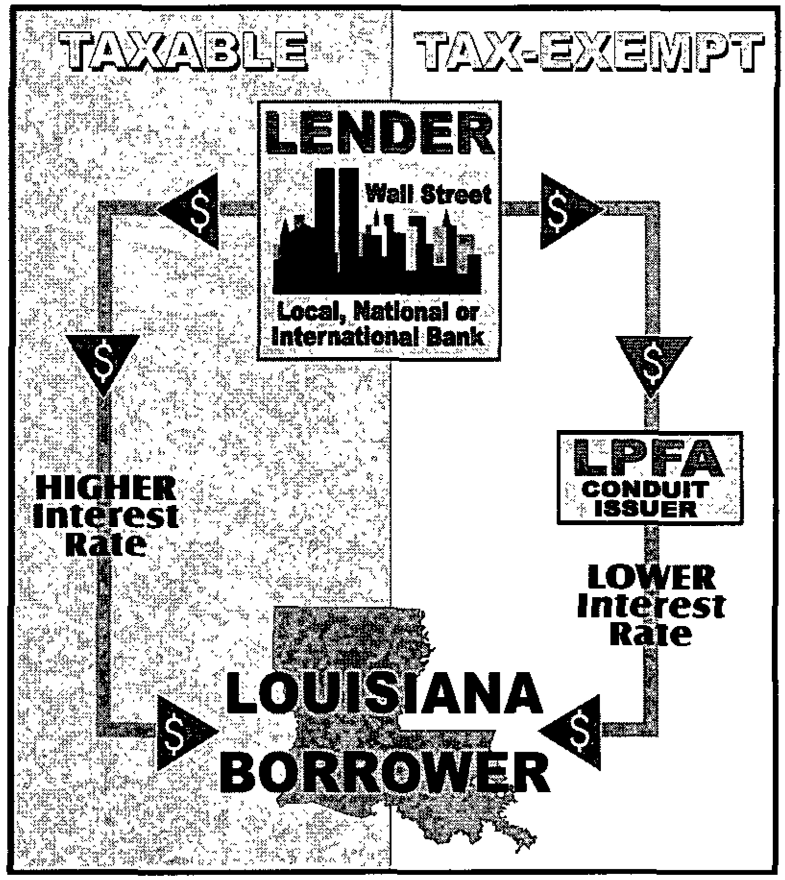
slb

Enclosures

The Role of the Louisiana Public Facilities Authority in a Financing

The Louisiana Public Facilities Authority (the "LPFA")* serves Louisiana and its citizens as a conduit issuer of bonds. That is, LPFA provides the means for qualifying projects and entities to receive tax-exempt financing and therefore achieve substantial interest cost savings. LPFA does not enhance the credit of the underlying borrower but merely assists the borrower by issuing bonds on behalf of the borrower in order to allow the borrower to obtain the savings afforded by a tax-exempt borrowing. The borrower could pursue financing directly with the bondholders, in which case the interest received by the bondholders would be taxable. If, instead, the payments from the borrower "pass through" LPFA as a result of a bond issue, the interest received by the bondholders, in certain circumstances, is tax-exempt. LPFA's sole purpose is to act as a *conduit to pass through the payments from the* borrower to the bondholder to reduce the financing costs for the borrower.

As explained in more detail below, beyond setting general credit requirements, credit analysis is not LPFA's role in a conduit financing. This is in part because LPFA only issues special obligation revenue bonds. LPFA bonds are not general obligations of LPFA and are not an obligation, general or special, of the State of Louisiana or any political subdivision thereof. No funds of the LPFA, the State of Louisiana, or any political subdivision are pledged to the payment of LPFA bonds (unless the State or political subdivision is the underlying borrower on the bonds). The bonds are payable solely by the underlying borrower from the funds and assets pledged for each individual bond issue.



No LPFA funds are at risk in connection with a financing and no funds of the State of Louisiana or any political subdivision thereof are at risk. Bonds are payable solely by the underlying borrower from the funds and assets pledged for each individual bond issue.

LPFA is available as a resource to help any qualifying person or entity in Louisiana obtain the benefits of tax-exempt financing and has established guidelines with regard to the acceptable credit of a borrower. If the borrower can find a purchaser for the bonds within the guidelines established by LPFA, then LPFA is available to assist the borrower with its financing. There are two sides to each financing, the legal side and the financial side. LPFA and its bond counsel analyze whether the project can legally be financed with tax-exempt bonds (federal law restricts what type of entities and projects can receive tax-exempt financing). Other parties to the financing are responsible for analyzing the credit of the borrower.

---

* *LPFA was formed in 1974 by a private corporation pursuant to the laws of Louisiana as a self supporting public trust and public corporation. LPFA, as a trust, is governed by a Board of Trustees and the beneficiary of the LPFA trust is the State of Louisiana. LPFA is not a state agency and its employees are not state employees. Additionally, LPFA does not receive and has never received any appropriation from the State for its operations. LPFA is completely self supporting and has in fact utilized a substantial part of its assets to help buy down interest rates for state and local governments, spur economic development, and promote job creation.*

LPFA does not assume the responsibility to determine the creditworthiness of a project or borrower, nor does it assume the resulting legal liability from making such a determination. The marketplace determines if the bonds are marketable, not LPFA. However, LPFA does require that the bonds receive an investment grade rating ("BBB" or better) from at least one of the nationally recognized rating agencies or, if not so rated, be sold to a limited number of institutional or sophisticated investors in accordance with LPFA and Securities and Exchange Commission rules and regulations. The independent rating agencies review the credit of the borrower and the particular project to be financed in connection with bond issues offered to the general public. For bond issues that do not meet the rating requirement, the institutional or sophisticated purchaser of the bonds makes its own independent examination and evaluation of the borrower and the project. Typically the denomination of unrated bonds is set at a high amount and either the original purchaser executes an investment letter containing language that the purchaser has made its own independent analysis and decision to purchase the bonds and has not relied upon the LPFA in connection with its evaluation and decision to purchase the bonds or the offering circular for the bonds makes it clear that by purchasing the bonds the purchaser is taking full responsibility for its decision to purchase the bonds without reliance upon LPFA. It is the role of the private placement agent and its counsel to perform due diligence in connection with any financing of this nature and LPFA does not assume the responsibility to conduct a due diligence inquiry or the legal liability associated therewith.

No LPFA funds are at risk in connection with the financing and no funds of the State of Louisiana or any political subdivision thereof are at risk. In fact, each LPFA bond contains the following or substantially similar language:

"The Bonds are limited and special revenue obligations of the Authority, secured by and payable solely from revenues and funds pledged therefor. The Bonds and the interest thereon do not constitute or create an obligation, general or special, debt, liability or moral obligation of the State or of any political subdivision thereof within the meaning of any constitutional or statutory provision whatsoever, and neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a general obligation of the Authority, which has no taxing power and receives no funds from the State or any governmental body."

Each member of the financing team has a specific job to perform. LPFA does not assume the duties of other team members, not only to avoid any unnecessary legal liability, but also to insure maximum financial benefit for the borrower, Louisiana, and its citizens.

Exhibit B

Executive Summary

Louisiana Public
25 Years of Service to Louisiana
1974 - 1999
Facilities Authority

The Louisiana Public Facilities Authority: Its Impact on the Louisiana Economy

Prepared for the LPFA by
Dr. James A. Richardson

In 1999 the LPFA completes 25 years
of dedicated service to Louisiana, its people,
institutions and governmental entities.

To determine the economic impact of
the Authority on the state during this
quarter-century of financial 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

We present to you the Executive Summary
of Dr. Richardson's exhaustive study.

For copies of the complete report,
The Louisiana Public Facilities Authority:
Its Impact on the Louisiana Economy,
please contact the LPFA.

The Louisiana Public Facilities Authority: Its Impact on the Louisiana Economy

Executive Summary

Prepared for the LPFA by Dr. James A. Richardson

The Louisiana Public Facility Authority (LPFA) was created as a public trust and public corporation in 1974 with the authority 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.

While not a State agency, the LPFA complies with state laws regarding public records, public contracts, open meetings, public bids, the Bond Validation Procedures Law and the State Code of Ethics.

LPFA financial transactions influence the performance and direction of the Louisiana economy. Construction projects create business activity, new jobs, and additional personal earnings for the duration of the construction project. In the case of LPFA these benefits appear to be recurring since LPFA is financing a new construction project or projects each and every year. The long-term benefits of the construction project occurs after the project is completed and the facility operational.

Estimates of the state wide benefits of all construction projects financed by LPFA are provided. Benefits accruing to the state because of the use of the new or renovated facility are illustrated by examining specific projects, including construction associated with Tulane University, the University of New Orleans Research and Technology Park, the Con Agra Poultry Processing Facility in Union Parish, and medical facilities around the state.

LPFA also provides financial services to specific programs ranging from cash flow management for local governments to restoring an insolvent state program to reducing the interest burden associated with governmental borrowing. LPFA has also

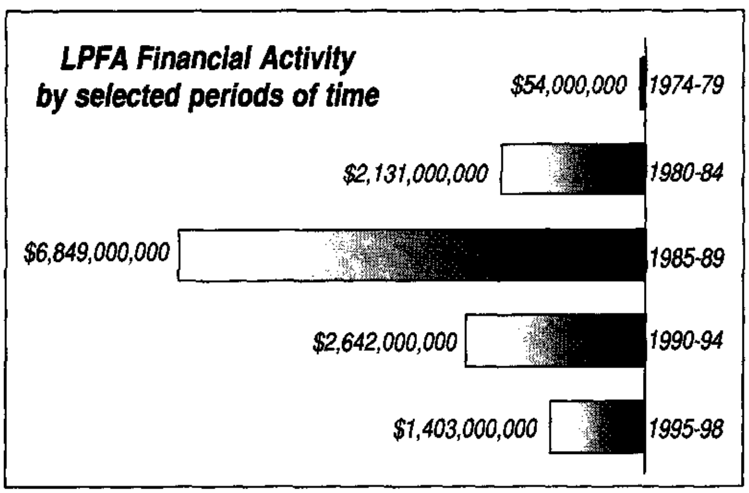
Annual LPFA financial audits are reviewed by the State Legislative Auditor. LPFA bond issues must undergo review and approval by the State Bond Commission. All bond-issuance fees paid by the LPFA are subject to the review of the State Bond Commission or the Louisiana Attorney General.

provided funding to certain projects as a means of jump starting the initiative such as funding for Pennington Biomedical Research Center and Tad Gormley Stadium. Benefits from these financial transactions are best computed by examining the specific LPFA project.

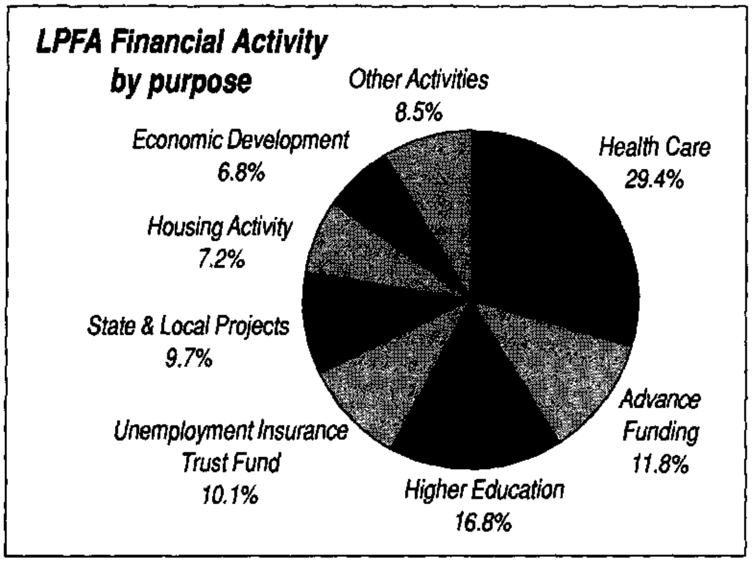
LPFA is a financial facilitator. LPFA does not, by itself, create wealth; it helps others create wealth. LPFA does not, by itself, create additional business activity, new jobs, and additional personal earnings for citizens of the state; it helps others create this economic impact. LPFA does not, by itself, create the reasons for which the various entities need to borrow funds; LPFA facilitates these financial transactions so as to reduce the burden of servicing the debt. The facilitation of these financial transactions is a key and necessary ingredient in promoting and stimulating economic growth in Louisiana.

LPFA Bond Issuances, 1974-1998

The LPFA, in its twenty-five years of activity, has issued over $13 billion of bonds or an average of approximately $525 million per year. LPFA was most active during the years of 1985 through 1989, years in which the Louisiana economy was reeling due to the oil patch collapse, and other financial institutions within the state were limited by the state-wide financial conditions. About $7 billion in bonds were issued by LPFA during this five year period. LPFA was not specifically assigned the duty of being a contra-cyclical financial force within the state, but market conditions led LPFA to assume such a role.



LPFA has provided more financing for health care providers than any other type of activity. Almost 30 percent of all bond issuances of the LPFA has provided financing for health care providers. 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 16.5 percent of all LPFA transactions during its first 25 years. Advance funding for local governments, including school districts, law enforcement agencies, and other local political subdivisions, accounted for almost 12 percent of all bonds issued. Advance funding allows a local school district to even out its revenue stream with its expenditure stream without having to borrow at the market rate of interest. Just over 10 percent of the total bond issuances of the LPFA permitted the restructuring of the State's Unemployment Insurance Trust Fund in 1987, a restructuring that was necessitated by the collapse of the state's economy in the mid 1980s. Major construction projects for single and multi-unit housing structures, local governments, and private economic development accounted for about 24 percent of all LPFA bond issuances during its first 25 years.



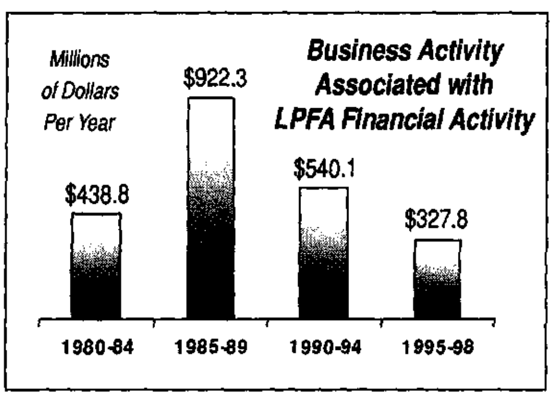
LPFA has served a state-wide market. New Orleans and Baton Rouge metropolitan areas have received the largest amount of LPFA bond issuances specific to a region of the state. Baton Rouge metropolitan area has received about $2,000 per person in LPFA bond issuances; New Orleans, Monroe, and Shreveport over $1,000 per person; Lafayette over $500 per person; and Alexandria and Lake Charles between $200 to $300 per person. LPFA's financial activity affected every region of the state with its projects and programs. Parishes from Bienville in the northwest region of the state to Franklin in the northeastern region of the state to Beauregard in the southwest region of the state to Washington in the southeastern region of the state have benefited from LPFA bond issuances.

Economic Significance of LPFA Financed Construction Projects

LPFA's financial activity affects the overall economy in terms of supporting additional business activity, additional jobs, and additional personal earnings which 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 personal earnings for as long as the construction project is being completed and (2) once, the construction project is completed, then 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 Activity

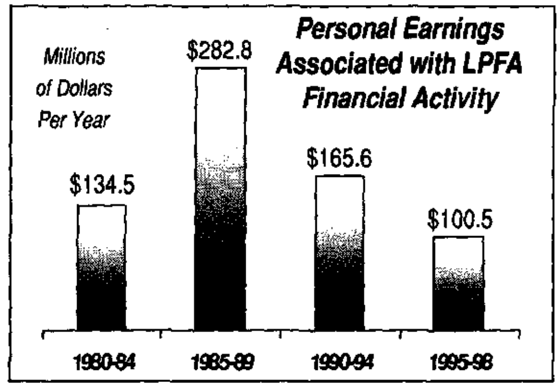
Based on LPFA's financial activity and the Louisiana Input-Output Model, business activity increased by $438.8 million per year for the 1980-84 time period; $922.3 million per year for the 1985-89 time period; $540.1 million per year for the 1990-94 time period; and, $327.8 million per year for the 1995-98 time period.



Another way of evaluating the impact of the LPFA associated

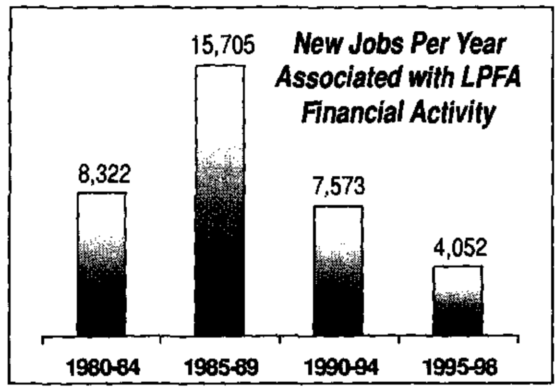
• **Personal Earnings**

Personal earnings increased by $134.5 million per year for the 1980-84 time period; $282.8 million per year for the 1985-89 time period; $165.9 million per year for the 1990-94 time period; and, $100.5 million per year for the 1995-98 time period.



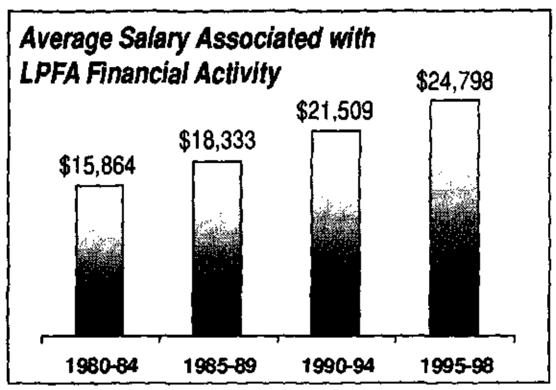
• **New Jobs**

New jobs associated with LPFA financial activity amounted to 8,322 jobs per year in the 1980-84 time period; 15,705 jobs in the 1985-89 time period; 7,573 jobs in the 1990-94 time period; and, 4,052 jobs in the 1995-98 time period.



• **Average Salary**

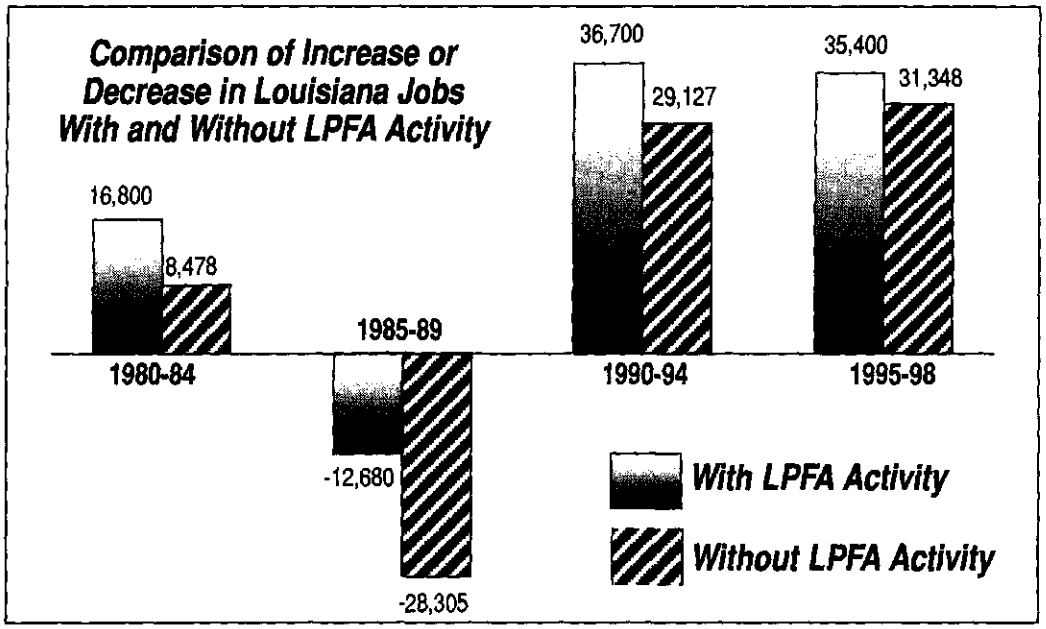
The average wage for these new jobs jumped from almost $16,000 per job in the early 1980s to approximately $25,000 per job in 1998.



Jobs and personal earnings are the bottom line in terms of defining economic progress. LPFA during the past 25 years has facilitated economic activities that has 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. 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 $265 million per year or another chemical plant operating in the state with sales of $1 billion per year.

construction projects on the Louisiana economy is to examine the increase or decrease in jobs in Louisiana with and without the construction projects facilitated by LPFA.

In the 1980-84 time period the Louisiana economy created



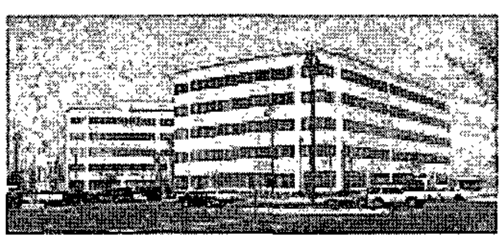
16,800 jobs per year, including the impact of LPFA financial transactions. Without the LPFA financial transactions, the Louisiana economy would have created about 8,500 jobs per year for this period of time. From 1985 to 1989 the Louisiana economy actually lost about 12,600 jobs per year, including the 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 jobs each year, including LPFA's impact through its financial transactions. The state would have only experienced an increase of just over 29,000 jobs 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.

On-going Impact of Construction Activity

The on-going impact of LPFA financial transactions are best described by focusing on individual LPFA projects.

• **Tulane University** Tulane University borrowed over $285 million through LPFA from 1984 through 1992 and $110 million from 1993 through 1998 to finance construction of new facilities and enhancement of existing facilities. Tulane provides educational services to 11,500 students in New Orleans with an annual budget of approximately $430 million and provides direct employment opportunities for 4,500 persons. Tulane's expenditures lead to the creation of about $868 million in business activity in the state; personal earnings of just over $344 million; and 12,650 jobs. LPFA facilitated the financial needs of the university thereby facilitating the contribution of Tulane University to the New Orleans and Louisiana economy.

• **UNO Research and Technology Park** The U.S. Navy located a state-of-the-art Naval Information Technology Center in the UNO Research and Technology Park. LPFA financed the construction of Phase I of the building project (2 major buildings housing the Naval Information Center) and has received approval to finance Phase II of the project (2 additional buildings and a parking garage). It is estimated that the naval project will bring 1,500 permanent jobs to New Orleans. This flow of federal dollars will create $272.5 million of additional business transactions, $136.7 million of household earnings, and



3,548 new jobs. This technology center, along with the Phase II for the Research and Technology Park, may have an even larger impact on the New Orleans since the technology center serves as a magnet for comparable projects from government and private industry. Direct permanent jobs, after Phase II is completed, are estimated to be above 2,200.

In order to facilitate this larger impact in New Orleans, the LPFA loaned $1.2 million to the University of New Orleans Research and Technology Foundation at zero percent interest. This loan provides the working capital for the Foundation to finance other technology projects, including a facility to house emerging-technology companies.

• **Con Agra Processing Facility** LPFA contributed to the development of the Con Agra Poultry Processing Facility in Union Parish by providing interim financing for the development of water wells, sewers, and roads. Con Agra made a $34 million investment in Union Parish with a permanent payroll of $11 to $14 million in 1990 dollars and the creation of 1,100 to 1,400 jobs. The construction of the processing facility led to additional business activity of $65.9 million, household earnings of $20.2 million, and 573 new jobs for the duration of the construction project. The operation of the facility is permanent. In 1998 the facility still employs 1,400 persons. Con Agra is the largest employer in Union Parish. Population in Union Parish declined in the 1980s but has risen in the 1990s. Per capita income in Union Parish increased more quickly from 1991 to 1994 than per capita income in Louisiana and the United States.


Photo courtesy of Lincoln Builders, Inc.

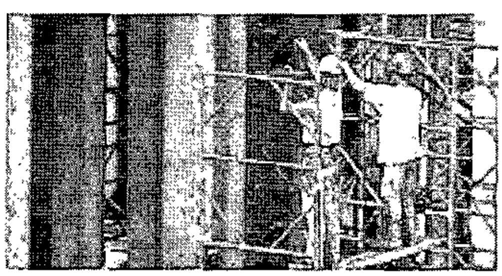
• **State-wide Health Care Financing** LPFA has issued close to $3.8 billion of bonds to finance health care construction and equipment purchases from 1974 through 1998. Twenty-six parishes in Louisiana have benefited from LPFA's financing of health care facilities. Approximately 43 percent of the increased business activity, additional household earnings, and new jobs due to construction activity is related to the construction of health care facilities. These benefits are just the beginning because on-going benefits will last as long as the facilities last. The first and most obvious benefit will be the improved health care available to persons throughout the state. Second, over 200,000 persons work in the health care industry in Louisiana. These facilities complement and contribute to the support of the jobs and earnings for these persons.

On-going Impacts Associated with Unique LPFA Programs

LPFA has undertaken a number of projects that only LPFA, or an organization with its mission, could have undertaken. These projects, including restoring the Unemployment Insurance Trust Fund, advanced funding for local governmental subdivisions, and jump-starting specific programs, have an on-going impact on the Louisiana economy.

Restoring the Unemployment Insurance Trust Fund

The collapse of the Louisiana economy in the 1980s eventually led to the insolvency of the Unemployment Insurance Trust Fund. The state owed the federal government close to $800 million with interest payments of almost $70 million. Businesses had lost federal tax credits associated with the unemployment insurance program and had been assessed a surtax. Interest payments on the outstanding debt to the federal government exceeded market rates by about 2.5 percent. The LPFA, working with state government and business and labor leaders, provided a plan to overcome the fund's debt and deficits. LPFA issued $1.3 billion in bonds to pay off the federal debt, pay the annual interest installment to the federal government, and deposit $250 million in the trust fund. Business and labor also made sacri-



fices to make the overall plan work. Workers received a reduction in benefits by almost 12 percent; the taxable wage base increased from $7,000 to $8,500 for businesses; and businesses agreed to pay a special assessment of 1.4 percent of the first $15,000 of each worker's wage base to pay off the bond issue.

The plan has worked. The 15 year debt issued in 1987 was paid off by 1993. As of 1998 the trust fund has a balance of about $1.4 billion. Taxes paid by Louisiana employers have been reduced in 1995, 1997, and 1999. Benefits paid to Louisiana workers who have been laid off have increased in 1995, 1997, and 1999.

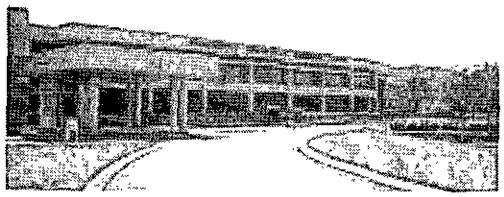
LPFA could not, by itself, have created a plan that would have rescued the Unemployment Insurance Trust Fund. But, without the ability of LPFA to issue $1.3 billion of bonds and to schedule the defeasement of the debt in such a way that early retirement of the debt was possible, the plan would not have been feasible.

Advanced Funding for Local Government Subdivisions

In 1982 LPFA instituted advanced funding for local government subdivisions for cash flow purposes. LPFA has provided almost $1.7 billion in advanced funding from 1982 through 1998 with most of this advanced funding going to school districts and law enforcement agencies. Market interest rates averaged almost 9.0 percent during the 1983 to 1998 time period, while LPFA rates for advanced funding averaged around 4.0 percent over this same time period. Overall savings to school districts, law enforcement agencies, and other local government subdivisions is estimated to be close to $120 million or, on average, $7.5 million per year. At current salaries for school teachers these savings translate into enough money to hire 280 teachers or about 4 teachers in each school district in the state.

Jump-Starting Pennington Biomedical Research Center

Mr. C. B. "Doc" Pennington donated $125 million for the construction of the Pennington Biomedical Research Center. The operating expenses of the center was to be generated by government appropriations and/or grants, private contracts, private donations, and other self-generated funds. The research center was completed just at the time the Louisiana economy was mired in the oil patch collapse. Operating funds were hard to come by. An LPFAbond issue generated $4.1 million for the Center's first operating monies. These dollars permitted the Center to hire a Director and pave the way for other research grants to be obtained. The Pennington Biomedical Research Center has grown from the initial funding to a projected budget of $20.8 million in the year 2000. The Center employs more than 350 scientists, technicians, physicians, and support personnel. This $20.8 million budget leads to an increase of about $39 million in additional business activity for the local and state economy, new jobs of over 650, and household earnings of about $15.2 million.



A Final Look at LPFA's Role

LPFA is a financial facilitator. Obviously, it did not create the Pennington Biomedical Research Center. It will not do the research for which the Center will become internationally known. LPFA did not create the need for the advanced funding required by the local government subdivisions. Similarly, LPFA does not create the need for the various construction projects that it is asked to finance. LPFA provides, however, the financial intermediation that permits construction projects to be completed; state and local programs to be implemented; and, economic development projects such as the Pennington Biomedical Research Center to be initiated as quickly as possible, and at the lowest possible financial costs.

LPFA's activity, along with the activity of the many governments and private entities with which it interacts, provides a substantial economic boost to the state of Louisiana. This economic boost can be measured in terms of additional business activity, new jobs being created, and additional household earnings and also in terms of opportunities and possibilities for the long-term development of Louisiana's economy. LPFA's facilitation of these financial transactions is a key and necessary ingredient in promoting and stimulating economic growth in Louisiana.

Dr. Richardson is solely responsible for
the analysis and findings included within this study.

James A. Richardson, PhD.

Dr. Richardson is John Rhea Alumni Professor of Economics and Director of the *Public Administration Institute* in the E.J. Ourso College of Business Administration at Louisiana State University in Baton Rouge.

Since 1987, Dr. Richardson has served as the private economist on the Louisiana Revenue Estimating Conference, the panel with the constitutional authority and responsibility to provide official revenue estimates for the state. He served as a fiscal advisor to the Governor of Louisiana from 1988 through 1991, as advisor to the Governor's Tax Reform Panel in Kansas in 1995, and as an advisor to the Alabama Department of Revenue in 1996.

Since 1983, Dr. Richardson has participated in preparing the *Louisiana Economic Outlook*, a two-year forecast of the Louisiana economy published by LSU's E.J. Ourso College of Business Administration.

He has served as an Associate Editor of the *Journal of Education Finance* and the *Texas Business Review*. His work has been published in numerous journals, and a major tax study he organized and supervised for the State of Louisiana, *Louisiana Fiscal Alternatives: Finding Permanent Solutions to Recurring Budget Crises*, was published by the LSU Press in 1988. He has just co-edited a major book, *Handbook on Taxation*, which was published by Marcel Dekker in January 1999.

Dr. Richardson also serves as a member of the Board of Directors of the Public Affairs Research Council (PAR) and as a member of the Board of Trustees of the Council for A Better Louisiana (CABL).

Dr. Richardson received his B.A. in economics from St. Mary's University of San Antonio, Texas and his Master's and his PhD. in economics from the University of Michigan. He specializes in regional forecasting, state and local tax policy, and energy economics.

L.P.F.A.
Louisiana Public Facilities Authority

2237 South Acadian Thruway
Suite 650
Baton Rouge LA 70808

Telephone: (225) 923-0020
Fax: (225) 923-0021
Email: info@lpfa.com
Internet: http://www.lpfa.com

Exhibit C

LOUISIANA PUBLIC FACILITIES AUTHORITY
FINAL COST OF ISSUANCE REPORT

Date: ______________ Completed by: ______________________ Phone: ( ) __ - _______

Project Name: ____________________________

Principal Amount: $ ________________

Bond Counsel
Firm: ____________________________

Contact: ____________________________

Bond Counsel Fee: $ ________________

Issuer Counsel
Firm: ____________________________

Contact: ____________________________

Issuer Counsel Fee: $ ________________

Underwriter: ______________________ Underwriter Counsel: __________________

Contact: ______________________ Contact: ________________________

Underwriter Fee: $ ________________ Counsel Fee: $ ______________________

Trustee: ______________________ Trustee Counsel: __________________

Contact: ______________________ Contact: ________________________

Trustee Fee: $ ________________ Counsel Fee: $ ______________________

***Note:** Please attach two copies of the Index of Proceedings from the transcript and one copy of the Louisiana State Bond Commission Reporting Form.*