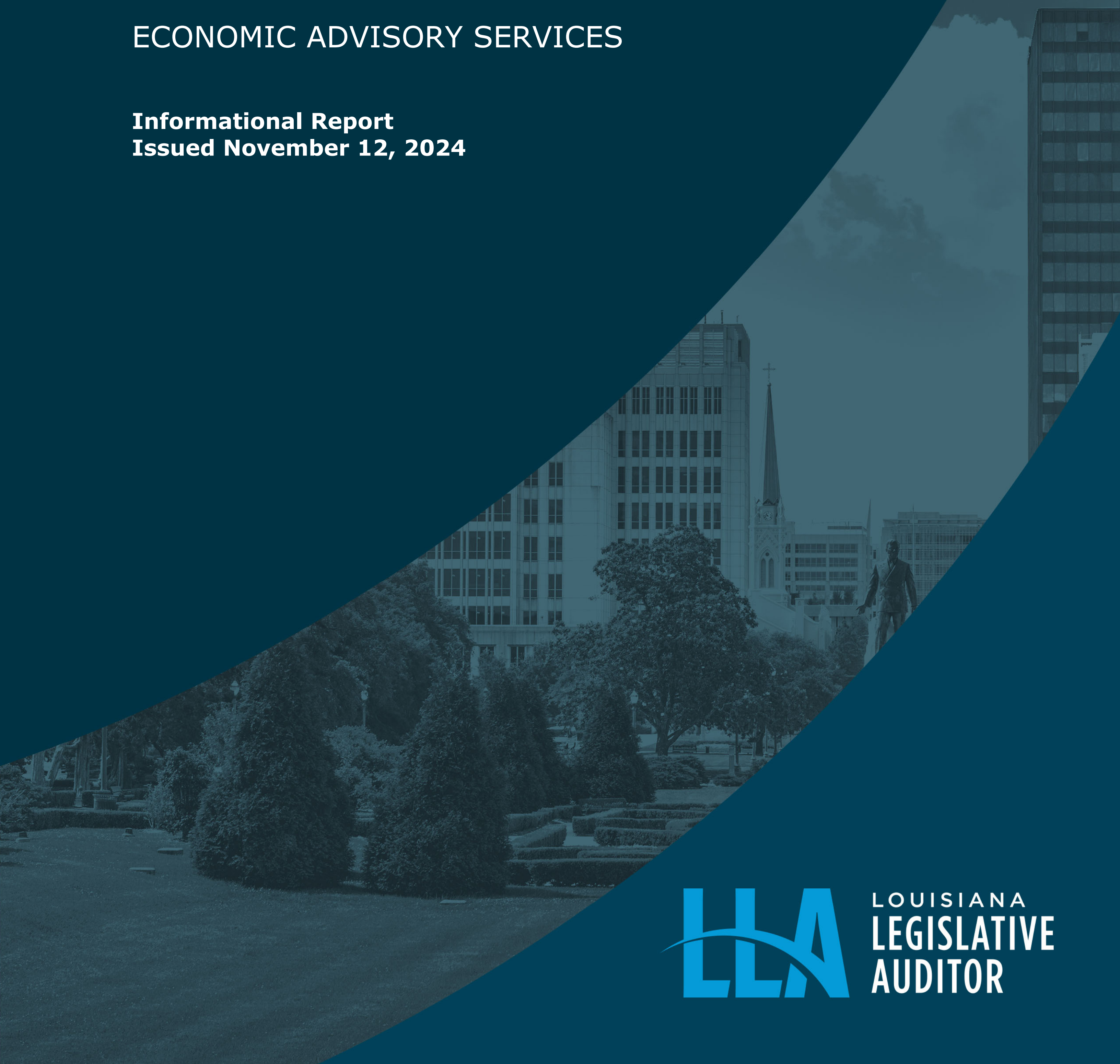
LOUISIANA'S BUDGETARY RESERVES

ANALYSIS AND MANAGEMENT CONSIDERATIONS

ECONOMIC ADVISORY SERVICES

Informational Report
Issued November 12, 2024



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LOUISIANA LEGISLATIVE AUDITOR

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November 12, 2024

The Honorable J. Cameron Henry, Jr.,
President of the Senate
The Honorable Phillip R. DeVillier,
Speaker of the House of Representatives

Dear Senator Henry and Representative DeVillier:

This informational report provides the results of our review of the state's budgetary reserves, including the Revenue Stabilization Trust Fund and Budget Stabilization Fund, and information on potential opportunities for the state to improve how it accumulates, maintains, invests, and utilizes its reserves. This report is intended to provide timely information related to an area of interest to the legislature or based on a legislative request. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the Louisiana Department of Treasury and the Division of Administration, Office of Statewide Reporting and Accounting Policy and Office of Planning and Budget for their assistance during this review.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MJW/ch

BUDGETARY RESERVES REPORT 2024

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Louisiana's Budgetary Reserves Analysis and Management Considerations

November 2024

Audit Control # 42250001

Introduction

This report provides information on the status of the state's budgetary reserves or "rainy day funds" as of the end of fiscal year (FY) 2024, including the Budget Stabilization Fund (BSF) and Revenue Stabilization Trust Fund (RSTF), and potential opportunities for the state to better manage these reserves.[1] Both funds are recognized by the National Association of State Budget Officers and by the state's credit rating agencies as sources of budgetary reserves.

> **Budgetary reserves,** or **"rainy day funds,"** are a state's "savings account" to help it mitigate disruptions to services during an economic downturn and respond to other unforeseen circumstances.
>
> **Source**: National Association of State Budget Officers, *Budget Processes in the States*, 2021.

With an accounting system cash balance of $1.1 billion at the end of September 2024, the BSF is the older and smaller of the two funds, and it is formally restricted for use to offset reductions in the state's revenue forecast or to cover the costs of federally-declared disasters. The $2.8 billion RSTF is the newer and larger of the two reserve funds, and state law gives the Legislature more discretion to use the fund for transportation or capital outlay projects or for emergency uses. The state has withdrawn funds from the BSF during seven fiscal years since its reorganization in FY 1999, while the first-ever use of the RSTF occurred in FY 2025 to pay for transportation and water system infrastructure, criminal justice and first responder programs, and higher education campus improvements. Louisiana is not unique in having more than one budgetary reserve fund – the National Association of State Budget Officers (NASBO) lists 21 states as having more than one such fund as of 2024. All states have at least one such fund, according to NASBO.

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[1] This report began as a follow-up to the report we issued in February 2016 on the state's constitutionally- and statutorily-dedicated funds, "Constitutional and Statutory Dedications," ACN 40150019, issued February 11, 2016. URL: https://app.lla.state.la.us/go.nsf/get?OpenAgent&arlkey=40150019CWIN-AYM2V6. An update on the year-end cash balances in these funds for fiscal years 2020 through 2024 can be found in a separate LLA informational brief titled "Cash Balances in Dedicated Funds, Fiscal Years 2020 Through 2024," ACN 42240008, URL: https://lla.la.gov/go.nsf/get?OpenAgent&arlkey=42240008APPP-DATNLL.

The most important source of funding for the BSF is non-recurring revenues, while for the RSTF the most important source is corporate income and franchise taxes in excess of $600 million for a fiscal year. State law[2] requires a quarter of all non-recurring revenues to be deposited into the BSF. Corporate income and franchise taxes exceeded $600 million in FY 2019 and for all of fiscal years 2021 through 2024, and a total of $3.1 billion was deposited into the RSTF in accordance with state law.[3] Excess mineral revenues have also been a key source of funding for both funds, with the BSF receiving $540 million and the RSTF receiving $356 million from this source since each fund's inception. Mineral revenues are those that the state receives from the exploration for or production of minerals, particularly oil and gas, and examples include severance taxes, as well as royalties, rents, and bonuses received for mineral production on state lands. The RSTF receives 70% of otherwise-undedicated mineral revenues between $660 million and $950 million, while the BSF receives all such revenues above $950 million. A detailed description of mineral revenue dedications is provided in Appendix B. The BSF and RSTF also differ in that the BSF by law retains its interest revenues, while the RSTF's interest is State General Fund Direct revenue. Exhibit 1 on the next page summarizes the total accumulation and utilization of budgetary reserves in each of the state's two budgetary reserve funds since their inception.

Strategic reasons exist for dedicating these specific revenue sources that support the RSTF and BSF. The dedication of non-recurring revenues to the BSF is consistent with best practices from the Government Finance Officers Association, which support using non-recurring revenues and budget surpluses to replenish fund balance and advise against allowing recurring expenses to exceed recurring revenues. Accordingly, state law requires 25% of all non-recurring revenues to be deposited into the BSF and prohibits such revenues from being used for current-year operating expenses. For the RSTF, state law takes hard-to-forecast revenue streams, such as mineral revenues and corporate income tax, and prevents spikes in such revenues from being automatically built into the state's operating budget by dedicating them to the RSTF.

The combined accounting system cash balance in both funds at the close of September 2024 was $3.8 billion. This report evaluates the state's budgetary reserves in light of recommendations from best practices and actual reserve balances maintained by other states. Louisiana has more budgetary reserves than are generally required by credit rating agencies to obtain the highest score in the budgetary reserves category. While Louisiana has the third-highest levels of formal budgetary reserves among southern states (normalized as a percentage of own-source revenue), its overall governmental fund balances are in the bottom half of southern states. State budgetary reserves nationwide have been increasing – NASBO notes that the median state rainy-day fund balance as a percentage of state general fund expenditures has increased every year since fiscal year 2012, with a projected nationwide median of 15.0% for FY 2025. NASBO's state-level data for Louisiana only includes the BSF, which amounts to 8.8% of general fund

[2] La. Const. Art. VII § 10.3(A)(3).
[3] La. Const. Art. VII § 10.15(D).

expenditures using NASBO's methodology,[4] with Louisiana ranking forty-second-highest among states. However, including the $2.767 billion currently in the RSTF (not including anticipated transfers in that are forecast to occur at the end of FY 2025) would increase Louisiana's budgetary reserves to 31.9% of general fund expenditures, ranking fifth-highest among states.

Exhibit 1
Overview of Louisiana's Budgetary Reserve Funds
July 1998 through September 2024*

Description	Budget Stabilization Fund	Revenue Stabilization Trust Fund
Calendar year established	1998	2016
Deposits from non-recurring revenues	$1,503 million	$0
Deposits from corporate income and franchise taxes	$0	$3,128 million
Deposits from excess mineral revenues	$540 million	$356 million
Deposits from interest revenues	$90 million	$0
Total deposits	$2,133 million	$3,484 million
Total withdrawals	$1,075 million	$717 million
Accounting system cash balance as of September 30, 2024	$1,058 million	$2,767 million
Number of fiscal years in existence	27	9
Number of fiscal years with withdrawals from fund	7	1
Number of fiscal years with contributions to fund (besides interest)**	22	6
How funds were spent	Various (transferred to State General Fund for appropriations)	Transportation and water system infrastructure, criminal justice and first responder programs, higher education campus improvements

* We use a September 2024 end date to show the impact of the $717 million appropriated from the RSTF for FY 2025, which was transferred out of the fund in September.
** We count FY 2025 as a year with deposits into both funds based on the Revenue Estimating Conference forecast, although said deposits have not yet occurred.
Source: Prepared by legislative auditor's staff using unaudited data from LaGov and from the Louisiana Department of Treasury.

[4] NASBO reported $1.057 billion in Louisiana's rainy-day fund and recommended general fund expenditures of $11.991 for FY 2025, with the rainy-day fund balance being equal to 8.8% of recommended general fund expenditures.

In addition, because maintaining adequate reserves for a state like Louisiana generally involves maintaining a fund balance in excess of $2 billion, choosing the right investment strategy for the fund has the potential to generate significant amounts of revenue. Currently, the $3.8 billion in the RSTF and BSF are invested by the State Treasurer's Office in the General Fund portfolio, which includes not only State General Fund Direct revenue, but also federal and self-generated funds, and the bulk of the state's dedicated funds, such as the Transportation Trust Fund. Per state law, the General Fund portfolio is mostly invested in debt securities (such as bonds, notes, and bills), and none of it is invested in stocks. General Fund investments prioritize the safety of principal first, liquidity second, and yield third,[5] and a prohibition on stock investments is consistent with these priorities. An important consideration regarding the BSF and RSTF is whether the entire $3.8 billion should be invested in safe, low-yielding assets, or whether the state would benefit from investing the funds to obtain a higher rate of return. Under current law, the State Treasurer can invest up to 35% of the RSTF in equities.[6] Alternatively, the Legislature could consider contributing some of its budgetary reserves to the state's retirement systems, which can earn a higher rate of return than the Treasury.

The objective of this informational report was:

To provide information on the state's budgetary reserves and potential opportunities to better manage these reserves.

Our results are summarized on the next page and discussed in detail throughout the remainder of the report. Appendix A contains management's response, Appendix B provides information on the allocation of excess mineral revenues to various dedicated funds, Appendix C contains a comparison of the state's budgetary reserve funds, Appendix D provides further detail on the calculations supporting our estimation of budgetary reserve targets based on bond rating agency criteria, and Appendix E contains additional information on southern states with more than one budgetary reserve fund.

Informational reports are intended to provide more timely information than standards-based performance audits. While these informational reports do not follow *Governmental Auditing Standards*, we conduct quality assurance activities to ensure the information presented is accurate. We incorporated feedback from the Louisiana Department of Treasury throughout this informational report.

[5] R.S. 49:327(B)(5)(b).
[6] R.S. 39:100.112 and R.S. 39:98.2.

Objective: To provide information on the state's budgetary reserves and potential opportunities to better manage these reserves.

Overall, we identified opportunities for the state to modify how it accumulates, maintains, invests, and utilizes budgetary reserves to balance the goals of maintaining adequate reserves and putting all state funds to use in the most beneficial manner. Specifically, the $3.8 billion combined accounting system cash balance of the Revenue Stabilization Trust Fund (RSTF) and Budget Stabilization Fund (BSF) are invested in safe but low-yielding bonds, but the state could potentially earn a higher rate of return on investment by putting the funds to use in other ways. This report provides comparative information on investment returns for the General Fund portfolio and the higher-yielding Millennium Trust portfolio, analyzes best practices on reserve fund balances, and provides insight on the potential gain from making an additional contribution to the Unfunded Accrued Liability in the state's two largest retirement systems. Specifically, we found the following:

Question 1: How large should Louisiana's budgetary reserve be, and how can the state maintain this balance?

Answer: There is no generally-agreed-upon optimal level of budgetary reserves for states, but the largest amount implied by rating agencies' criteria for budgetary reserves is $2.2 billion. This is $1.6 billion less than the $3.8 billion that the state currently holds in budgetary reserves. Based on historical patterns of BSF usage, we estimate that the state could maintain this level of reserves by saving, on average, 0.96% of non-disaster net revenue receipts during years when it does not dip into its budgetary reserves, which equates to $360 million based on FY 2023 data.

Question 2: Are there advantages or disadvantages to having more than one budgetary reserve fund?

Answer: Having two funds enables states to prioritize which fund should be used first, to allow a broader range of uses for one fund, or to have separate investment policies for each fund. However, the presence of multiple funds may create unnecessary complexity. Eight of 15 southern states (including Louisiana) have more than one budgetary reserve fund or account.

Question 3: How are the RSTF and BSF invested, and could the state improve its return on investment from these funds?

Answer: The RSTF and BSF are both invested as part of the General Fund portfolio, which mainly holds bonds, notes, and bills and earned a 1.3% annual rate of return over the past 10 years. However, state law allows the

RSTF to be invested in the same manner as the Millennium Trust, which can hold up to 35% of its value in equities and which earned a 4.2% rate of return over the same period. Investing the RSTF in this manner over fiscal years 2020 through 2024 would have earned the state an additional $22 million in interest, dividends, and realized capital gains and $122 million in unrealized capital gains. However, because of the potential for equities to lose value, any decision regarding investment strategy for the state's budgetary reserves should be made in conjunction with setting the target level of budgetary reserves.

Question 4: What would happen if the state used a portion of its budgetary reserves to pay down the Unfunded Accrued Liability (UAL) in the state's retirement systems?

Answer: Paying down the UAL ahead of schedule would save state and local government entities from having to pay 57 cents of interest for every extra dollar the state pays towards the two oldest parts of the UAL for the two largest state retirement systems. The state could prioritize up-front savings by paying down the Original Amortization Bases, which are scheduled to be paid off by the end of FY 2029, or long-term savings by paying down the Experience Account Amortization Bases, which are scheduled to be paid off by the end of FY 2040. Contributing funds towards the UAL would provide a higher overall return on investment than keeping the funds in the Louisiana Department of Treasury mostly because the retirement systems are less restricted in how they invest their funds than the State Treasurer.

This information is discussed in more detail on the pages that follow.

Question 1: How large should Louisiana's budgetary reserve be, and how can the state maintain this balance?

State law currently provides target or maximum fund balances for both of the state's budgetary reserve funds. Specifically, state law caps the BSF's fund balance at 4% of non-disaster revenue receipts for the previous year; for FY 2024, the maximum BSF fund balance was $1.502 billion.[7] The Constitution allows up to 10% of the RSTF to be used for capital outlay and transportation infrastructure projects once the fund balance reaches $5 billion. However, the Legislature can lower the minimum fund balance or increase the maximum appropriation percentage by a law enacted by two-thirds vote of each house. Furthermore, to ensure the RSTF is available in an emergency, the Legislature can authorize appropriations at any time for any purpose with the consent of two-thirds of the elected members of each house. For FY 2025, Act 723 of 2024 (the funds bill) lowered the minimum fund balance to $2.2 billion, raised the maximum allowable appropriation amount to 33%, and authorized appropriations to address emergency conditions across the state with two-thirds vote of each house. Exhibit 2 shows the beginning cash balance and anticipated financial results for the BSF and RSTF for FY 2025. Appendix C summarizes the key differences between the two funds.

Exhibit 2
Comparison of Fund Financial Positions
FY 2025

Fund Attribute		Budget Stabilization Fund	Revenue Stabilization Trust Fund	Total
Beginning Cash Balance	Amount	$1,057,505,245	$3,484,181,114	$4,541,686,359
	% of NDRR	2.8%	9.3%	12.1%
Actual or Anticipated Deposits	Amount	$25,257,035	$443,500,000	$468,757,035
	% of NDRR	0.1%	1.2%	1.2%
Actual or Anticipated Withdrawals	Amount	$0	$717,000,000	$717,000,000
	% of NDRR	0.0%	1.9%	1.9%
Ending Cash Balance (Forecast)	Amount	$1,082,762,280	$3,210,681,114	$4,293,443,394
	% of NDRR	2.9%	8.6%	11.4%

Note: % of NDRR refers to each amount as a percentage of non-disaster revenue receipts (NDRR) for FY 2023, the latest year available, which was $37.554 billion. To obtain this number the Department of Treasury began with $41.113 billion in total state revenue receipts and subtracted $3.559 billion in disaster relief assistance.
Source: Prepared by legislative auditor's staff based on unaudited financial data from LaGov, Act 4 of 2024, and the official forecast of the Revenue Estimating Conference.

[7] La. Const. Art. VII § 10.3(C)(5) and R.S. 39:94(C)(5). Non-disaster revenue receipts include taxes, licenses, and fees, as well as federal grants for programs like Medicaid, but exclude federal disaster grants from agencies like the Federal Emergency Management Agency.

Compared to other southern states,[8] Louisiana's overall financial resources (measured by total fund balances in all governmental funds) are the third-smallest, but its budgetary reserves are the third-largest. For example, Louisiana's $3.2 billion in budgetary reserves equated to 16.5% of its $19.7 billion in own-source (i.e., non-federal) revenues for FY 2023, which is relatively larger than Texas's $17.5 billion in budgetary reserves, which equated to 15.5% of its $112.7 billion in own-source revenues. However, Texas has significant resources beyond its $17.5 billion in budgetary reserves, particularly an additional $32.3 billion in unassigned fund balance, which equaled 29% of Texas's own-source revenues. Louisiana and Virginia are the only states in the region that have no unassigned fund balance.[9] We assessed reserves based on 15 southern states' FY 2023 audited Annual Comprehensive Financial Reports (including Louisiana). Generally Accepted Accounting Principles require governments to classify fund balance based on how much freedom they have in using the funds. In increasing level of flexibility, these classifications are non-spendable, restricted, committed, assigned, and unassigned, as shown in the blue box above.

Types of Fund Balance

Non-spendable. Permanent fund principal or corpus, inventories, prepaid items, e.g., Millennium Trust.

Restricted. Only spendable on purposes stipulated by constitution, external resource providers, or enabling legislation, e.g., Conservation Fund.

Committed. Only spendable for specific purposes determined by formal action of government's highest-level decision-making authority, e.g., Louisiana Fortify Homes Program Fund.

Assigned. Intended to be used for specific purposes, but do not meet criteria for restricted or committed, e.g., carry-forward BA-7's approved by the Joint Legislative Committee on the Budget.

Unassigned. All remaining funds.

Source: Government Accounting Standards Board Statement No. 54, and the Office of Statewide Reporting and Accounting Policy.

States differ in the laws governing their budgetary reserves and in how they classify the fund balance of their budgetary reserve funds, with Louisiana classifying the BSF and RSTF as restricted, but other states classifying them as unassigned, or sometimes under multiple categories. We subtracted formal budgetary reserves from the appropriate classification of fund balance in each state so that we could analyze formal budgetary reserves separately. Exhibit 3 shows the amount of fund balance as a percentage of own-source revenues for Southern states, including each state's rank as more categories of fund balance are included, showing that Louisiana's ranking drops from third highest to third lowest as the definition of fund balance broadens. Exhibit 4 shows this information visually, ranking all states from greatest to least based on spendable fund balance and showing the components of each state's fund balance.

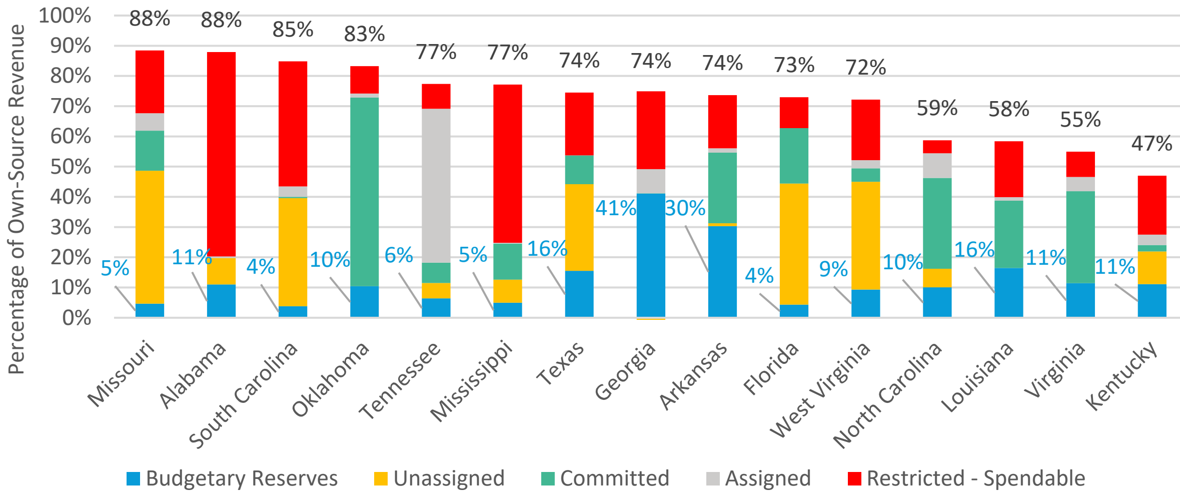
[8] The states we included were Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.
[9] In Exhibits 3 and 4 below, Georgia and Oklahoma are reported as having no unassigned fund balance because their budgetary reserve funds are reported in their Annual Comprehensive Financial Reports as unassigned fund balance, but are reported separately in this report. We were unable to determine how Oklahoma's Revenue Stabilization Fund was classified, but we subtracted it from restricted fund balance for exhibits 3 and 4.

Exhibit 3
Size of Fund Balance and Rank Among Southern States
Fiscal Year 2023*

State	Fund Balance as Percentage of Own-Source Revenues, and Rank	Formal Budgetary Reserves Only	Add Unassigned	Add Assigned	Add Committed	Add Restricted (Total Spend-able)
Alabama	Percentage	11.0%	19.7%	20.3%	20.3%	87.9%
	Rank	7	9	11	15	2
Arkansas	Percentage	30.3%	31.3%	32.7%	56.0%	73.7%
	Rank	2	7	8	5	9
Florida	Percentage	4.3%	44.4%	44.4%	62.7%	72.9%
	Rank	14	3	5	4	10
Georgia	Percentage	41.1%	40.4%	48.4%	48.5%	74.3%
	Rank	1	5	3	9	8
Kentucky	Percentage	11.1%	21.9%	25.4%	27.5%	47.0%
	Rank	6	8	9	13	15
Louisiana	Percentage	16.5%	16.4%**	17.5%	39.8%	58.4%
	Rank	3	10	12	12	13
Mississippi	Percentage	5.0%	12.6%	12.9%	24.8%	77.1%
	Rank	12	12	14	14	6
Missouri	Percentage	4.7%	48.6%	54.4%	67.6%	88.4%
	Rank	13	1	2	3	1
North Carolina	Percentage	10.0%	16.2%	24.4%	54.4%	58.7%
	Rank	9	11	10	6	12
Oklahoma	Percentage	10.4%	10.4%	11.7%	74.2%	83.2%
	Rank	8	15	15	1	4
South Carolina	Percentage	3.8%	39.6%	43.0%	43.4%	84.8%
	Rank	15	6	7	11	3
Tennessee	Percentage	6.4%	11.5%	62.4%	69.2%	77.3%
	Rank	11	13	1	2	5
Texas	Percentage	15.5%	44.2%	44.2%	53.8%	74.5%
	Rank	4	4	6	7	7
Virginia	Percentage	11.4%	11.4%	16.1%	46.6%	55.0%
	Rank	5	14	13	10	14
West Virginia	Percentage	9.3%	45.0%	47.7%	52.1%	72.1%
	Rank	10	2	4	8	11

* Mississippi's latest available data are for FY 2022.
** Louisiana's unassigned fund balance was -$6.1 million because of the Federal Energy Settlement Fund.
Source: Prepared by legislative auditor's staff using information from states' annual comprehensive financial reports.

Exhibit 4
Comparison of State Budgetary Reserves and Overall Fund Balances Relative Size as Percentage of Own-Source Revenue, FY 2023*



Note: Formally-designated budgetary reserves as a percentage of own-source revenues are colored in blue, along with their numeric value. Black numbers above each bar show the total spendable fund balance as a percentage of own-source revenues.
* Mississippi's data are for the latest available year, FY 2022.
Source: Prepared by legislative auditor's staff using information from each state's Annual Comprehensive Financial Reports.

The state has made non-interest transfers into the BSF in 21 of the past 26 completed fiscal years, and withdrawals have been made in seven years. The largest source of contributions to the BSF has been non-recurring revenue, accounting for $1.5 billion in contributions (71% of the total). Examples of non-recurring revenues are general fund surpluses, amnesty collections from delinquent taxpayers, and legal settlement payments. Excess mineral revenues accounted for $540 million (25%), and the remaining $90 million (4%) was from interest earned by and reinvested in the BSF. A total of $2.133 billion has been deposited to the fund, and $1.075 billion has been withdrawn, leaving $1.058 billion in the fund at the end of fiscal year 2024. In the fewer years that the RSTF has been in existence, it has already surpassed the BSF in total deposits. In five of the eight completed fiscal years the RSTF has been in existence, it has had deposits totaling $3.484 billion. The first and only withdrawal to date is the $717 million utilized in FY 2025. Exhibit 5 shows the total contributions by source to the BSF and RSTF, and Exhibits 6 and 7 summarize the contributions to and withdrawals from the BSF and RSTF for each fiscal year since 1999, including forecasted amounts for FY 2025.

Exhibit 5
Sources of Contributions to the Budgetary Reserves
Fiscal Years 1999 through 2024
(Amounts in Millions)

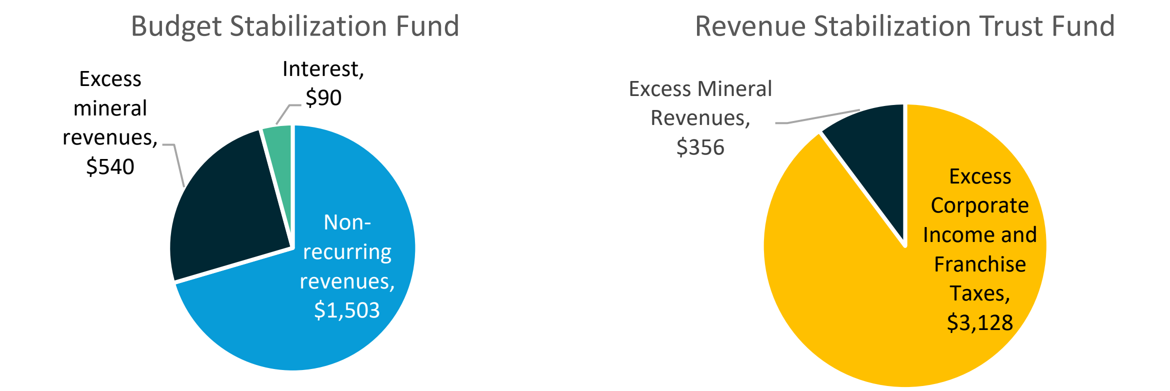


Exhibit 6
Budget Stabilization Fund Financial Results
Fiscal Years 1999 through 2024 (and 2025 Forecast)

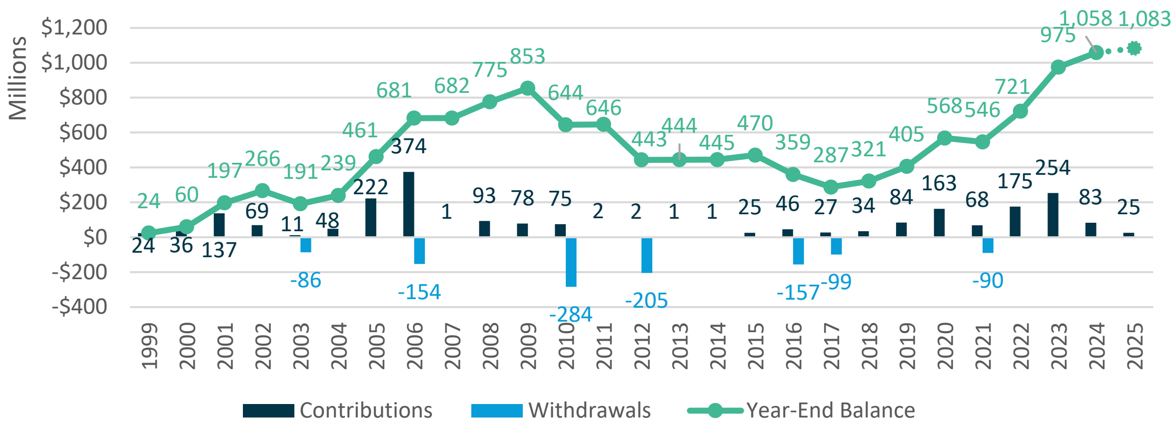
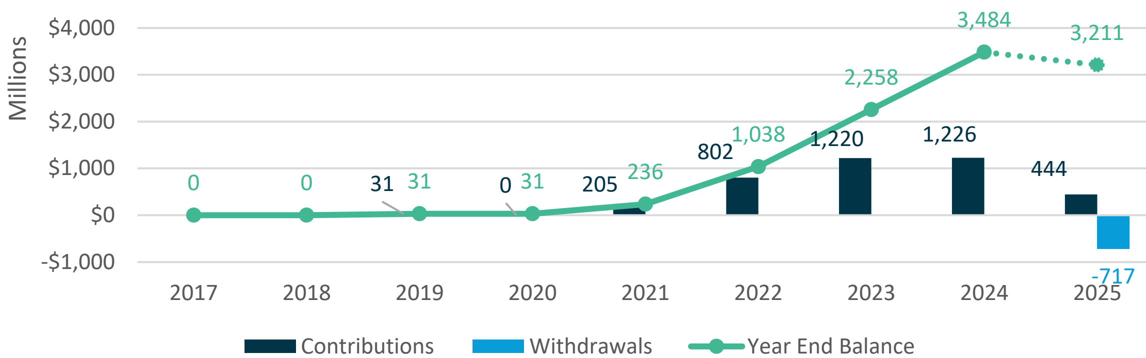


Exhibit 7
Revenue Stabilization Trust Fund Financial Results
Fiscal Years 2017 through 2024 (and 2025 Forecast)



Source for Exhibits 5-7: Prepared by legislative auditor's staff using information from the Louisiana Department of Treasury and unaudited financial data in LaGov.

The state's budgetary reserves are sufficient to obtain the highest rating from bond rating agencies for the budgetary reserves category, and we estimate that the state can maintain its high score by maintaining reserves equal to approximately 6% of non-disaster revenue receipts. One of the many factors that the bond rating agencies consider in evaluating the state's creditworthiness is budgetary reserves. Specifically, the agencies assign higher ratings to states that have a formal process for contributing to and utilizing budgetary reserves, including a specific target level of reserves, and that have a strong track record of replenishing their reserve balance when it is below the targeted level. Each ratings agency publishes a generic scorecard that it uses to rate states, showing the reserve target (expressed as a percentage of revenues or expenses) needed to obtain the highest rating in the budgetary reserves category. However, the agencies differ in how broadly they define revenues, expenditures and budgetary reserves. The agencies declined to provide numeric targets for Louisiana's budgetary reserves, but we estimated what their target fund balances would be based on the results contained in the state's FY 2023 Annual Comprehensive Financial Report. Exhibit 8 summarizes the criteria for each agency and how much we estimate that the state should have in the BSF and RSTF combined to obtain the highest rating. The highest target balance is $2.193 billion, which would equate to 5.84% of the $37.554 billion in non-disaster revenue receipts. As noted previously, state law limits the fund balance for the BSF to 4% of this figure, or $1.503 billion for FY 2023. The Department of Treasury calculates non-disaster revenue receipts each year. Appendix D gives more detail on how we derived the revenue and expenditure bases and additional reserves in Exhibit 8.

Exhibit 8
Bond Rating Agency Criteria for Budgetary Reserves

Bond Rating Agency	Criteria for Highest Rating in Budgetary Reserves	Actual Revenue or Expenditure Base for FY 2023	Implied Total Target Reserve Levels	Additional Reserves Other Than BSF and RSTF	Implied Target BSF & RSTF Fund Balance
S&P Global Ratings	8% of annual revenue or spending	$14.999 billion	$1.200 billion	n.a.	$1.200 billion
Moody's Investor Service	15% of own-source revenue	$19.646 billion	$2.946 billion	$2.253 billion*	$693 million
Kroll Bond Rating Agency	5% of operating expenditures	$43.740 billion	$2.187 billion	($6 million)	$2.193 billion

* Moody's includes fund balances classified as unassigned, assigned, or committed, along with fund balance restricted for budget stabilization or budget reserves and the net current assets of internal service funds. However, we excluded committed fund balances of $1.7 billion in the Capital Outlay Escrow Fund and $783 million from the Transportation Trust Fund, because these balances are high relative to their historical levels. See Appendix D for more detail.
Source: Prepared by legislative auditor's staff using information from rating agency methodologies and reports and the state's Annual Comprehensive Financial Report for FY 2023.

Louisiana's lagging economic performance in terms of job creation and demographic performance in terms of population loss are factors that may lead rating agencies to look for a higher level of budgetary reserves for Louisiana than a generic state whose workforce and population are growing at the same rate as the rest of the country. All agencies consider economic performance as an input into their rating methodology in determining the overall credit rating. However, in addition, Moody's states that its assessment of fund balance or budgetary reserves is informed by the state's economic climate. The rating methodologies published by Kroll and S&P do not specifically say that they adjust their target fund balance based on economic performance, but both note that a state's rating on each individual component can be adjusted based on judgmental or qualitative factors. For this reason, we focused our analysis on the highest implied budgetary reserve amount, specifically the $2.2 billion or 5.84% of non-disaster revenue receipts implied by Kroll's methodology. We also took a conservative approach by excluding $2.5 billion of the state's committed fund balances in the Transportation Trust Fund and Capital Outlay Escrow Fund in calculating the implied budgetary reserve target using Moody's methodology, because both funds are currently at high levels relative to their historic balances.

In addition, if a portion of the state's budgetary reserves were to be invested in equities (as discussed in section 3 of this report), the potential for the equities to lose market value during a stock market downturn is a factor that could increase the level of reserves the state would need to hold. For example, if the state wanted to protect against a 50% drop in the value of its equities, and if equities comprised 35% of the budgetary reserves portfolio, the state would need to increase its reserve target by 21%. In terms of non-disaster revenue receipts, the state's target budgetary reserves would need to increase from 6% to 7.3%.

Based on 26 years of BSF utilization, we estimate that the state would be able to maintain a consistent balance of budgetary reserves by ensuring that a long-run average of approximately 0.96% of non-disaster revenue receipts are deposited as budgetary reserves during years when the state is not pulling from budgetary reserves, or $360 million based on the amount of such receipts for FY 2023. To maintain adequate budgetary reserves, the state needs to have a process for accumulating and replenishing its reserves before and after utilizing them. We analyzed the state's historical patterns of BSF utilization and estimated that the state would need to set aside 0.96% of non-disaster revenue receipts during non-BSF utilization years in order to maintain a consistent level of budgetary reserves over the long run equal to 6% of non-disaster revenue receipts. In this context, specifying the target in terms of a long-run average means that the amount set aside each year does not need to equal exactly 0.96% of non-disaster revenue receipts, enabling the state to strategically set aside excess revenues from budget surpluses, non-recurring revenues, or above-average collections from volatile revenue streams like corporate income taxes. However, over a period of multiple years, the amount set aside should tend to equal 0.96% of non-disaster revenue receipts. We arrived at this estimate by analyzing the state's typical usage patterns. Our methodology for estimating the 0.96% deposit rate, along with alternative scenarios, is shown in Exhibit 9. The scenarios can be thought of as high, midrange, and low reserve accumulation strategies, and the 0.96% we cite is the midrange strategy.

- *Scenario 1*, the high scenario, assumes the state would continue its past practice of using an average of 29.65% of the available fund balance, almost the full allowable amount of one-third, when drawing from the BSF, which equates to 1.8% of non-disaster revenue receipts. However, the total fund balances of the state's budgetary reserves today are considerably higher relative to the size of the state's budget than they were in previous years. As a result, the state may not need to utilize as high a percentage of its budgetary reserves fund balance going forward. For this reason, we think it unlikely that the state would need to save more than the 1.06% of non-disaster revenue receipts indicated in Scenario 1.

- *Scenario 2*, the midrange scenario, assumes that the state would use a lower percentage of the considerably larger fund, only one-quarter of the fund balance (noted in line B in the exhibit), or 1.5% of non-disaster revenue receipts. Reviewing BSF withdrawals as a percentage of non-disaster revenue receipts, we found that the largest withdrawal occurred in FY 2010, when the state withdrew $284 million from the BSF, or 1.4% of the $20 billion in non-disaster revenue receipts. The BSF was relatively high at this time, having reached its statutory maximum 4% fund balance in fiscal years 2006 through 2009. For the seven years that the state withdrew from the BSF, the average utilization was 0.76% of non-disaster revenue receipts for the preceding year. Thus, the midrange scenario effectively allows the state to rely more heavily on budgetary reserves to address downturns.

- *Scenario 3*, the low scenario, shows what the annual contribution would need to be if the state maintained a smaller reserve fund, 4% of non-disaster revenue receipts rather than 6%, as noted in line A of the exhibit. This would aim to maintain a balance in the fund equal to the existing 4% maximum balance established in state law, and it would be higher than the implicit reserves targets for S&P and Moody's of 3.20% and 1.85%, respectively.

Exhibit 9
Derivation of Replenishment Rates for Budgetary Reserves

Amount	Row	Scenario 1: High Reserve, High Fund Balance Usage	Scenario 2: High Reserve, Low Fund Balance Usage	Scenario 3: Low Reserve: High Fund Balance Usage
Assumptions				
Target Reserve Fund Balance as Percentage of Total Non-Disaster Receipts	(A)	6.00%	6.00%	4.00%
Average Percent of Fund Balance Withdrawn per Usage	(B)	29.65%	25.00%	29.65%
Percent of Years with Utilization	(C)	26.90%	26.90%	26.90%
Growth in Non-Disaster Receipts	(D)	4.94%	4.94%	4.94%
Results				
Deposit for Utilization (= A × B × C)	(E)	0.48%	0.40%	0.32%
Additional Deposit for Growth (=A × D)	(F)	0.30%	0.30%	0.20%
Total Deposit as a Percentage of Non-Disaster Revenue Receipts (=E + F)	(G)	0.78%	0.70%	0.52%
Total Deposit in Non-BSF Utilization Years (=G ÷ (1 − C))	(H)	1.06%	0.96%	0.71%
Total Deposit in Dollars (=H × $37.554 Billion)	(I)	$398 million	$360 million	$266 million
Typical Utilization in Dollars (=A × B × $37.554 Billion)	(J)	$668 million	$563 million	$445 million

Note: The growth in non-disaster revenue receipts is based on the average growth rate of non-disaster revenue receipts over fiscal years 1999 through 2023. For fiscal years 1999 through 2005, these are imputed based on total revenues reported in the Supplemental Information to the Annual Comprehensive Financial Report.
Source: Prepared by legislative auditor's staff based on analysis of data from the Louisiana Department of Treasury, Supplemental Information to the Annual Comprehensive Financial Report, and LaGov.

Matter for Legislative Consideration 1: The Legislature may wish to consider adjusting the state's overall target level of budgetary reserves based on credit rating agencies guidelines.

Question 2: Are there advantages or disadvantages to having more than one reserve fund?

Currently, Louisiana’s two budgetary reserve funds, the BSF and RSTF, are funded from different sources and have different provisions regarding how the funds can be invested and what happens to interest earned on the funds. They also differ on the circumstances that must exist for the state to be able to use each fund. In addition, the maximum fund balances in each of the funds are calculated without regard to the fund balance existing in the other fund. We reviewed how other states structure their budgetary reserves.

Seven of the 14 other southern states we reviewed (not including Louisiana) have more than one fund or designation for their budgetary reserves. These serve to allow states to hold budgetary reserves from different sources or subject to different restrictions in separate accounts. In some cases, states use their reserve funds in different ways, or designate one fund as a first line of defense, and a second fund as a last resort. At least two states invest their budgetary reserves in equity investments such as stocks, which are riskier than bonds but generally earns a higher rate of return in the long run. Alabama, for example, keeps some of its budgetary reserves in the Alabama Trust Fund, which invests the majority of its assets in equities. In West Virginia, the Revenue Shortfall Reserve Fund is designated as the first fund to draw from, and the Part B Fund is drawn from last. Both funds invest in equities (a topic discussed in greater detail later in this report), but the Part B fund is also invested in private equity. Exhibit 10 lists the reserve funds for states in the southern region that have more than one fund. Additional information on the funds is contained in Appendix E.

Exhibit 10
Other Southern States with Multiple Budgetary Reserve Funds
At End of Fiscal Year 2023

State	Fund Name (Balance in Millions)	Source of Funds
Alabama	Education Trust Fund Rainy Day Fund ($726)	Permanent endowment funds investing offshore oil and gas royalties.
	General Fund Rainy Day Fund ($326)	
	Education Trust Fund Budget Stabilization Fund ($587)	Revenues in excess of appropriation cap.
	General Fund Budget Reserve Fund ($150)	Year-end unappropriated and unanticipated surpluses.
	Educational Opportunities Reserve Fund ($354)	Receives excess revenues from Education Trust Fund.
Arkansas	Budget Stabilization Trust Fund ($205)	A portion of interest earnings on state treasury balances.
	Long-Term/Catastrophic Reserve Fund ($3,670)	A portion of unspent fund balance in General Revenue Allotment Reserve.
Georgia	Revenue Shortfall Reserve – Regular ($5,200)	Surplus General Fund remaining at end of fiscal year. Cannot exceed 15% of prior-year revenue. The $10.9 billion is the amount exceeding the cap.
	Revenue Shortfall Reserve – Excess ($10,900)	
Oklahoma	Constitutional Reserve Fund – Restricted Portion ($956)	Revenues exceeding the estimate for the preceding year.
	Constitutional Reserve Fund – Unassigned Portion ($319)	
	Revenue Stabilization Fund ($397)	Corporate income tax and mineral revenues (used to smooth out volatility in these revenue sources).
South Carolina	General Reserve ($575)	General Fund revenue, until reserve fund balance is equal to 5% of General Fund revenue (rising to 7% by FY 2027).
	Contingency Reserve ($24)	Unappropriated revenues.
	Capital Reserve ($209)	General Fund revenue, until reserve fund balance is equal to 2% of general revenues.
Virginia	Revenue Stabilization Fund ($2,687)	Excess tax revenues above the long-term growth trajectory, up to 15% of individual and corporate income and retail sales taxes.
	Revenue Reserve Fund ($1,835)	General Fund revenue in excess of forecast, up to 1% of general fund revenue. Combined balance in this and Revenue Stabilization Fund capped at 15% of individual and corporate income and retail sales taxes.
West Virginia	Revenue Shortfall Reserve Fund ($435)	First 50% of General Revenue surplus, capped at 13% of last FY general revenues.
	Revenue Shortfall Reserve Fund – Part B ($508)	Tobacco settlement proceeds and investment earnings thereon. Used only as a last-resort after other fund is depleted.

Source: Prepared by legislative auditor's staff using information from the National Association of State Budget Officers and state Annual Comprehensive Financial Reports.

The Legislature may wish to consider unifying the state's overall budgetary reserve structure, either by consolidating the RSTF and BSF or by establishing the financial relationship between the funds in state law, to provide a coordinated policy on target balances, utilization, repayment, and investment. This could include consolidating the BSF and RSTF, designating which of the funds should be prioritized for utilization and repayment, adopting a combined overall target balance for the two funds, providing a combined investment policy for the funds, and determining how investment earnings should be distributed. As shown in Exhibit 10 above, numerous options exist for how the state could address these issues. Maintaining some level of differentiation in the funds could be useful if the Legislature wishes to retain the provisions allowing for some portion of the state's budgetary reserves to be invested in equities by providing for the equity-invested portion to be the last utilized. By maintaining the BSF and RSTF separately, the state could withdraw from the BSF without also impacting the fund balance in the RSTF, reducing the need for the State Treasurer to sell stocks (potentially at a loss) to stay under the maximum percentage of market value allowed for equity investments.

> **Matter for Legislative Consideration 2:** The Legislature may wish to consider unifying the state's overall budgetary reserve model to coordinate overall reserve balance targets, utilization and repayment policies, and investment strategies.

Question 3: How are the RSTF and BSF invested, and could the state improve its return on investment from these funds?

The RSTF is currently invested as part of the General Fund portfolio, which cannot invest in equities. However, state law allows for the RSTF to be invested in the same manner as the higher-yielding Millennium Trust, which holds 34.6% of its market value in equity investments. The Millennium Trust is a group of three funds that were added to the Louisiana Constitution in 1999 to receive revenues from the Master Settlement Agreement between the tobacco industry and the states.[10] These funds are permanent funds, essentially a type of endowment with a non-spendable corpus (or principal) that generates investment income to support ongoing programs. The three funds within the Millennium Trust are the Health Excellence Fund, the Education Excellence Fund, and the TOPS Fund, dedicated to health, elementary and secondary education, and the TOPS scholarship program, respectively. As provided by state law,[11] the Millennium Trust is one of the four investment portfolios managed by the State Treasurer that hold investments in stocks or equities.[12] The remainder of the state's

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[10] La. Const. Art. VII § 10.8.

[11] La. Const. Art. VII § 10.8(B), R.S. 39:98.2(A)

[12] The other three portfolios that invest in stocks are the Louisiana Education Quality Trust Fund (LEQTF), the Rockefeller Trust Fund, and the Russell Sage-Marsh Island Trust Fund. The LEQTF is

portfolios, including the General Fund, invest only in debt securities, money market funds, and bank deposits.

Equity investments generally have higher rates of return on investment than debt investments, but equity investments are riskier because they often fall in market value during economic downturns. During a downturn, state tax revenue typically falls. If the state had to sell some of its equity investments during a downturn to pay for state expenses, the state would essentially be selling into a buyer's market at low prices and would miss out on the opportunity to recover its losses during the ensuing stock market rebound.

In contrast, debt securities hold more of their value during downturns because they increase in value when interest rates decrease. Since fiscal year 1999, there have been six year-over-year declines in Louisiana's own-source revenues, and the worst four revenue declines have coincided with falling interest rates. As a result, highly-rated, investment-grade debt securities, especially U.S. Treasury securities, offer a strategic advantage over equities because, when the state's revenue decreases, the market value of the state's debt security holdings usually increases.

Consistent with this principle, the General Fund portfolio, which contains spendable funds, is not invested in equities, while the Millennium Trust, which contains non-spendable funds, is partly invested in equities. Exhibit 11 compares the purposes and types of investments allowable for the State General Fund versus the Millennium Trust.

Equity is an ownership position in a corporation, and a claim on a proportional share of the corporation's assets and profits. Equity is bought and sold in the form of shares of stock.

Debt is a promise by an issuer to make predetermined interest payments and to repay the principal amount borrowed. Bills, notes, bonds, and commercial paper are all examples of debt securities.

Money market funds invest in high quality, short-term debt securities, with relatively low risks and typically lower rates of return than other types of mutual funds.

Bank deposits are funds that customers place with a bank and that the bank is obligated to repay on demand or after a specified period of time. The state's bank deposits are required by law to be insured or collateralized to protect against a bank failure.

Source: Prepared by legislative auditor's staff based on information from the U.S. Securities and Exchange Commission and Federal Reserve Board of Governors.

divided evenly between K-12 and higher education, and the others are dedicated primarily to the Department of Wildlife and Fisheries.

Exhibit 11 Comparison of Portfolio Investment Policies		
Asset Class	**General Fund**	**Millennium Trust**
Source of funds	All state taxes, licenses, fees, grants, and other revenues not specifically dedicated to another fund or included in a different portfolio	Income from the Tobacco Master Settlement Agreement, certain tobacco taxes, and reinvested investment gains
Overall purpose of portfolio	Make funds available to pay for the state's expenses throughout each year and earn interest on funds until they are ready to be spent	Maintain a permanent, growing, non-spendable endowment that provides investment income to supplement state spending on health care, K-12 education, and TOPS scholarships
Equity investments	Equity investments prohibited	Up to 35% of market value may be in equities
Weighted average maturity of bonds, bills, notes, repurchase agreements, time deposits, commercial paper, and money market funds	5 years or less	10 years or less
Source: Prepared by legislative auditor's staff based on La. Const. Art. VII § 10.1, R.S. 49:327, R.S. 39:100.112, R.S. 39:98.2, and R.S. 17:3092.		

At the end of fiscal year 2024, the Millennium Trust held $586 million (34.6%) of its market value in equities, owned directly or through mutual funds, which is just under the statutory maximum of 35%.[13] The largest equity position was $434 million in the Vanguard Institutional Total Stock Market Index fund, which aims to track the overall U.S. equity market. Besides equities, the Millennium Trust held $575 million (34% of its market value) in U.S. Government Agency bonds, such as the Federal Farm Credit Bank, Federal National Mortgage Association (Fannie Mae), or Federal Home Loan Mortgage Corporation (Freddie Mac).[14] The remainder of the portfolio was invested in money market funds, U.S. Treasury Notes, corporate debt securities, and Israeli government bonds.

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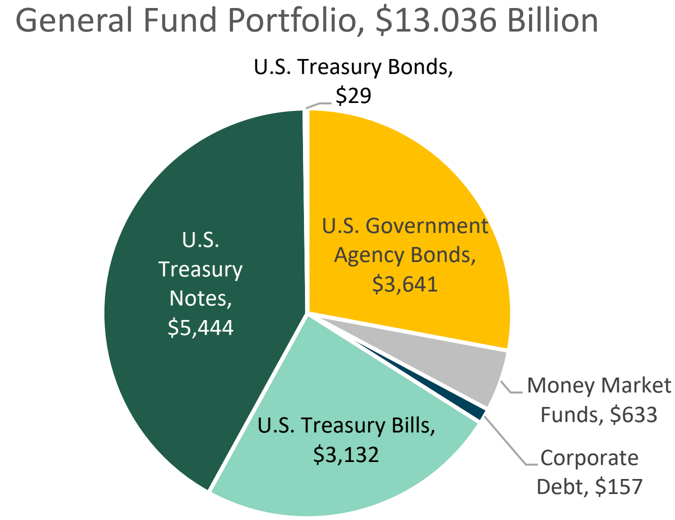
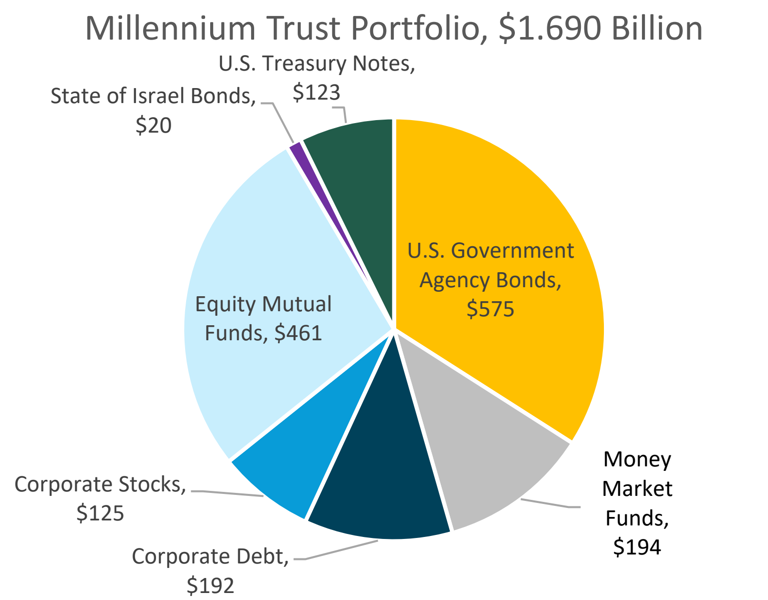
[13] The provisions governing the Millennium Trust are La. Const. Art. VII § 10.8(B) and Revised Statute (R.S.) 39:98.2.

[14] Agency bonds are not guaranteed by the full faith and credit of the U.S. government, but the U.S. has historically injected taxpayer funds into these agencies during times of financial distress, creating a perceived implicit guarantee among investors. Cf. Frame, W. Scott, et al. (2015) "The Rescue of Fannie Mae and Freddie Mac." *Journal of Economic Perspectives*, Spring 2015. http://dx.doi.org/10.1257/jep.29.2.25

The General Fund portfolio has no equities, as noted previously, and is mostly invested in short-term U.S. Treasury securities, known as Treasury Bills, and medium-term Treasury Notes.[15] This is consistent with the General Fund's goal of maintaining availability of funds for current spending needs. Exhibit 12 compares the holdings of the General Fund and the Millennium Trust portfolios.

Exhibit 12
General Fund and Millennium Trust Investment Allocations
As of June 30, 2024
(Amounts in Millions of Dollars)





Source: Prepared by legislative auditor's staff using information from custodian statements.

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[15] U.S. Treasury securities backed by the full faith and credit of the United States are referred to as bills if they mature in one year or less from issuance, notes if they do so in 2 to 10 years, and bonds in 20 or 30 years.

Realized gains (or losses) are the amount of cash an investor received from selling an asset, minus the investor's original cost to purchase it.

Unrealized gains (or losses) are the current market value of an asset that an investor owns, minus the investor's original cost to purchase it.

Unrealized gains are **realized** when the asset is sold.

The Millennium Trust earned a 4.19% rate of return over fiscal years 2015 through 2024, more than the 1.31% earned by the General Fund over the same time period; however, the Millennium Trust's rate of return was more volatile. In the long run, the Millennium Trust has tended to out-earn the General Fund because the Millennium Trust is allowed to pursue riskier, higher-yielding investments. For a permanent fund like the Millennium Trust that is designed to be a long-term source of investment income, these risks can be considered acceptable, because the permanent corpus or principal of the fund is non-spendable. Only the investment income may be spent. Even during the bear market[16] in fiscal year 2022, the Millennium Trust generated a 1.79% rate of return from interest and dividends, more than the 0.40% earned by the General Fund portfolio. However, the market value of the Millennium Trust fell by 8.29% during fiscal year 2022, when both stocks and bonds fell in value. Fortunately, by the end of 2024, the stock market had improved and bond yields stabilized, and as a result the portfolio recovered its lost market value from fiscal year 2022. If the state had needed to sell the stocks in the Millennium Trust to cover expenses towards the end of fiscal year 2022, the state would not have been able to recover its losses in fiscal years 2023 and 2024. However, the Millennium Trust stayed the course, and despite the 2022 bear market, the fund was able to provide a cumulative 22.3% rate of return (4.10% per year) over the five-year period, compared to a cumulative 6.41% rate of return (1.25% per year) for the General Fund. Exhibit 13 shows the total rate of return for the General Fund and Millennium Trust portfolios for fiscal years 2015 through 2024, Exhibit 14 shows the returns by year for fiscal years 2020 through 2024 for the two portfolios, and Exhibit 15 breaks down the total return into capital gains (realized and unrealized) versus interest and dividends.

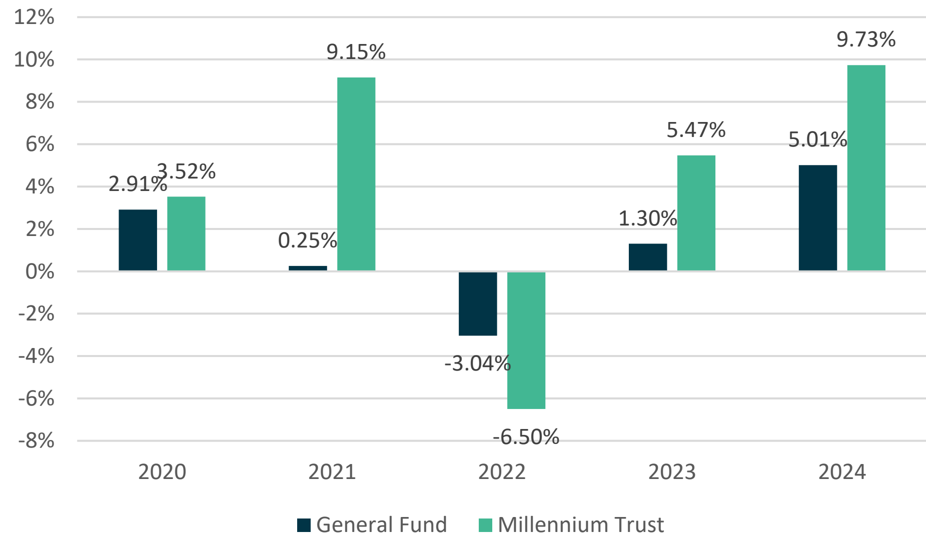
Exhibit 13
Comparison of Total Investment Returns on General Fund and Millennium Trust
Fiscal Years 2015 through 2024

Portfolio	FY 2015-2019	FY 2020-2024	FY 2015-2024
General Fund	1.36%	1.25%	1.31%
Millennium Trust	4.28%	4.10%	4.19%
Difference	(2.92%)	(2.85%)	(2.88%)

Note: Total investment returns include interest, dividends, realized capital gains, and unrealized capital gains.
Source: Prepared by legislative auditor's staff using information from custodian-generated performance reports provided by the Louisiana Department of Treasury.

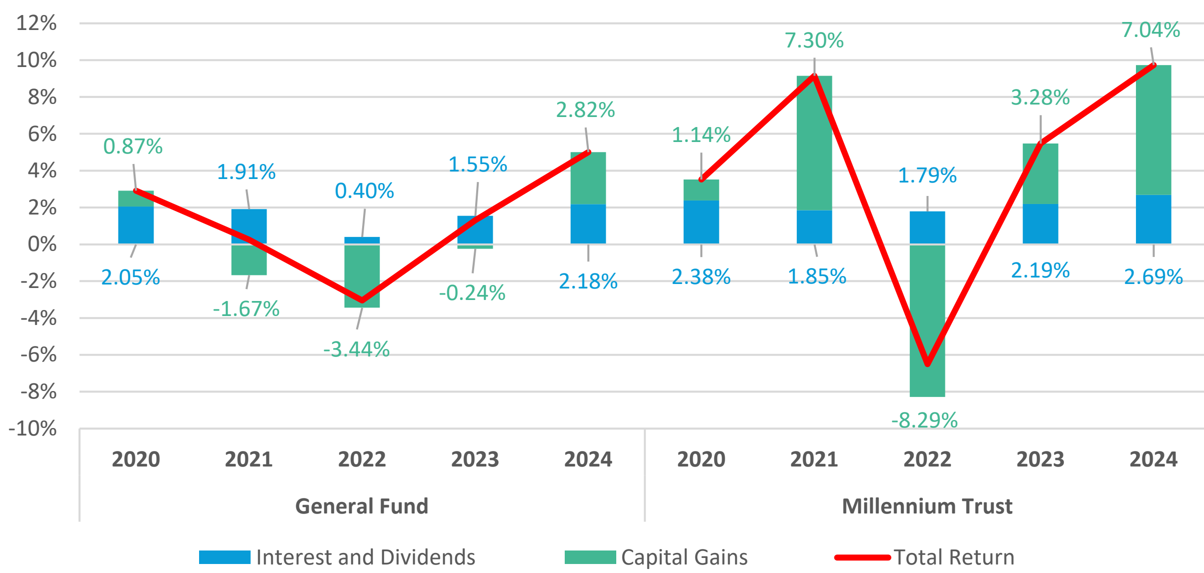
[16] According to *Forbes*, a bear market occurs when the stock market declines 20% or more from its previous high, commonly measured using the S&P 500 index. Bear market conditions prevailed from January to October 2022.

Exhibit 14
Total Investment Returns on General Fund and Millennium Trust
Fiscal Years 2020 through 2024



Note: Total investment returns include interest, dividends, realized capital gains, and unrealized capital gains.
Source: Prepared by legislative auditor's staff using information from custodian-generated performance reports provided by the Louisiana Department of Treasury.

Exhibit 15
Components of Total Return for General Fund and Millennium Trust
Fiscal Years 2020 through 2024



Note: Total returns include interest, dividends, realized capital gains, and unrealized capital gains. Capital gains include realized and unrealized capital gains.
Source: Prepared by legislative auditor's staff using information from custodian-generated performance reports provided by the Louisiana Department of Treasury.

If the RSTF had been invested using the same strategy as the Millennium Trust, it would have earned an average of $4.5 million more per year in investment income for State General Fund Direct appropriations, and by the end of fiscal year 2024, its market value would have been $121.9 million (3.5%) higher. The safety of the General Fund portfolio's investment strategy comes at the cost of missing out on additional investment income and market value appreciation during good years for the stock market. This reduces the amount that the RSTF generates annually to support State General Fund Direct revenue. In each of the five years between fiscal year 2020 and 2024, the amount of cash income generated to support State General Fund Direct appropriations would have been higher if the RSTF had been invested using the same strategy as the Millennium Trust Fund. Exhibit 16 shows two scenarios for the RSTF, one actual scenario showing how the RSTF has performed as part of the General Fund portfolio, and a counterfactual scenario showing how it would have performed if it had been invested using the same strategy as the Millennium Trust.

Exhibit 16
Revenue Stabilization Trust Fund Investment Results
Actual and Counterfactual Scenarios
Fiscal Years 2020 through 2024
Amounts in Millions of Dollars

Scenario and Outcome	2020	2021	2022	2023	2024	Average
All Scenarios – Transfers into RSTF from Corporate Taxes and Mineral Revenues	0.0	205.4	802.2	1,219.8	1,226.3	690.7
Actual Scenario – RSTF Invested with General Fund						
Beginning Market Value	30.5	30.9	236.2	1,030.3	2,245.6	*n.m.*
Investment Income	0.5	0.2	0.9	17.9	72.0	18.3
Unrealized Gains	0.4	-0.1	-8.1	-4.5	40.5	5.6
Ending Market Value	30.9	236.2	1,030.3	2,245.6	3,512.4	*n.m.*
Counterfactual Scenario – RSTF Invested like Millennium Trust						
Beginning Market Value	30.5	30.7	237.6	1,014.0	2,263.0	*n.m.*
Investment Income	0.9	1.3	10.3	26.3	75.1	22.8
Unrealized Gains	0.2	1.5	-25.8	29.2	145.0	30.0
Ending Market Value	30.7	237.6	1,014.0	2,263.0	3,634.3	*n.m.*
Increase (Decrease) from Switching to Millennium Trust Strategy						
Investment Income	0.4	1.1	9.4	8.4	3.2	4.5
Unrealized Gains	-0.2	1.6	-17.7	33.6	104.6	24.4
Ending Market Value	-0.2	1.4	-16.3	17.4	121.9	*n.m.*

Note: Investment income includes interest, dividends, and realized capital gains, all of which flow to State General Fund Direct. Market value cells are marked "n.m." to indicate that the average calculation was not meaningful.
Source: Prepared by legislative auditor's staff using information from the Louisiana Department of Treasury, unaudited data from the LaGov accounting system, and custodian-generated investment reports.

The Louisiana Department of Treasury found that only 3 of 24 states that responded to its survey invest their budgetary reserves in equities. Specifically, the Treasury found that Arizona, West Virginia, and Wyoming invest their budgetary reserves in equities, and we separately identified Alabama as a state that invests its budgetary reserves in this manner. One other state, Utah, is legally authorized to invest its rainy-day funds in gold, but it has yet to buy any gold. There are risks associated with having emergency funds invested in equities. because it can take years for stocks to regain their value following a major market disruption. For example, the S&P 500 index attained a peak in October 2007 that it did not return to until 5.5 years later in April 2013. Between October 2007 and March 2009, the S&P 500 lost 49% of its value.

At least two strategies exist to manage the risks associated with equity investments, namely, increasing the target level of budgetary reserves and establishing a corpus. As noted in the previous section, the state could protect against market downturns by increasing its target level of budgetary reserves so that, in the event of a market downturn, the value of the budgetary reserves would still be adequate to meet state needs. If equities comprised 35% of the budgetary reserve fund portfolio, the state could increase its target budgetary reserve fund balance by 21% to ensure that the desired level of reserves would remain available even if its equity portfolio lost half of its market value. An additional safeguard would be to establish a fund corpus that would not be spent except as a last resort.

In conclusion, we have no recommendation regarding whether the RSTF should be invested in equities because current law allows, but does not require, the RSTF to be so invested. If the overall purpose of the RSTF is to serve as a source of investment income for the General Fund and as a source of funding for capital outlay and infrastructure projects, investing in equities could be consistent with both of these goals. However, because of the additional cost of maintaining more reserves or establishing a corpus to guard against the higher risks associated with an equity portfolio, as well as potential major changes to the RSTF and BSF during the Third Extraordinary Legislative Session of 2024, the decision of whether to invest in equities should be considered as part of any general restructuring of the state's budgetary reserves, as discussed in the previous section.

Question 4: What would happen if the state used a portion of its budgetary reserves to pay down the Unfunded Accrued Liability (UAL) in the state's retirement systems?

The **unfunded accrued liability (UAL)** is the amount by which the actuarial accrued liability of a retirement system exceeds the system's assets. It is essentially a debt that the state owes to the retirement systems. This debt must be paid in order for benefits to be paid as scheduled to participating members (i.e., current and future retirees).

The two largest state retirement systems are the Louisiana State Employees Retirement System (LASERS) and the Teachers Retirement System of Louisiana (TRSL). As of June 30, 2024, these systems have $43.2 billion in valuation assets and $57.4 billion in actuarial accrued liabilities, leaving a UAL of $14.2 billion.[17] State and local government employers make payments each year to the retirement systems to eventually eliminate the UAL. These payments are expected to total $1.5 billion in FY 2025, of which $467 million is funded from State General Fund Direct. Employer UAL contributions are calculated as a percentage of each employee's covered salary; for FY 2025, LASERS's required UAL contribution rate is 30.03% of each employee's covered salary, while TRSL's required rate is 15.90%.

To keep track of and eventually repay these systems' $14.2 billion UAL, the state's actuaries effectively structure it into a series of amortization schedules. Each amortization schedule can be thought of like a mortgage on a home, all having an effective interest rate of 7.25%, but differing in the number of years that they will take to be repaid. The combined principal owed on all of the amortization schedules adds up to $14.2 billion. Paying off one of the amortization schedules early is similar to a homeowner making a lump-sum payment to pay off his or her mortgage early; by paying all of the principal ahead of schedule, the homeowner avoids having to make the future interest payments. The UAL is effectively accruing interest each year until the state pays it down, and making payments in advance enables the state to avoid future interest payments. Exhibit 17 shows how the UALs in LASERS and TRSL evolved during FY 2024. At the start of FY 2024, the UALs totaled $15.2 billion. Although the UALs accrued $1.1 billion in interest during the year, state and local employers contributed $1.9 billion towards the UAL, and the state contributed another $97 million in legislative acts income from such sources as excess mineral revenue, non-recurring revenues, and litter fines. All told, these payments were sufficient to pay all interest and pay down an additional $927 million of principal on the UAL. Besides this, various other adjustments were made to the UAL to account for actual results that deviated from assumptions. For example, LASERS' investment returns were better than expected, reducing its UAL by an extra $134 million, while TRSL's investments fared worse, adding $64 million

[17] These figures are from the preliminary actuarial valuations for both systems as of June 30, 2024, which will be incorporated in to the state's ACFR for FY 2025. The state's ACFR uses the actuarial valuation for the preceding year.

to its UAL. The net effect of all of these was to further reduce the combined UAL for both systems by another $78 million. Overall, the combined UAL for both systems declined by $1 billion and ended the year at $14.2 billion.

Exhibit 17
Unfunded Accrued Liability (UAL) Payments and Balances
Fiscal Year 2024

Line Item	LASERS	TRSL	LASERS + TRSL
UAL as of June 30, 2023	$6,679,818,859	$8,507,931,509	$15,187,750,368
Interest on UAL	484,286,867	616,825,034	1,101,111,901
Amortization Payments	(826,724,560)	(1,104,419,581)	(1,931,144,141)
Legislative Acts Income	(30,121,925)	(66,707,484)	(96,829,409)
Investment Underperformance (Overperformance) Relative to Expectations	(134,017,514)	63,905,843	(70,111,671)
Other Experience Loss (Gain)	(52,658,414)	190,043,882	137,385,468
Employer Contribution Surplus	(83,388,327)	(137,894,291)	(221,282,618)
Change in Assumptions	76,029,639	0	76,029,639
Experience Account Allocation	72,561	0	72,561
Total Increase (Decrease) in UAL	(566,521,673)	(438,246,597)	(1,004,768,270)
UAL as of June 30, 2024	$6,113,297,186	$8,069,684,912	$14,182,982,098

Source: Prepared by legislative auditor's staff using actuarial valuations for the Louisiana State Employees Retirement System (LASERS) and Teachers Retirement System of Louisiana (TRSL).

The state could utilize a portion of the RSTF in excess of the state's needs for budget and revenue stabilization to pay down the Original Amortization Base (OAB), which would provide more up-front savings but less long-term savings, or the Experience Account Amortization Base (EAAB), which provides less short-term savings but more long-term savings, or some combination of the two. Both LASERS and TRSL have an OAB and EAAB, which are the two oldest amortization schedules within their UALs. How much the state would save and when the savings would be realized by making an extra payment towards the systems' UALs depends on how the state allocates funds between the two systems and between the two amortization bases. Paying down the OAB generates a larger immediate savings per dollar invested, while paying down the EAAB saves more interest over the long term per dollar invested. Specifically, as shown in Exhibit 18 below, if the state pays off the $609 million in the OAB for both systems, this would save the state $175 million in annual payments over fiscal years 2026 through 2029, or 29 cents of annual payments saved per dollar invested. However, because the OAB only would have had four years remaining until it was fully repaid in FY 2029, this only saves 15 cents of interest per dollar invested.

In contrast, the EAAB is not scheduled to be paid off until fiscal year 2040. If the state pays a portion of the EAAB in both systems and recalculates (or "reamortizes") the remaining payments on the EAAB, the savings per year would be lower than for the OAB, but the cumulative interest payments saved would be considerably larger. Specifically, the EAAB payments per year would be reduced by 11 cents per dollar invested, but since this would occur over a 15-year period instead of a four-year period, the total interest savings would amount to 65 cents for every dollar invested. The bottom row in the exhibit shows the percentage of the annual payments for each system that come from State General Fund Direct.

Exhibit 18 Components of Unfunded Accrued Liability Projected as of June 30, 2025				
Portion of UAL (Amortization Base)	**Description**	**LASERS**	**TRSL**	**Total**
Original Amortization Base Scheduled to be paid off by 6/30/2029	Principal remaining as of 6/30/2025	$210,888,992	$398,060,516	$608,949,508
	Interest remaining as of 6/30/2025	$30,946,308	$58,412,268	$89,358,576
	Annual payment for fiscal years 2026-2029	$60,458,825	$114,118,196	$174,577,021
	Interest saved per dollar of principal paid early	15%	15%	15%
	Annual payment savings per dollar of principal paid early	29%	29%	29%
Experience Account Amortization Base Scheduled to be paid off by 6/30/2040	Principal remaining as of 6/30/2025	$1,414,293,282	$1,570,363,251	$2,984,656,533
	Interest remaining as of 6/30/2025	$924,432,678	$1,020,235,719	$1,944,668,397
	Annual payment for fiscal years 2026-2040	$155,915,064	$172,706,598	$328,621,662
	Interest saved per dollar of principal paid early	65%	65%	65%
	Annual payment savings per dollar of principal paid early	11%	11%	11%
Total, Both Bases Scheduled to be paid off by 6/30/2040	Principal remaining as of 6/30/2025	$1,625,182,274	$1,968,423,767	$3,593,606,041
	Interest remaining as of 6/30/2025	$955,378,986	$1,078,647,987	$2,034,026,973
	Annual payment for fiscal years 2026-2029	$216,373,889	$286,824,794	$503,198,683
	Annual payment for fiscal years 2030-2040	$155,915,064	$172,706,598	$328,621,662
	Interest saved per dollar of principal paid early	59%	55%	57%
	Annual payment savings per dollar of principal paid early	13%	15%	14%
Percentage of annual payments funded with State General Fund Direct (applies to both amortization bases)		41%	23%	31%
Source: Prepared by legislative auditor's staff using information from actuarial valuations and the Office of Planning and Budget.				

Contributing funds to TRSL and LASERS would likely earn the state a higher return on investment than investing the funds in a State Treasury portfolio like the Millennium Trust or Louisiana Education Quality Trust Fund, mostly because the retirement systems are subject to lesser restrictions in state law regarding their investment strategies. Specifically, the systems can invest up to 65% (rather than 35%) of their portfolios in equities, and they can also pursue alternative investments in assets like private equity funds, venture capital, private market debt, and real estate. In addition, LASERS and TRSL have more latitude with their fixed income investments. As seen in Exhibit 19 below, the state retirement systems invest more of their assets in equities and alternative investments than the Millennium Trust and Louisiana Education Quality Trust Fund can, and their rate of return on investment for the past 10 fiscal years was approximately 3 percentage points higher.

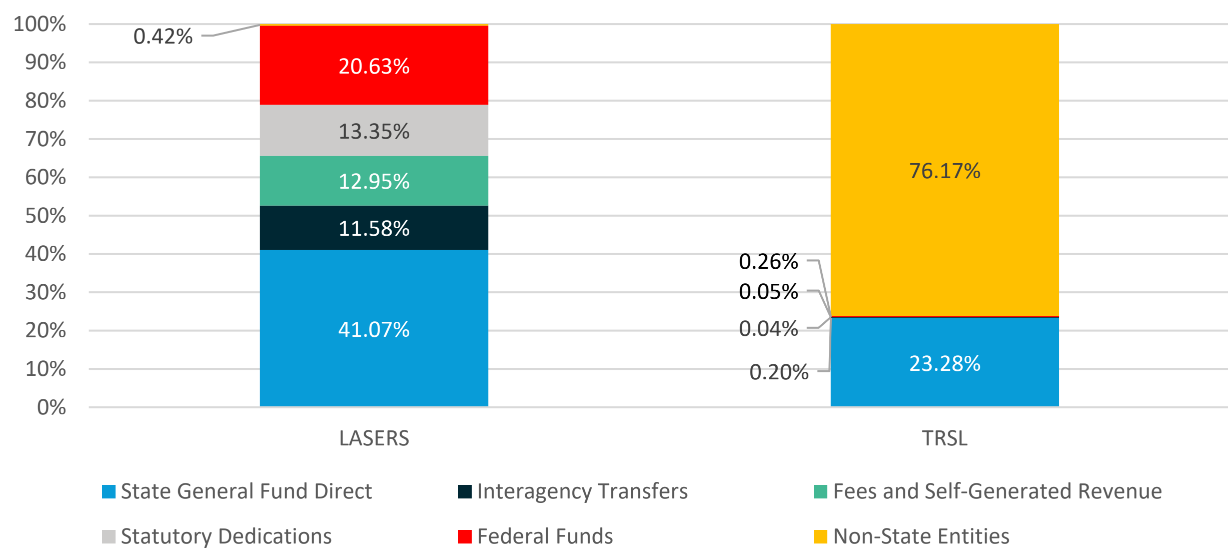
Exhibit 19
Investment Allocations and Returns by Portfolio and Asset Class
Fiscal Years 2015 through 2024

Portfolio	General Fund	Millennium Trust	Louisiana Education Quality Trust Fund	LASERS	TRSL
Allocation of Assets					
Fixed Income and Cash Equivalents	100%	66%	65%	20%	15%
Equity	0%	34%	35%	54%	36%
Alternative	0%	0%	0%	26%	49%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Rates of Return					
Fixed Income and Cash Equivalents	1.31%	1.45%	2.07%	4.50%	1.42%
Core Fixed Income	*1.31%*	*1.45%*	*2.07%*	*1.50%*	*1.97%*
Equity	*n.a.*	11.54%	10.13%	7.40%	7.68%
Alternative	*n.a.*	*n.a.*	*n.a.*	8.40%	10.34%
Total	**1.31%**	**4.19%**	**4.93%**	**7.10%**	**7.46%**

Note: According to Department of Treasury officials, they are limited to investing the General Fund, Millennium Trust, and Louisiana Education Quality Trust Fund in "core" fixed income, consisting of U.S. Treasury and Agency securities and investment-grade corporate debt, subject to limits on maturities. LASERS and TRSL are able to invest in a broader range of fixed income securities from other countries and from issues with riskier bond ratings and higher yields. The "core fixed income" line was provided by Treasury and is based on fixed income funds managed by Orleans Capital for LASERS, and U.S. Fixed Income for TRSL.
Source: Prepared based on legislative auditor's staff's analysis of custodian-generated performance summaries, Act 1004 retirement system investment return reports, and other retirement system investment data provided by the Louisiana Department of Treasury.

For both systems combined, an estimated 31% of the savings from an early UAL paydown would benefit State General Fund Direct, while the remaining 69% would be realized in other means of finance. As can be seen in Exhibit 18, State General Fund Direct only provides 41% of LASERS's UAL payments, and 23% of TRSL's, or 31% of the overall total for both systems. By contrast, state law[18] provides that all of the interest on the RSTF flows to State General Fund Direct. State General Fund Direct is the most flexible means of finance and is available for any lawful purpose. Other means of finance generally have additional restrictions on their use. However, the state could still use the savings from paying down the UAL early to enhance the state's highways, education system, health care services, and other allowable purposes. Every dollar of savings in UAL payments would be distributed across various means of finance, as shown in Exhibit 20 below. For LASERS, 41.07% of the savings would benefit State General Fund Direct, with the remainder coming from other means of finance, the largest of which being 20.63% from federal funds. For TRSL, only 23.28% of the savings would benefit State General Fund Direct. Non-state entities, such as local school districts, would receive 76.17% of the savings. The allocation of UAL payments across means of finance for FY 2026 would likely be similar to the allocation for FY 2025. For comparison, in FY 2024, the state general fund direct share of UAL payments was 28.6%, which was 2 percentage points less than the 30.6% share for FY 2025.

Exhibit 20
Gross Savings by Means of Finance from Extra UAL Contribution
Fiscal Years 2026 through 2029



Note: This exhibit includes expenditures from Transportation Trust Fund-Federal as Federal Funds, rather than as Statutory Dedications, which is how they are classified in the Office of Planning and Budget's UAL Appendix.
Source: Prepared by legislative auditor's staff based on analysis of information from the Office of Planning and Budget, TRSL, and LASERS.

Matter for Legislative Consideration 3: The Legislature may wish to consider appropriating funds from the Revenue Stabilization Trust Fund or other available sources, especially non-recurring revenues, towards the unfunded accrued liabilities in the state's retirement systems.

[18] La. Const. Art. VII § 10.15(E)(2) and R.S. 39:100.112(E)(2).

APPENDIX A: MANAGEMENT'S RESPONSE

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November 8, 2024

Mr. Michael Waguespack
Legislative Auditor
1600 N. 3rd Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Waguespack,

Thank you for the opportunity to review the Louisiana Legislative Auditor's report titled, "Louisiana's Budgetary Reserves: Opportunities to Better Manage." Our response below is intended to compliment the excellent work of Dr. Edward Seyler and the Legislative Auditor's Economic Division and provide the reader with additional information to consider on Treasury's investment management and measuring the impact to the State's credit rating.

Treasury carefully manages over $16 billion in investments across the General Fund and 28 other funds, prioritizing safety of principal, liquidity, and yield. Treasury's investments are determined by the fund's statutory requirements, the likelihood to appropriate or withdraw funds, and whether the fund has a dedicated corpus. The General Fund is invested primarily in low-risk securities to meet state cash obligations. Special funds, like the Millennium Trust Fund, allow higher-risk investments, such as equities, due to a non-spendable "corpus" portion. The State Retirement Systems enjoy more flexibility in investment choices, including equities, private markets, and global investments, as they have a longer time horizon and do not face the same liquidity constraints or legislative appropriation requirements. Like the General Fund, the Revenue Stabilization Trust Fund does not have dedicated "corpus" and Treasury invests these funds in more liquid assets to ensure funds can be quickly accessed for emergencies without realizing losses.

When considering the impact of the level of the State's budgetary reserves on the State's ratings, it is important to note the rating scorecards include quantitative and qualitative components with certain factors and notching determined subjectively based on the analyst's judgment and open for interpretation. In all cases, the assessment of budgetary reserves represents only a portion of the overall assessment of the state and the assigned general obligation rating. In addition, the State's assigned rating is relative to how Louisiana is performing in comparison to all states in general and similarly positioned states in particular.

Each rating agency publishes analytical methodologies that provide guidance as to how their different criteria are used to evaluate credit worthiness. Certain rating agencies provide greater transparency in their methodologies, scorecards, and rating reports, while other agencies only provide guidance making some assessments more difficult to determine than others.

Each rating agency generally assesses several key indicators, including:

- Economy – which typically include assessments of state demographics, income and wealth assessment, GDP and growth prospects;
- Financial Performance – which typically assess a state's ability to generate revenues and manage expenditures;
- Governance – constitutional authorities and policies; and
- Long-Term Liabilities – debt, pensions and other long-term liabilities.

Assessments of reserves is determined based on a percentage of revenues or other operating factors which is critical as it enables the agencies to provide for meaningful comparisons across states nationally. To determine the specific value of an individual rating component, there must be consideration of how the State scores in the other rating categories. For example, Moody's looks for higher fund balance or liquidity levels when a significant share of the state's revenue is derived from economically sensitive sources such as taxes on oil production or gaming. Another example is that Fitch evaluates liquidity in terms of available cash with days cash on hand as an evaluation metric but recognizes the analysis of a state's liquidity position is holistic and cannot be expressed in a single number.

The rating agencies recognize the State's current level of reserves as a credit positive, but they have also indicated a material reduction to the current level of reserves could be a downgrade factor. Determining the precise level of reserves should involve an evaluation of all the key indicators as well as a stress test-based evaluation of future potential needs.

As to the impact of investing a significant portion of the State's budgetary reserve funds in equities, the rating agencies generally do not focus on the specific investments in such funds. However, rating agencies expect investments to be liquid and available as needed. Rating criteria assess the level of funding in the reserves and the legal provisions that govern the deposits and withdrawals from reserves. The value of equity investments can be volatile, so including equities could expose the funds to more material fluctuations in value which could impact the State's rating in the future. Very few states allow the use of equity investments in rainy day funds, so it is difficult to determine the actual impact the practice might have on the State's rating. However, a significant reduction in liquidity would be viewed negatively.

Actions to reduce the UAL of the pensions would generally be viewed as positive by the rating agencies as it both reduces liabilities and future funding requirements. Structural changes to allocate a greater amount of non-recurring revenues to pay down the UAL instead of funding additional reserves would be positive, but the use of existing reserve balances would have to be balanced against the concerns stated earlier about the holistic nature of the ratings process.

Thank you for the opportunity to provide complimentary information on Treasury's investment management and measuring the impact on the State's credit rating.

Sincerely,

Renée Fontenot Free

Renée Fontenot Free
Deputy Treasurer of Management and Finance

APPENDIX B: DEDICATIONS OF MINERAL REVENUES
FISCAL YEARS 2023 AND 2024

	Description and Legal Citation	FY 2023	FY 2024
1	Severance Taxes	$883,611,819	$828,448,521
2	Royalties, Rents, and Bonuses	270,528,536	154,145,015
3	Total Mineral Revenues (lines 1 + 2)	$1,154,140,355	$982,593,536
	Less Dedications:		
4	Revenues categorically dedicated to Wildlife and Fisheries, Rockefeller/Russel Sage/Marsh Island trusts, and other funds	$32,217,931	$8,917,734
5	Equals: Revenues remaining for allocation according to formulas (line 3 minus 4)	1,121,922,424	973,675,802
6	Parish Severance and Royalty Fund Allocations – La. Const. Art. VII § 4	76,404,314	69,669,812
7	Coastal Protection and Restoration Fund – La. Const. Art. VII § 10.2(B)	25,810,362	25,000,000
8	Subtotal: Formula Dedications (lines 6 and 7)	102,214,676	94,669,812
9	Equals: Remaining Mineral Revenues (line 5 minus 8)	1,019,707,748	879,005,990
10	First $660 million to State General Fund Direct	660,000,000	660,000,000
	Less: Revenue between $660 million and $950 million:		
11	30% to Retirement Systems – La. Const. Art. VII § 10.16	87,000,000	65,701,797
12	70% to Revenue Stabilization Trust Fund – La. Const. Art. VII § 10.16	203,000,000	153,304,193
13	Remainder for Budget Stabilization Fund – La. Const. Art. VII § 10.3 and R.S. 39:94 (line 9 minus lines 10 through 13)	$69,707,748	$0

Source: Prepared by legislative auditor's staff using unaudited information from the Louisiana Department of Treasury, Office of Statewide Accounting and Reporting Policy, and LaGov.

APPENDIX C: COMPARISON OF BUDGETARY RESERVE FUNDS

Attribute	Budget Stabilization Fund	Revenue Stabilization Trust Fund
Criteria for Using Fund	Legislature must approve use by two-thirds vote, and one of the following conditions: 1. Decrease in official forecast for current fiscal year. 2. Decrease in official forecast for next fiscal year. 3. Federally declared disaster.	One of the following conditions: 1. Fund balance has reached minimum. 2. Legislature approves emergency use by two-thirds vote.
Maximum Fund Balance	4% of total state receipts (excluding federal disaster aid) for the preceding fiscal year. For FY 2024, the maximum balance was $1.5 billion.	No maximum balance.
Minimum Fund Balance	No minimum balance.	For FY 2024, $2.2 billion. For other years, $5 billion. For emergency use, no minimum fund balance.
Maximum Amount Spendable in One Year	One third of the fund's beginning year fund balance (for FY 2025, $353 million). In addition, the amount appropriated to cover each specific deficit, shortfall, or disaster cost cannot exceed the amount of said deficit, shortfall, or disaster cost.	For FY 2025, 33% of the fund balance ($1.1 billion). For other fiscal years, 10% of the fund balance. For emergency use, no limit.
Allowability of Equity Investments	Not permitted.	May invest up to 35% in equities.
Disposition of Investment Earnings	Retained by Budget Stabilization Fund.	Deposited in State General Fund Direct.
Allowable Uses for Funds	Any allowable use of state funds.	Capital outlay and transportation infrastructure. For emergency use, any allowable use of state funds.

Attribute	Budget Stabilization Fund	Revenue Stabilization Trust Fund
Revenues Dedicated to Each Fund	• Mineral revenues in excess of $950 million. • Interest earned on the BSF's invested cash balance. • Revenue received in excess of the expenditure limit, except severance taxes and mineral royalties shared with local governments. • At least $25 million each year, or 25% of any non-recurring revenues, whichever is greater. • Federal reimbursement for disaster-related costs previously paid from the BSF.	• Corporate income and franchise taxes in excess of $600 million. • 70% of mineral revenues between $660 and $950 million. • When BSF has reached its maximum fund balance, mineral revenues that would otherwise flow to BSF.

Source: Prepared by legislative auditor's based on analysis of La. Const. Art. VII §§ 10, 10.3, 10.15, and 10.16, R.S. 39:94 and 39:100.112, and Act 723 of 2024, as well as information provided by the Louisiana Department of Treasury.

APPENDIX D: ANALYSIS OF BOND RATING AGENCY BUDGETARY RESERVE CRITERIA

To derive the figures supporting our estimates of the bond rating agencies' budgetary reserve targets presented in Exhibit 8, we performed the following steps:

- **S&P.** For S&P, the $14.999 billion reflects actual operating expenditures for FY 2023 reported by S&P as having been adjusted by them for use in their rating. However, this figure is identical to the $14.999 billion reported by NASBO as Louisiana's operating revenues for FY 2023, which they say were provided by the Office of Statewide Reporting and Accounting Policy.
- **Moody's**. For Moody's, the $19.646 billion in revenues reflects actual own-source revenues from the FY 2023 ACFR from the governmental funds financial statements. Specifically, it equals the $47.088 billion in total governmental funds revenues, minus $27.442 billion in intergovernmental revenues. The additional reserves of $2.253 billion reflect a total committed, assigned, or unassigned fund balance of $4.595 billion, less $1.725 billion in the Capital Outlay Escrow Fund committed fund balance, less $783 million in the Transportation Trust Fund committed fund balance, plus $166 million from internal service funds. The amount from internal service funds reflects $334 million in current assets, less $104 million in current liabilities, less $51 million from the current portion of long-term liabilities, and less $13 million in restrictions.
- **Kroll**. For Kroll, the $43.740 billion reflects total expenditures from governmental funds. Kroll also allows for the inclusion of unassigned fund balance as reserves, which in Louisiana amounted to a negative balance of $6 million.

APPENDIX E: SOUTHERN STATES WITH MORE THAN ONE BUDGETARY RESERVE FUND

State	Fund Name (Balance)	Summary of Sources and Uses
Alabama	Education Trust Fund Rainy Day Fund ($726 million)	Funded with certain oil and gas revenues dedicated to the Alabama Trust Fund for investment in equities, debt, and alternative assets. The state's two so-called "rainy day" funds are sub-accounts within the Alabama Trust Fund. May be used to offset budget cuts, but the withdrawals must be repaid in 6-10 years.
	General Fund Rainy Day Fund ($326 million)	
	Education Trust Fund Budget Stabilization Fund ($587 million)	Receives revenues in excess of a legally defined appropriation cap. May be used to reduce need for budget cuts in the Education Trust Fund.
	General Fund Budget Reserve Fund ($150 million)	Funded with 20% of any unanticipated and unappropriated ending balance in the General Fund from the previous year. May be used to avoid budget cuts, offset reduction in revenues, fund state employee pay raises or bonuses, or fund unanticipated obligations, subject to certain rules.
	Educational Opportunities Reserve Fund ($354 million)	Receives excess revenue from the Education Trust Fund.
Arkansas	Budget Stabilization Trust Fund ($205 million)	Funded with a portion of the interest on state treasury balances. May be used for cash flow. All loans must be repaid by June 30.
	Catastrophic (formerly, Long-Term) Reserve Fund ($3.670 billion)	Funded with a portion of unspent fund balance in the General Revenue Allotment Reserve. May be used to fund state expenses in the event of a revenue shortfall.
Georgia	Revenue Shortfall Reserve – Regular ($5.2 billion)	Funded with all surplus General Fund dollars at the end of the fiscal year. May be used for K-12 enrollment growth. Governor may allow appropriation of funds in excess of 4% of prior-year revenue. Fund cannot exceed 15% of prior-year revenue. The $10.9 billion represents the portion in excess of the 15% limit.
	Revenue Shortfall Reserve – Excess ($10.9 billion)	

State	Fund Name (Balance)	Summary of Sources and Uses
Oklahoma	Constitutional Reserve Fund – Restricted Portion ($956 million)	Funded with revenues in excess of the estimate for the preceding year. 3/8's of the fund is available for a current-year revenue shortfall, 3/8's is available for a forthcoming year shortfall, and 1/4 may be used at any time for emergency use. The unassigned portion is the 1/4 available for emergency use.
	Constitutional Reserve Fund – Unassigned Portion ($319 million)	
	Revenue Stabilization Fund ($397 million)	Funded with corporate income tax and mineral revenues. Used to smooth volatile revenues from these sources.
South Carolina	General Reserve ($575 million)	Funded with required deposits of General Fund revenue to maintain a balance of 5% of general revenues (increasing incrementally to 7% over FY 2024 to FY 2027 based on recent amendment). May be used to eliminate year-end deficit but must be repaid within five years.
	Contingency Reserve ($24 million)	Funded with unappropriated revenues. Must be used to increase General Reserve to minimum required balance. Any remaining amount is available for appropriation.
	Capital Reserve ($209 million)	Funded with required deposits of General Fund revenue to maintain a balance of 2% of general revenues. First applied to operating deficit, if necessary, then may be appropriated for capital or non-recurring expenses in next fiscal year.
Virginia	Revenue Stabilization Fund ($2.687 billion)	Funded with excess tax revenues caused by above average growth in revenues. The fund may be used to offset up to half of a downward revision in the general fund revenue forecast. Capped at 15% of average annual revenue from individual and corporate income and retail sales taxes. Reported as restricted fund balance.
	Revenue Reserve Fund ($1.835 billion)	Funded with general fund revenue in excess of forecast, up to 1% of general fund revenue. Up to one half of the fund may be used to offset a downward revision in the general fund revenue forecast. Combined amount in this fund plus Revenue Stabilization Fund capped at 15% of average annual revenue from individual and corporate income and retail sales taxes. Reported as committed fund balance.

State	Fund Name (Balance)	Summary of Sources and Uses
West Virginia	Revenue Shortfall Reserve Fund ($435 million)	Funded with first 50% of all General Revenue surplus at the end of each fiscal year. Capped at 13% of last fiscal year's General Revenue appropriations. May be used for revenue shortfalls, acts of God, natural disasters, or fiscal needs as determined by Legislature.
	Revenue Shortfall Reserve Fund – Part B ($508 million)	Funded with tobacco settlement proceeds and investment earnings thereon. May be used for same purposes as the Revenue Shortfall Reserve Fund after that fund has been depleted.
Source: Prepared by legislative auditor's staff using information from the National Association of State Budget Officers, state annual comprehensive financial reports, and other financial reports.		