



**LOUISIANA DEPARTMENT OF THE TREASURY**  
**John Kennedy, State Treasurer**

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## **OPINION COLUMN**

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### **Louisiana Bondholders and Taxpayers Protected From Default** By State Treasurer John Kennedy

I've had a lot of folks lately ask me how the current debt crisis in Washington, D.C. will impact the state of Louisiana. My first thought when I'm asked this is that we don't really know for certain, since these are uncharted waters for our country.

However, as Louisiana's State Treasurer, I can tell you this with certainty: The United States Government may or may not default on its debt, but Louisiana bonds are safe, thanks to the state's Bond Security and Redemption Fund (BSRF).

Louisiana is unique in that it is the only state in the nation with a Bond Security and Redemption Fund. This shows investors that we are serious about paying our debts and that we are true to our word.

In the simplest terms, the holders of Louisiana bonds have first dibs on state revenue before any other item in state government can get paid. The BSRF provides security to the holders of the state's full faith and credit general obligation bonds.

The BSRF was originally created in statutes in Act 112 of the 1960 Legislature, and in 1975 the BSRF was granted constitutional status. The law basically says that all State Treasury receipts (minus a few statutorily and constitutionally mandated exceptions) must first flow into the BSRF to pay debt before anything else.

The current balance in the BSRF is close to \$652 million, and debt service payments made from the fund totaled \$298 million last year. So far this fiscal

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year, debt payments from the fund have totaled \$19 million. Any balance left at the end of the month, minus the debt service payments, is transferred to the General Fund.

From a legal, rating agency and investment perspective, the BSRF effectively provides that bondholders have a first lien on virtually all revenues of the state. This guarantees that their principal and interest payments stand in front of all other creditors or lien holders. The BSRF provides security to the holders of the state's full faith and credit general obligation bonds.

The BSRF benefits more than just bondholders investing in Louisiana, however. Taxpayers are saved millions because it insures a higher credit rating for the state. The higher the credit rating, the lower the cost of financing when the state sells GO bonds and other appropriation backed debt.

We don't know what's going to happen at the federal level as we continue this important debate on the nation's long-term debt. Regardless of the outcome, the taxpayers of Louisiana can be assured that we can and will meet our obligations to bondholders and to them.

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