Committee for the Incorporation of the City of St. George, Louisiana

May 12, 2015

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Committee for the Incorporation of St. George
P. O. Box 77006
Baton Rouge, LA 70879

Members of the Committee:

We were engaged on April 10, 2015 by the Committee for the Incorporation of the City of St. George ("Committee") to prepare an estimated Operating Budget for the proposed City of St. George, Louisiana and to also determine the estimated financial impact, if any, to the Consolidated Government of the City of Baton Rouge, Louisiana and to the Parish of East Baton Rouge's ("Baton Rouge") Operating Budgets.

Our conclusions are summarized on page 10 of our report.

Overview

The area which would be incorporated as St. George is not in the City of Baton Rouge. It is in an unincorporated area of East Baton Rouge Parish. According to our discussions with Committee members, St. George intends to utilize and pay for certain services offered by the East Baton Rouge Parish government, just like the cities of Baker, Zachary, and Central currently do. The services not contracted for with East Baton Rouge Parish will have to be provided by St. George or privatized. For those services not contracted for by St. George, East Baton Rouge Parish can reduce over the incorporation transition period, which is expected to take two or three years, its workforce through normal attrition and retirement or reduce the scope and cost of vendor/professional contracts that provide services no longer needed or needed at a reduced level by the City of St. George in order to mitigate the impact to its budget.

The City of St. George is estimated to be approximately 85 square miles and will have a population of approximately 107,000 residents (5th largest incorporated city in the State).

Fire protection will be provided by the St. George Fire Department and by the East Side Fire Department. They already collect a dedicated millage from St. George's citizens. Police protection will be provided by the East Baton Rouge Sheriff's Office, which is also already funded by dedicated taxes that residents of the City of St. George will continue to pay. Sewer and garbage pick-up are already funded by Parish-wide dedicated taxes. All such dedicated taxes will stay in place and, as such, the related services for which they provide. The City of St. George will also provide for the maintenance and upkeep of streets, bridges, medians, ditches, canals, and other public grounds and facilities in the City of St. George or privatize such service. Given the amount and nature of dedicated taxes, our analysis focuses on the general (undedicated) operations (i.e., General Fund) of the cities of St. George and Baton Rouge.

Once incorporated, the Governor will appoint first a Mayor and five-member Council to govern. When the next election cycle takes place, residents of the City of St. George will vote for a new Mayor and all Council positions. The Council may reapportion itself to add more seats before this election if the public so desires.

Significant Assumptions/Sources of Information

A. Our analysis is primarily based on information included in the Annual Operating Budgets (2015) of the Consolidated Government of the City of Baton Rouge and the Parish of East Baton Rouge ("Baton Rouge"), which also includes actual audited results for the year ended December 31, 2013. Other sources used in our analysis include the recent audited Comprehensive Annual Financial Reports of the cities of Baton Rouge, Central, and Zachary, East Baton Rouge Parish demographic data, and budgetary and financial information on other similar sized cities.

B. Audited 2013 financial statements of the City of Baton Rouge were utilized as audited 2014 information was not available at the time of this report.

C. The population of the proposed City of St. George is assumed to be approximately 107,000. The population of the City of Baton Rouge is approximately 230,000 as of the most recently available data. The population of unincorporated East Baton Rouge (all areas outside the cities of Baton Rouge, Baker, Central, and Zachary, including the proposed City) is approximately 154,000. Total population of East Baton Rouge Parish is approximately 440,000. As such, the City of St. George would represent approximately 69% of all unincorporated areas of the Parish and 24% of the entire Parish (including the cities of Baton Rouge, Baker, Central, and Zachary).

   Any estimates based on percentages were also reviewed for reasonableness based on revenues and expenditures of similar sized cities.

D. The City of Central's (incorporated in 2005) population is approximately 27,000 as of the most recent data available. We used information from their most recent audited financial statements and compared the reasonableness of St. George's budgeted revenues and expenditures to the City of Central's actual revenues and expenditures as a percentage of population.

E. There are approximately 167,000 households in the Parish, 60,000 households in the unincorporated parts of the Parish, which includes approximately 40,000 households in the proposed City of St. George. Therefore, St. George households represent approximately 24% of all households in the Parish.

F. The Committee proposes to continue to fund the "Constitutional" offices, such as the District Attorney, Courts, Coroner, and certain other Parish-wide functions, at 60% of current (2013) expenditures. The Committee is proposing to pay a higher percentage of these costs than its population size would indicate (24% of total Parish population but paying 60% of these costs). Any agreement concerning the costs to fund the

"Constitutional" offices would have to be negotiated and probably involve a Cooperative Endeavor Agreement between the local governments.

G. All dedicated taxes will continue to fund the agencies and activities in accordance with the original tax dedication. For instance, the millage dedicated to the East Baton Rouge Sheriff would continue to be paid by the residents of St. George and, therefore, that function and related expenditures are not included in this analysis.

H. The analysis is subjective since the assumptions are made from the limited information available. As a result, different conclusions may be reached based on more complete information or different judgments made by other parties. The analysis and underlying assumptions were based on our judgment and experience with local governmental entities.

CITY OF ST. GEORGE
PROPOSED REVENUES BUDGET

Budgeted Revenues			Notes
Sales Tax	$	59,000,000	a
Occupational Licenses		2,773,000	b
Gross Receipts Business Taxes		1,320,000	c
Other Business Taxes		1,004,000	d
Licenses and Permits		1,123,000	e
Other Taxes		248,000	f
Interest Income		34,000	g
Total Budgeted Revenues	$	65,502,000	h

Total Budgeted Revenues	$	65,502,000	(above)
Total Budgeted Expenditures		(54,052,000)	(p. 5)
Total Budgeted Surplus	$	11,450,000	

See attached Notes to Budget on page 6.

CITY OF ST. GEORGE
PROPOSED EXPENDITURES BUDGET

			Notes
Budgeted Expenditures			
Legislative			
City Council	$	450,000	i
Parish Attorney		3,372,000	j
Other		1,250,000	k
Constitutional			l
Courts		5,863,000	l
Correctional		6,164,000	l
District Attorney		3,174,000	l
Coroner		1,202,000	l
Other		623,000	l
Mayor/Administration			
Mayor & Administration		300,000	m
Finance		1,500,000	n
Other		1,750,000	o
Other Expenditures			
EMS-Prison Medical Services		2,480,000	p
Juvenile Services		2,721,000	p
Mayor's Office of Homeland Security & Emergency Prep.		412,000	p
Department of Public Works		11,537,000	q
Street Lighting		1,041,000	q
Blight Elimination Program		27,000	q
Priority Building Improvements		3,000	q
Miscellaneous Public Works Projects		154,000	q
Outside Agencies		1,267,000	q
Downtown Development District		34,000	q
Animal Control and Rescue Center		376,000	q
Baton Rouge River Center		352,000	q
Discretionary Expenditure			
Additional Police Protection (to be negotiated with Sheriff's Office)		4,000,000	q
Total Expenditures, excluding Legacy/Retirement Costs		50,052,000	
Legacy/Retirement Costs		4,000,000	r
Total Budgeted Expenditures	$	54,052,000	

See attached Notes to Budget on page 6.

Notes to City of St. George Budgets

a. Sales taxes are the most significant revenue source for the City of St. George. Previous reports have estimated Sales Tax revenues for St. George ranging from $46 million (post annexations) to $86 million (prior to annexations). The estimated sales tax losses to the proposed City from the recent annexations by the City of Baton Rouge are $9 million. Total Sales Tax collections in the unincorporated areas of East Baton Rouge (which includes St. George and the recent annexations) during 2013 totaled approximately $84 million. If we remove the estimated sales tax losses due to the annexations the total would have been approximately $74 million. Based on population (69% of unincorporated East Baton Rouge), the retail activity in St. George versus the rest of unincorporated East Baton Rouge, and the demographic statistics of the households in St. George, a reasonable conservative estimate of the percentage of these sales taxes that would remain in St. George is 80%. This results in approximately $59 million in sales taxes to St. George for budgetary purposes.
b. St. George represents approximately 69% of unincorporated Baton Rouge. Therefore, this amount was estimated by multiplying the Occupational Taxes for unincorporated East Baton Rouge by 69%.
c. Gross Receipts taxes are primarily telephone and cable television fees and, as such, we used the percentage of households in St. George to the total households in the Parish (24%) as the multiplier.
d. 69% of sales tax audit collections, Insurance premium taxes, and other business taxes of unincorporated East Baton Rouge. A significant exclusion from revenues in this budget line item was Gaming Taxes (no gaming facilities in St. George).
e. Amounts in specific categories of licenses and permits (unincorporated) were multiplied by 69%. Categories used included licenses for Air Conditioning and Heating, Electrical, Plumbers, Liquor, and Restaurant, and permits for Building and related items. Every other item in this budget category was excluded from revenues for St. George.
f. Other includes Beer and Severance taxes which are estimated based on population and geographic area.
g. Interest income is based on the estimated cash on hand.
h. Certain categories of General Fund revenues for Baton Rouge are omitted from St. George include General property taxes and taxes and fees dedicated to Constitutional Offices and to inside the city limits of Baton Rouge.
i. Based on the proposed Council structure, our estimate of this budget line item is based on available information and comparison to other cities.
j. The Committee has stated that the City of St. George will fund 60% of the total current (2013) expenditures of Constitutional and Parish-wide offices, such as the District Attorney (Even though they will represent only about 24% of Parish-wide residents.)
k. Other includes Public information and the Planning Commission. These budget estimates are based on available information and comparison to other cities.
l. As noted above the Committee has committed to fund 60% of the total current (2013) expenditures of Constitutional and Parish-wide offices.

Notes to City of St. George Budgets (Contd.)

m. As with the Council, the Committee envisions the executive branch as minimal, and this budget reflects a conservative approach to that.
n. Due to the planned limited size of government these support functions will be less costly than for other municipal governments. This budgeted amount represents about 18% of total East Baton Rouge expenditures.
o. This category includes purchasing, human resources, information services, and risks management. These are all considered conservative estimates in terms of the size and scope of the anticipated municipal government and are based on similarly sized cities.
p. These are similar to what are considered Constitutional offices and, as such, the Committee is proposing to fund these at 60% of total current (2013) expenditures.
q. These are all Parish-wide services and, therefore, the expenditures are allocated based on population (St. George's population is approximately 24% of East Baton Rouge as a whole).
r. Legacy/Retirement Costs would be paid directly to Baton Rouge to cover on-going costs and accumulated obligations to current and former employees. This amount consists of approximately $600,000 in retirement expenses for Constitutional Offices and an estimate of $3,400,000 in Post Retirement obligations accumulated on Parish-wide employees (non-city). The majority of these obligations excluded relate to Police and Fire and, therefore, would not carry forward to St. George. Other Post-Retirement obligations are obligations to retirees and current employees to pay health insurance premiums upon retirement. These would potentially carry to St. George as the obligations exist based on services already provided by Parish employees.

Potential Effects on Baton Rouge General Fund Budget

	St. George Budget	Effect Positive/(Negative)	EBR 2013 Actual	Adjusted EBR Actual 2013	Notes
REVENUES					
Total Budgeted Revenues	$ 65,502,000	$ (65,502,000)	$ 295,601,000	$ 230,099,000	a
EXPENDITURES					
Legislative					
City Council	450,000	-	3,112,960	3,112,960	b
Parish Attorney	3,372,000	3,372,000	5,620,250	2,248,250	c
Other	1,250,000	291,000	4,865,420	4,574,420	d
Judicial - City Court	-	-	11,786,490	11,786,490	e
Constitutional					
Courts	5,863,000	5,863,000	9,771,830	3,908,830	c
Correctional	6,164,000	6,164,000	10,272,840	4,108,840	c
District Attorney	3,174,000	3,174,000	5,289,810	2,115,810	c
Coroner	1,202,000	1,202,000	2,004,130	802,130	c
Other	623,000	623,000	1,038,150	415,150	c
Mayor/Administration					
Mayor & Administration	300,000	-	4,205,920	4,205,920	a
Finance	1,500,000	1,268,000	10,742,660	9,474,660	f
Other	1,750,000	1,698,000	11,319,010	9,621,010	f
Other Expenditures					
Police Department	-	-	82,475,860	82,475,860	e
Fire Department	-	-	46,308,170	46,308,170	e
Civil Service/Human Development	-	-	780,550	780,550	e
EMS-Prison Medical Services	2,480,000	2,480,000	4,132,640	1,652,640	c
Juvenile Services	2,721,000	2,721,000	4,534,530	1,813,530	c
Mayor's Office of Homeland Security	412,000	412,000	686,590	274,590	c
Department of Public Works	11,537,000	11,537,000	48,072,610	36,535,610	g
Street Lighting	1,041,000	1,041,000	4,336,820	3,295,820	g
Blight Elimination Program	27,000	27,000	114,500	87,500	g
Priority Building Improvements	3,000	3,000	10,650	7,650	g
Miscellaneous Public Works Projects	154,000	154,000	643,630	489,630	g
Outside Agencies	1,267,000	1,267,000	5,278,380	4,011,380	g
Non-Departmental Budgets	-	-	1,455,660	1,455,660	e
Downtown Development District	34,000	34,000	142500	108,500	g
Animal Control and Rescue Center	376,000	376,000	1,565,000	1,189,000	g
Limited Tax Bonds, Capital Improvement, etc.	-	-	6,963,120	6,963,120	e
Baton Rouge River Center	352,000	352,000	1,465,970	1,113,970	g
Prior Year expenditures (encumbrances)	-	-	3,180,220	3,180,220	e
Additional Police Protection	4,000,000	-	-	-	h
Total Expenditures, excluding Legacy/Retirement Costs	50,052,000	44,059,000	292,176,870	248,117,870	
Legacy/Retirement Costs	4,000,000	4,000,000	-	(4,000,000)	i
Total Budgeted Expenditures	$ 54,052,000	$ 48,059,000	$ 292,176,870	$ 244,117,870	
Budgeted Surplus/(Deficit)	$ 11,450,000	$ (17,443,000)	$ 3,424,130	$ (14,018,870)	

See attached Notes to Budget on page 9.

Notes to City of Baton Rouge General Fund Budget

a. Revenues are a direct dollar for dollar reduction to Baton Rouge. The only possible exception noted was interest income, and this is not considered significant to our analysis.
b. Certain governmental expenditures are duplicative in nature and, therefore, result in no reduction in Baton Rouge expenditures.
c. These expenditures are for "Constitutional" and other Parish-wide services that are assumed to benefit all the citizens equally. The Committee has proposed to fund constitutional services at 60% of current (2013) expenditures.
d. This budget item includes items which are not considered the responsibility of St. George residents, such as Community Centers and the City Prosecutor, as well as Public Information and Planning. Public Information and Planning are estimated to reduce Baton Rouge's budget but not dollar for dollar. The assumption is that savings to Baton Rouge would be approximately 15%.
e. These line items that are within the responsibility of the City of Baton Rouge and, therefore, are excluded from the St. George budget.
f. These line items are primarily amounts which would create savings to Baton Rouge but not on a dollar for dollar basis. A savings of 15% of expenditures has been assumed.
g. These are Parish-wide services/departments. It is assumed that these benefit the citizens of the Parish fairly equally by population and, therefore, offset Baton Rouge expenditures dollar for dollar. Based on recent population data, St. George will comprise about 24% of the population of the Parish.
h. The Committee plans to negotiate additional substations and/or police presence with the East Baton Rouge Sheriff's Office. This would not have any financial effect on the City/Parish budget. This would only be an expenditure to St. George if such an agreement with the Sheriff's Office was reached.
i. Legacy/Retirement Costs would be paid directly to Baton Rouge to cover on-going costs and accumulated obligations to current and former employees. This amount consists of approximately $600,000 in retirement expenses for Constitutional Offices and an estimate of $3,400,000 in Post Retirement obligations accumulated on Parish-wide employees (non-city). The majority of these obligations excluded relate to Police and Fire and, therefore, would not carry forward to St. George. Other Post-Retirement obligations are obligations to retirees and current employees to pay health insurance premiums upon retirement. These would potentially carry to St. George as the obligations exist based on services already provided by Parish employees.

Conclusion

A. St. George

Based on our assumptions included in the preceding analysis, the proposed City of St. George would be financially viable with an estimated budget surplus of $11.4 million (17% of Budgeted General Fund Revenues).

Revenues are budgeted at $65.5 million, and expenditures are budgeted at $54.1 million, including $4 million of discretionary additional police expenditures.

B. Baton Rouge City-Parish (Consolidated Government) – ("Baton Rouge")

Based on our assumptions included in the preceding analysis, the negative change for Baton Rouge's budget would be approximately $17 million. This would create an operating deficit in its General Fund of approximately $14 million, which is approximately 6% of total Baton Rouge General Fund revenues.

There is a difference between the 2013 Comprehensive Annual Financial Report (CAFR) General Fund "change in fund balance" ($8.5 million) versus the budget information used. This 2013 actual information was used rather than the CAFR because it includes a more detailed breakdown and also breaks out City and Parish (unincorporated) information. If the CAFR surplus is correct then the effect of the incorporation of St. George would be to create a general fund deficit for Baton Rouge of only approximately $9 million.

The incorporation of St. George would result in a manageable General Fund operating deficit of $14 million (or 6% of General Fund revenues) to the budget of the Consolidated Government of East Baton Rouge. Such amount should not result in an increase in taxes and could be minimized during the incorporation transition period, which is expected to take two to three years, by normal employee attrition and retirement, and/or a reduction in the scope and related costs of vendor/professional contracts that provide services no longer needed or needed at a reduced level by the City of St. George.

If you should have any questions regarding our analysis, please do not hesitate to contact us.

Thank you for this opportunity to serve you.

Carr, Riggs & Ingram, LLC