



Department of Finance

City of Baton Rouge
Parish of East Baton Rouge

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The Honorable Mayor-President
and Members of the Metropolitan Council
City of Baton Rouge
Parish of East Baton Rouge
Baton Rouge, Louisiana 70802

Dear Mayor-President and Council Members:

Pursuant to Louisiana State Statutes and The Plan of Government, I hereby issue the Comprehensive Annual Financial Report (CAFR) for the consolidated government of the City of Baton Rouge and Parish of East Baton Rouge (City-Parish) for the fiscal year ended December 31, 2015. The Accounting Division of the City-Parish Finance Department prepared this report in accordance with Generally Accepted Accounting Principles (GAAP). We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operations of the City-Parish as measured by the financial activities of its various funds and the entity-wide presentation; and that disclosures necessary to enable readers to gain an understanding of City-Parish financial affairs have been included. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the local government.

The City-Parish financial statements have been audited by Postlethwaite & Netterville, APAC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Consolidated Government of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana, financial statements for the fiscal year ended December 31, 2015, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first document of the financial section of this report.

The City-Parish is required to undergo an annual single audit in conformance with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget 2CFR Part 200 (Uniform Guidance). Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations, and the auditors' reports on the internal control structure and compliance with applicable laws and regulations, is presented immediately following the Statistical Section of this publication.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of *Management's Discussion and Analysis (MD&A)*. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City-Parish's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government



The Parish of East Baton Rouge was established as a division of government of the *West Florida Republic* in 1810. The Parish later became a local governmental unit of the State of Louisiana and the United States when Louisiana was admitted to the Union in 1812. The City of Baton Rouge was incorporated as a municipality on July 6, 1817. These two government entities operated as separate local government units until January 1, 1949. At an election on August 12, 1947, the voters of both the parish and the city adopted the current Plan of Government (as amended) which consolidated the administration of most local government services for the city and the parish. Baton Rouge was one of the first consolidated forms of local government established in the United States. The elected Mayor-President serves as the leader of the executive branch of City-Parish government. The legislative branch is the elected Metropolitan Council, which is composed of 12 district representatives.

The City-Parish provides a full range of services to the general public, including police and fire protection, emergency medical services, public works, social services, public transportation, planning and zoning, economic development, an airport, a convention center, construction and maintenance of streets and infrastructure, libraries, courts, general administrative services, sewage collection and treatment, and solid waste collection and disposal.



A determination of the financial reporting entity to be included in this CAFR is made through the application of criteria established by section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (as revised by GASB Statement No. 61 – The Financial Reporting Entity: Omnibus). A complete explanation of the financial reporting entity is included in the Summary of Significant Accounting Policies in the Notes to the Financial Statements.

The City-Parish financial reporting entity consists of the following:

- The Primary Government - This is the City-Parish (all funds under the auspices of the Mayor-President and the Metropolitan Council).
- Legally separate component units - These units of government are legally separate from the City-Parish government but have a sufficiently close relationship with the government to warrant inclusion in the consolidated financial report.

The financial statements included in this CAFR are as follows:

<u>Name of Organization</u>	<u>Type of Unit</u>
➤ The City-Parish	Primary Government
➤ City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System	Blended Component Unit
➤ District Attorney of the Nineteenth Judicial District	Discrete Component Unit
➤ Nineteenth Judicial District Court	Discrete Component Unit
➤ Nineteenth Judicial District Court Building Commission	Discrete Component Unit
➤ East Baton Rouge Parish Family Court	Discrete Component Unit
➤ East Baton Rouge Parish Juvenile Court	Discrete Component Unit
➤ East Baton Rouge Parish Clerk of Court	Discrete Component Unit
➤ East Baton Rouge Parish Redevelopment Authority	Discrete Component Unit
➤ Cytreniks Group/King Hotel Special Taxing District	Discrete Component Unit
➤ Bluebonnet Convention Hotel Taxing District	Discrete Component Unit
➤ EBRATS Building Special Taxing	Discrete Component Unit
➤ Capital Area Transit System	Discrete Component Unit

An explanation of the accounting policies of the City-Parish is contained in the Notes to the Financial Statements. The basis of accounting, fund structure, and other significant information on financial policies is explained in detail in the Notes to the Financial Statements.

Budgetary control is maintained by the encumbrance of appropriations with purchase orders prior to their release to vendors. Purchase orders that exceed appropriation balances are not released unless additional appropriations are made available. The annual operating budget, or financial plan, is proposed by the Mayor-President and enacted by the Metropolitan Council. Management control for the operating budget is maintained at the fund and department level. Additional details on the budget process are explained in the Notes to the Financial Statements.

Budget-to-actual comparisons are provided in this report for each individual governmental fund. For the General Fund, Library Board of Control Special Revenue Fund, and Grants Special Revenue Fund, this comparison is presented in Exhibits A-7 through A-9. The Capital Projects Fund budget statement is presented on a project length basis as legally adopted by the Metropolitan Council on Exhibit B-3. For other governmental funds, the annual budget comparison is presented in the Combining and Individual Fund Statements and Schedules, Exhibits B-4 through B-33.

Under The Plan of Government, the Finance Department is entrusted with maintaining accounting systems for the City, Parish, and districts over which the Metropolitan Council is the governing body, in accordance with the best-recognized practices in governmental accounting. It keeps the records for, and exercises financial and budgetary control over, each City-Parish department, office, and agency.



In developing and evaluating the accounting system of the City-Parish, the Finance Department considers the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and regarding the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of control should not exceed benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and state financial assistance, the City-Parish government is responsible for ensuring that adequate internal controls are in effect. All internal control evaluations occur within the framework described. The Finance Department believes that the internal controls of the City-Parish adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

FACTORS AFFECTING FINANCIAL CONDITION

Economic Condition and Outlook

The City of Baton Rouge, the state capital, is located on the Mississippi River in the southeast region of the state and is a major center for commerce, industry, tourism, and many diverse cultural activities. The City-Parish is the principal home of two major state universities: Louisiana State University and Southern University. The Baton Rouge MSA has the largest concentration of chemical industry employment in the state and is the home of the nation's fourth largest refinery.

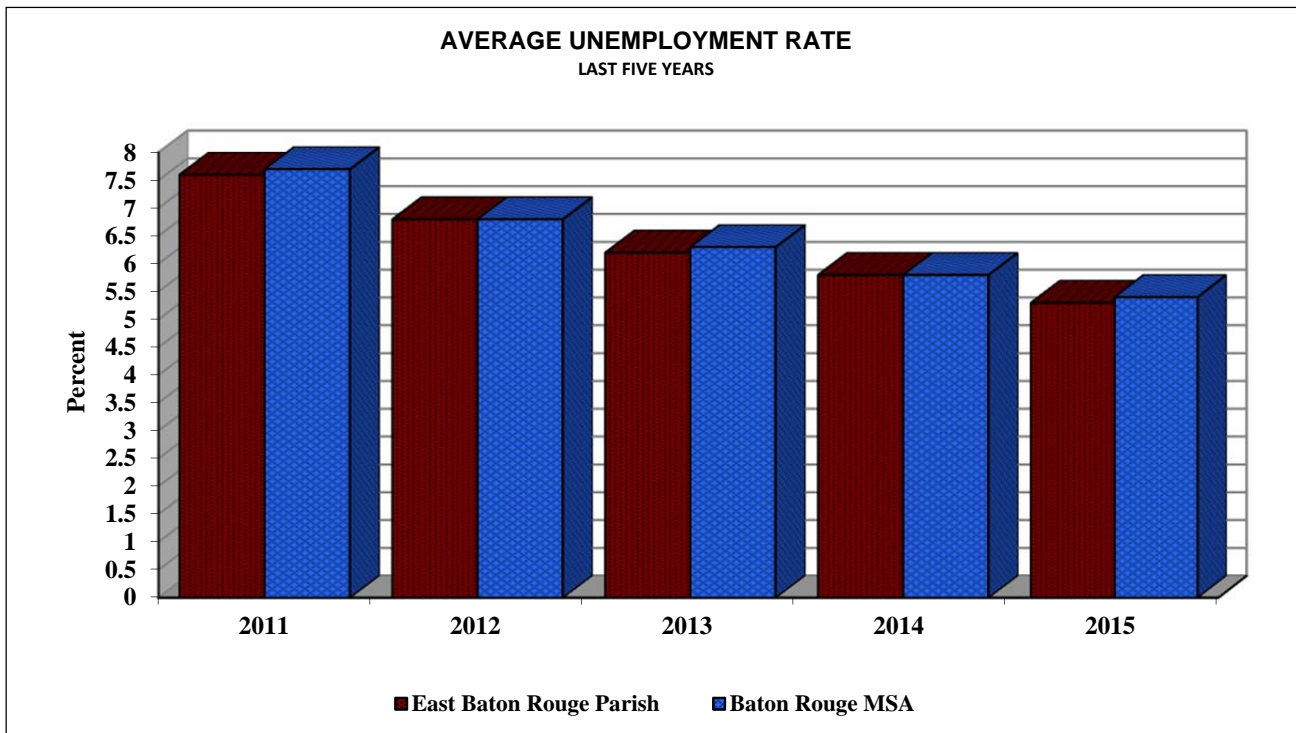


A number of significant companies engaged in oil refining, petrochemical processing, and wood products are found in the industrial corridor along the Mississippi River near Baton Rouge. These industries are major employers of Baton Rouge's labor force. Other important industries include government, construction, banking and financial services, insurance, real estate, and wholesale and retail trade.

According to the United States Department of Labor, Bureau of Labor Statistics, the annual average rate of local unemployment decreased 0.5% in East Baton Rouge Parish and decreased 0.4% in the Baton Rouge MSA in 2015, as reflected in the following chart:

	<u>East Baton Rouge Parish</u>	<u>Baton Rouge MSA</u> ⁽¹⁾
2011	7.6	7.7
2012	6.8	6.8
2013	6.2	6.3
2014	5.8	5.8
2015	5.3	5.4

⁽¹⁾ Metropolitan Statistical Area (includes East Baton Rouge, West Baton Rouge, Livingston, Ascension, Iberville, St. Helena, Pointe Coupee, East Feliciana, and West Feliciana).



Local economists are predicting job growth in 2016 and 2017 for our region. In October 2015, Dr. James A. Richardson, John Rhea Alumni Professor of Economics at Louisiana State University, and Dr. Loren C. Scott, Professor Emeritus of Economics at Louisiana State University, issued *Louisiana Economic Outlook* (LEO) on Louisiana’s major metropolitan statistical areas. Following are their predictions of economic growth in East Baton Rouge Parish and the Baton Rouge MSA for 2016-2017.

“Baton Rouge’s five very strong years of growth in a row is largely due to the record industrial expansions in the area...the great majority of the announcements are under construction...natural gas prices have fallen sharply in the U.S. but are significantly higher in Europe. Chemical firms are prodigious users of natural gas. The price advantage in the U.S. has been translated into a price advantage for our chemicals over those produced in Europe. Consequently, U.S. firms are cutting into Europe’s share of the world chemical market.

The Baton Rouge MSA is ideally situated to capitalize on this boom. There are numerous pipelines already in place to deliver natural gas to the plants. There is an abundance of available water (the Mississippi River), and there is an

excellent waterway for transporting the bulk production of this industry by barge (the Mississippi River). These are the drivers behind the \$8 billion in industrial announcements in the region.

These announcements include:

- *Honeywell is spending \$80 million on expansions at two of its sites in Baton Rouge and one in Geismar. The firm will retain 200 jobs and add another 10 to its workforce.*
- *Gensis Energy is nearing completion of a \$150 million, 1.1 million barrel storage terminal for oil, intermediates, and refined products at the Port of Baton Rouge.*
- *Two new glass-oriented companies are coming to Baton Rouge. ClearEdge Wholesale Glass is relocating from New Orleans and will spend \$2.65 million to renovate a 41,000 square foot building...Glaz-Tech is building a new \$4 million glass manufacturing plant...*

All this new industrial activity in the Baton Rouge region has spurred a non-trivial boom in the rail sector. For example:

At the Port of Baton Rouge, Union Pacific Railroad has started an 18-month, \$19.6 million rail expansion project. The company will spend \$7 million on longer receiving tracks and power switches to accommodate unit trains (trains with 100 railcars), and it will spend \$12.6 million on a chambering yard from railcars waiting to be loaded or unloaded.

Industrial construction is not the only construction sector booming. The Baton Rouge MSA economy is savoring a bump from non-industrial projects as well. In February 2016, Our Lady of the Lake broke ground on a new \$200 million Children's Hospital. This 2-year project will result in inpatient beds, an emergency room, a surgical unit, and a hematology/oncology unit. Construction began in November 2014 on a \$110 million project to renovate the Patrick Taylor Hall at LSU. The project is scheduled for completion in June 2017. Construction is underway on the 3-building, \$45 million Water Resources Institute (funded by fines resulting from the BP spill).

Baton Rouge continues to experience modest revenue growth. General sales and use tax (2 percent) collections for General Fund operations and debt service dedications of the City and Parish combined were \$185.0 million, net of Tax Increment Financing District adjustments, an increase of \$5.9 million over 2014 revenues, a 3.28 percent increase. Sales tax collections for the ½ percent sewerage tax and the ½ percent road and street improvement tax both increased by 2.77 and 2.78 percent, respectively, during fiscal year 2015. The general sales and use tax plays a significant role in financing the operations of the General Fund.

Major Initiatives in 2015

Employee Compensation

In 2015, major revisions to the compensation package for City-Parish employees were approved. The revisions were based upon the results of the Total Compensation Study, released in October of 2013. The study was commissioned to review the current compensation system as it compared to other public- and private-sector employers and make changes to move towards an employee-compensation system that was competitive, while remaining financially pragmatic. These changes were needed in order for the City-Parish to be able to attract and retain the caliber of talent needed to provide services to the public.

The study analyzed the existing pay plan for non-municipal police and fire employees, benchmarked City-Parish positions against various ranges of pay for comparable positions in other areas, and examined the benefits structure against those of peer cities. Each element of compensation was examined including base pay, longevity pay, overtime, paid leave, health-care benefits, retirement benefits, and other post-employment benefits. The study concluded that base pay is lower for many classifications in the early years of employment, but becomes more competitive with the addition of merit and longevity pay. Benefit costs such as paid leave, health care, and retirement were higher than the benchmark data from other peer cities. Internal studies were done to examine the pay and benefits for municipal fire and police employees.

Changes to pay and benefits that took effect on April 4, 2015, are summarized below:

- A one-time across-the-board pay raise of 2% was implemented with an annual minimum guarantee of \$500;
- City longevity and State longevity were incorporated into the pay scales resulting in a 19-step pay plan for regular and municipal police employees and a 21-step pay plan for municipal fire employees;
- The minimum pay rate for full-time employees was increased from \$8.05 per hour to \$9.30 per hour;
- Employees hired on or after April 4, 2015, will receive 12 days (hours proportionate to a 40-hour workweek) of sick leave annually throughout their career limited to a maximum of 480 hours;
- The birthday holiday was eliminated after December 31, 2015; and
- Sick hours taken will not be included as hours worked for the computation of overtime pay and/or compensatory time.

In addition, changes to retirement benefits for employees hired on or after September 1, 2015, included the following:

- Requiring a minimum retirement age of 50 for public safety employees and 55 for all others;
- Changing the time period used to calculate retirement benefits from the 36 highest consecutive months to the 60 highest consecutive months;
- Eliminating automatic spousal benefits and requiring they be purchased based on the actuarial value of the benefit; and
- Imposing penalties associated with early retirement benefits based on an actuarial calculation that will be cost neutral to the system.

The impact of the retirement benefit changes, as calculated by the system's actuary, is a reduction in required employer contributions of \$96.9 million over the next 30 years.

Public Works Reorganization

In 2014, the citizens of East Baton Rouge Parish approved changes to the *Plan of Government* to reorganize the functions of the formerly centralized Department of Public Works into six new departments. An internal team was formed to assist in developing self-contained budget units, clear functional responsibilities, and performance metrics. The new departments became operational in April of 2015. The following new departments have been established as separate budgetary units:

- Department of Environmental Services
- Department of Transportation & Drainage
- Department of Maintenance
- Department of Development
- Department of Buildings and Grounds
- Department of Fleet Management

In addition, an Office of Business Operations and Capital Programs was established to provide essential financial and programmatic support to each department. In 2016, the Directors of each new department began work on baseline measurements for performance metrics. They have also been tasked with clarifying roles and responsibilities, streamlining operations, and developing internal and external communications plans to ensure efficient processes as functions and service delivery cross new departmental lines.

Other

The riverfront and skyline of downtown Baton Rouge continues to be transformed as more public and private investments are initiated and completed. Several of the master plans for downtown Baton Rouge focus on the importance of riverfront development to reconnect the downtown area to the Mississippi River, the region's economic, environmental, and cultural anchor.



Currently under final design, City Hall Plaza will be renovated to accommodate larger event crowds and provide ADA accessibility to the areas directly west of City Hall and between Town Square, the River Center, and Repentance Park. It will involve the removal of harsh hardscapes, replacing them with a large shaded lawn that will partially close the gap between Galvez Stage and City

Hall Plaza over the underground parking area. The redesign allows for the Galvez Stage to be used from the north and south sides. The 2016 budget includes \$3.9 million for construction funded from the proceeds of the state sales tax rebate dedicated for riverfront development.

The East Baton Rouge Parish Library system has several ongoing projects. Abatement activities and demolition of the old River Center Branch has begun, with construction of the new building commencing immediately thereafter. A budget of \$19 million has been previously approved for this project that should take approximately two years to complete. Funding for major renovation and repurposing of the Jones Creek and Greenwell Springs Branches is included in the 2016 budget.

Long-Term Financial Planning

Sewer Improvement Program

The City-Parish entered into a consent decree with the United States Environmental Protection Agency (EPA) and the Louisiana Department of Environmental Quality (DEQ) relative to wastewater improvements in East Baton Rouge Parish on March 14, 2002. The consent decree requires the City-Parish to make various wastewater treatment plant and sanitary sewer infrastructure improvements in order to reduce sanitary sewer overflows in the sewer collection system and meet wastewater discharge permit requirements under wet weather conditions. The consent decree deadline for completing the Sewer Capital Improvements Program is December 31, 2018.

On July 10, 2007, EPA and DEQ formally approved the City-Parish's request to revise the original Remedial Measures Action Plan 2 (RMAP2) Sanitary Sewer Overflow Capital Improvements Program from a complex tunnel system with some rehabilitation and pump station upgrades to a program which emphasizes system-wide rehabilitation, conveyance and pumping upgrades and wet weather improvements to the South Wastewater Treatment Plant. This modified program will rely more on the rehabilitation of the sewer collection system, pump station and transmission improvements, the construction of a flow equalization basin at the South Wastewater Treatment Plant, and improvements to the South Wastewater Treatment Plant Facility.



With a customer base over 147,000, the Parish's sanitary sewer system serves a population of approximately 425,000. The system is extremely complex, consisting of 500 pump stations, 10.5 million feet of separate gravity and pressure sewer system pipes and three major treatment plants. Like many other cities, Baton Rouge has encountered many overflow problems with this aging system which has led to the inception of the Sanitary Sewer Overflow (SSO) Improvement Program. The SSO Improvement Plan is progressing at a steady pace. Seventy-three projects have been completed, twenty-five are under construction and twelve are under design. The approximate value of these projects, either completed, in the design phase, or under construction at the end of the first quarter of 2016 was \$1.6 billion.

A comprehensive financing model has been developed and is being utilized by the Departments of Finance and Environmental Services to manage the finances of the Sanitary Sewer Improvement Program. The first annual 4% sewer user fee increase was implemented on January 1, 2004. Annual 4% sewer user fee increases will continue to be levied throughout the life of this program. In order to mitigate additional increases in the sewer user fee, the City-Parish will continue to seek low interest loans, federal grants, and state grants. As of December 31, 2015, the City-Parish had appropriated over \$2 billion for sewer capital improvements, including funding from long-term bonds, impact fees, EPA grants, and pay-as-you-go funding. This \$2 billion represents all capital appropriations since the inception of the Comprehensive Sewerage System Enterprise Fund in 1985.

One-Half Percent Road and Street Improvement Program

On October 15, 2005, the citizens of East Baton Rouge Parish approved an extension of the current one-half percent (½%) sales and use tax for road and street improvements. The proposition offered to voters extended the so-called "pot-hole" tax for an additional 23 years until 2030, and allowed for 70% of the proceeds to be used for the construction of new roads, widening of existing roads, intersection and signalization improvements, as well as



other transportation improvements. In this new road construction program, called the “Green Light Plan”, the long-term issuance of debt was authorized, which over time will allow for an accelerated road construction schedule and alleviate the effects of inflation on project costs. As of December 31, 2015, twenty-one “Green Light” projects were in an “active” status ranging from corridor survey/design study through construction. The following projects were capitalized in 2015: Fairchild-Badley Road, Stumberg Lane Extension Phase 2, and Sullivan Road.

Through a referendum, voters dedicated 27% of the proceeds to the recurring road rehabilitation project, and 3% of the tax to the beautification and street enhancement projects. The road rehabilitation program functions with projects prioritized on a six-month basis. The beautification allocation includes projects such as new sidewalks, curb construction, repairs and improvements that meet the requirements of the Americans with Disabilities Act and landscaping. It is anticipated that approximately 500 miles of additional City-Parish streets and roads will be rehabilitated over a period of 20 years. Special attention will be given to projects which provide safe pedestrian routes to and from area schools and other public facilities.

It is estimated that over the 25-year period from January 1, 2006, through December 31, 2030, the tax will fund \$626 million in road improvement projects. The remainder of the tax will provide \$314 million for the rehabilitation and beautification components of the program.

AWARDS AND ACKNOWLEDGMENTS



The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Baton Rouge and Parish of East Baton Rouge for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2014. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report with contents conforming to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City-Parish has received this award each year for the 27-year period ending December 31, 2014. I believe our current report conforms to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for a certificate.

In addition, the City-Parish also received the GFOA's Award for Distinguished Budget Presentation for its annual operating budget prepared for the fiscal year covered by this Comprehensive Annual Financial Report. This was the twenty-fifth consecutive year that the department received this award. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications device.

The preparation of this report on a timely basis could not have been accomplished without the dedicated services of a highly qualified staff. I also acknowledge the thorough, professional, and timely manner in which the audit was conducted by our independent auditors, Postlethwaite & Netterville, APAC. We thank the Mayor-President and the Metropolitan Council for their support of excellence in financial reporting and fiscal integrity.

Respectfully submitted,



Marsha J. Hanlon
Finance Director