

**Consolidated Government City of Baton Rouge –
Parish of East Baton Rouge**

**Financial Impact Analysis
of the Proposed Incorporation of the
City of St. George**

September 17, 2018



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Marsha Hanlon, Finance Director
City of Baton Rouge – Parish of East Baton Rouge:

We have conducted an independent review for the purpose of providing the City of Baton Rouge-Parish of East Baton Rouge (the City-Parish) the estimated financial impact of the proposed creation of the City of St. George (St. George) will have on the consolidated government of the City-Parish's annual budget.

Background and Overview

The Consolidated Government of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana, is both a municipality (home rule charter) and a parish government (political subdivision of the State of Louisiana). The City of Baton Rouge is located wholly within the boundaries of the parish. The parish (approximately 472 square miles) is located in the southeastern portion of the State bordered by the Mississippi River on the west, approximately 80 miles northwest of New Orleans. The City-Parish is governed by a Mayor-President and 12 single-district Metropolitan Council members.

On March 2, 2018 a petition for incorporation was filed with the Louisiana Secretary of State for the incorporation of the City of St. George within the parish of East Baton Rouge, Louisiana in accordance with the LA. Revised Statutes, Title 33, Section 1, et seq. The petition included a legal description of the area proposed for incorporation, a map of the proposed area for incorporation and statement attesting that all the land in the proposed city was a contiguous area. In addition, the petition outlined areas of public service to be provided.

Public Safety, Sanitation and Garbage Collection, Sewerage, Emergency Medical Services, and 911 Communication Services are proposed to be provided by the East Baton Rouge Parish Sheriff's Office or various agencies or departments of the City-Parish. In our analysis, we have assumed that these services will be provided as enumerated in the petition. Funding for these services are generally provided by charges for services to the users and/or dedicated sales and property taxes for City-Parish agencies and departments. As a result, no reduction in revenues and expenditures would be required for the City-Parish. The Public Safety services would require a cooperative endeavor agreement with the East Baton Rouge Parish's Sheriff's Office; the agreement would not impact the revenues or expenditures of the City-Parish.

According to the petition, the following services could be provided by the City of St. George municipal staff or by contract: Planning and Zoning, Building Inspections, Traffic Signs and Signals, Maintenance and Improvement of Roads and Streets, Maintenance of Rights of Way,

Maintenance and Improvements to Drainage Systems, Regulation of Alcoholic Beverages, and Animal Control.

The analysis included in this report is based upon information provided by the City-Parish, various external reports regarding the creation of the proposed City of St. George, discussions with the management of the City-Parish, review of the statutory authority for the various sources of revenue of the City-Parish. The analysis focused primarily on the following:

- 2018 Budget Data for the City-Parish
- Impact on Revenue and Expense based on statutory requirements
- Impact on Revenue and Expense based on non-statutory requirements
- Impact on Revenue and Expense based on other matters
- Overall assessment of impact on the City-Parish

The City-Parish has adopted an annual budget for the year 2018 as shown below:

City of Baton Rouge-Parish of East Baton Rouge Annual Budget - Revenues by Fund Type <u>For the Year Ending December 31, 2018</u>		
<u>Fund Type</u>	2017 Budget Amount	2018 Budget Amount
General	\$316,950,510	\$319,171,950
Special Revenue	169,500,163	177,533,967
Debt Service	33,892,780	32,361,830
Capital Project	9,086,270	19,913,140
Enterprise	258,342,670	267,492,350
Internal Service	18,844,730	19,161,150
Pension Trust	105,391,350	106,539,570
Subtotal	912,008,473	942,173,957
Less: Transfers Between Funds	(13,959,940)	(23,320,340)
Grand Total	<u>\$898,048,533</u>	<u>\$918,853,617</u>

The summary 2018 annual budget by revenue and expenditure class is presented in Exhibit 1.

Analysis of Impact on Budget

Our analysis focused on identifying the funding sources which will result in the loss of revenues to the City-Parish. We reviewed the statutory, contractual, and legal authority for the collection revenues by funding authority. Our analysis disclosed the following:



- **General Fund** – The General Fund budgeted revenues total \$311,000,000, including total taxes of \$267,826,000, intergovernmental revenues of \$13,711,000, and charges for services of \$21,908,000. The General Fund includes all activities not include in other funds. The revenues sources can be classified in to the following categories: Constitutional, City only, Parish only, Parish wide. **Analysis of General Fund estimated revenues losses as a result of the incorporation St. George for the City-Parish total resulted in an estimated reduction of 2018 budgeted revenues of \$48,301,000.** Exhibit 2 presents a summary of the estimated revenue by major revenue and expenditure class.

Based on the analysis of the reduction in revenues, the City-Parish would be required to reduce services and expenditures by 45% of the General Fund budget expenditures less amounts required statutorily or legally or by ordinance and the public safety expenditures. Alternatively, the City-Parish would be required to increase taxes or service charges to balance the budget.

The analysis of the impact on the City-Parish expenditures performed on behalf of the Committee for the Incorporation the City of St. George indicated that the City of St. George would reimburse the City-Parish for certain constitutionally required services provided by the City-Parish. The reimbursement was based on the City of St. George’s estimated population to the total population of the City-Parish of 19.2% and 2016 actual expenditures. Based on the 2018 budgeted expenditures and the 22.35% of the City-Parish’s 2018 estimated population excluding Baker, Central, and Zachary, the estimated impact on the 2018 budgeted expenditures of \$37,971,000 for constitutionally provided services would be \$8,469,000. The adjusted required reduction in expenditures or increases in revenues would be 8.0% of the General Fund budget expenditures less amounts required statutorily or legally or by ordinance and the public safety expenditures. There is no constitutional requirement that the City of St. George make these payments.

- **Special Revenue Funds** - There are approximately 64 special revenue funds. The special revenue fund budgeted revenues of \$167,207,000 arise primarily from property and sales taxes, intergovernmental revenues, charges for services, fines and forfeits, and limited transfers in. The revenues in the funds are assumed to continue without adjustment due to the following: services will continue to be provided parish wide, the taxes were adopted parish wide, and/or charges are for specific services.
- **Debt Service Funds** – The revenues in the debt services funds totaling \$32,182,000 consist primarily of sales taxes dedicated to road construction and maintenance, general sales taxes, transfers from the general fund, and related interest and miscellaneous income. Based on the analysis the activities, revenues and expenditures would remain with the City-Parish.
- **Enterprise Funds** – There are 6 enterprise funds which provide parking, sewerage, convention, solid waste disposal, solid waste collection, and airport services. The total revenues totaled \$140,273,000. These activities are supported primarily by service charges and grants; \$45,935,000 in sales taxes is dedicated through a parish wide sales tax to support the comprehensive sewerage system. Parking, convention, solid waste disposal, and airport facilities are not located in St. George and will continue to be City-Parish owned and operated.

The Comprehensive Sewerage System and Waste Collection System provide services within boundaries of St. George. In addition, there are significant plant, property and equipment related to the Comprehensive Sewerage System within the St. George boundaries. It is assumed that these sewerage services and waste collection services will continue to be provide within the boundaries of the City St. George as enumerated in the petition; therefore, no amounts have been estimated for a reduction in the estimated 2018 budgeted revenues or expenses. Based on the analysis, all activities, revenues and expenditures would remain with the City-Parish.

- **Internal Service Funds** – There are 2 internal service funds. The funds are for fleet management central garage and fleet rental and replacement. These costs are charged to department users. Adjustments would be necessary to reflect reductions in the General Fund budget; however, all activities, revenues and expenditures would remain with the City-Parish.
- **Pension Trust** – There is one pension trust fund. Revenues of the fund are provided by charges to the other funds of the City-Parish and earnings on investments of the fund. City-Parish employees will continue with the City-Parish. Based on the analysis, all activities, revenues and expenditures of the would remain with the City-Parish.

The plan has significant unfunded liabilities which are discussed below.

- **Capital Improvement Programs** – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). Capital improvement funds for the City-Parish are financed through dedicated general sales and use taxes, bond issues, and operating transfers in from other funds. Based on the analysis, all activities, revenues and expenditures would remain with the City-Parish.

Impact on Benefit Plans

The City-Parish participates in defined benefit plans and another postemployment benefit plan (OPEB) as described below.

The City-Parish Employees' Retirement System regular trust (CPERS) is a cost-sharing multiple-employer defined benefit pension plan to provide benefits to any person who becomes a regular full-time employee of one of the member employers, except in the case of newly hired employees of certain participating employers who are mandated to enroll in a statewide retirement system.

The CPERS - Police Guarantee Trust (CPERS-PGT), is a single employer, defined benefit plan, which was established as part of the City-Parish Employees' Retirement System on February 26, 2000, as the result of the voluntary transfer of 637 public safety employees from CPERS to the Municipal Police Employees' Retirement System (MPERS).

The City-Parish contributes to the Municipal Police Employees' Retirement System (MPERS) Pension Plan, a cost sharing multiple-employer defined benefit pension plan established by Act 189 of 1973 to provide retirement, disability and survivor benefits to municipal police officers in Louisiana, administered by the MPERS Board of Trustees.

The City-Parish contributes to the Louisiana State Employees' Retirement System (LASERS) Pension Plan, a cost sharing multiple-employer defined benefit plan administered by the LASERS Board of Trustees. LASERS is a statewide public retirement system for the benefit of eligible state employees. All elected City Court Judges are participating members.

The City-Parish OPEB Plan is a single-employer defined. Retirees may continue personal health and dental insurance coverage in accordance with Parish Resolution 10179 adopted by the Parish Council on December 13, 1972 and amended by Metropolitan Council Resolution 42912 adopted November 12, 2003. Based on current practices, upon retirement, a totally vested employee may continue his coverage paying the same premiums and receiving the same benefits as active employees. The government pays a percentage of the scheduled premiums on employees hired after January 1, 2004.

All employees of the City-Parish are anticipated to continue as City-Parish employees. These plans have resulted in significant unfunded liabilities for earned benefits of current and retired employees of the City-Parish. Based on an allocation of the liabilities for the City of St. George's proportionate share, we estimate that the unfunded liabilities of the plans applicable to the City of St. George total \$101,858,000. Annual payments required to liquidate these liabilities range from \$8,414,000 to \$11.361,000.

The chart below details the calculation of the unfunded liabilities and the required annual payments to fund the unfunded liabilities.

Post Employment Unfunded Liabilities as of December 31, 2017	Governmental Funds
City-Parish Employees' Retirement System	\$ 609,209,201
Other Post-Employment Benefits	437,569,313
Total Post Employment Unfunded Liabilities	1,046,778,514
% of General Fund Revenue Reductions applicable to Post Employment Liabilities	9.73%
Proportionate Share for City of St. George	\$ 101,858,555
Annual Required Payment- 15 Amortization	\$ 11,360,800
Annual Required Payment-30 Amortization	\$ 8,415,500

Conclusion

Based on our analysis, the financial impact on the Consolidated Government of the City of Baton Rouge – Parish of East Baton Rouge of the incorporation of the City of St. George would have a **significant**



negative impact resulting in an estimated reduction of \$48,301,000 in general fund revenues as detailed in Exhibit 2. The City-Parish has a constitutional legal requirement for a balanced budget. The 2018 general fund budgeted expenditures is \$319,172,000. Constitutionally required services, and debt service expenditures total \$44,161,000. Public safety police and fire expenditures, City Court, and tax collection expenditures of \$168,673,000. **The reduction in revenues or increase in taxes and charges required to balance the budget is 45% of the remaining expenditures of \$106,338,000 as shown in Exhibit 2.**

In addition, the incorporation of the City of St. George would leave the City-Parish with \$101,859,000 for the City of St. George's proportionate share of the unfunded liabilities of the pension plans and other postemployment plans as shown in the previous section of this report.

We performed our services in accordance with the *Statement on Standards for Consulting Services* issued by the American Institute of Certified Public Accountants ("AICPA"). Such services do not constitute an audit, review, or any other attestation service as those services are defined in AICPA literature applicable to such engagements.

Yours Truly,

Richard CPAS

**Consolidated Government City of Baton Rouge - Parish of East Baton Rouge
Budget by Fund by Class of Revenue and Expenditure
For the Year Ending December 31, 2018**

Exhibit 1

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Insurance Reserve Funds	Enterprise Funds	Internal Service Funds	Pension Trust Funds	2018 Budget All Fund Types
SOURCES OF FUNDS									
General Property Tax	\$ 27,243	\$ 87,972	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115,215
Gross Receipts Business Tax	23,516	-	-	-	-	-	-	-	23,516
PEG Programming Access Fees	50	-	-	-	-	-	-	-	50
General Sales & Use Tax	187,340	20,352	26,468	6,141	-	45,735	-	-	286,036
General Sales & Use Tax- Audits	1,000	37	-	150	-	200	-	-	1,387
Occupancy Tax	1,313	-	-	-	-	-	-	-	1,313
Occupational License Taxes	11,214	-	-	-	-	-	-	-	11,214
Insurance Premiums Tax	4,343	-	-	-	-	-	-	-	4,343
Gaming Tax	10,280	-	-	-	-	-	-	-	10,280
Interest & Penalties-Del. Taxes	1,527	218	-	150	-	200	-	-	2,095
Total Taxes	267,826	108,579	26,468	6,441	-	46,135	-	-	455,449
Licenses & Permits	4,265	668	-	-	-	-	-	-	4,933
Intergovernmental Revenues	13,711	33,621	-	-	-	291	-	-	47,623
Charges for Services	21,908	20,037	-	-	-	155,131	-	-	197,076
Fines & Forfeits	1,608	565	-	-	-	2	-	-	2,175
Billing to Other Departments	-	-	-	-	-	-	19,589	-	19,589
Miscellaneous Revenues	1,298	495	971	100	-	1,570	56	76,036	80,526
Retirement Contributions	-	-	-	-	-	-	-	64,237	64,237
Other Financing Sources	405	4	-	-	-	6	259	-	674
Operating Transfers In	90	3,238	4,743	13,372	-	1,877	-	-	23,320
Non-Operating Revenues	-	-	-	-	-	13,600	-	-	13,600
TOTAL SOURCES	311,111	167,207	32,182	19,913	-	218,612	19,904	140,273	909,202
USE OF FUNDS									
Cost of Materials	-	-	-	-	-	-	7,734	-	7,734
Personal Services	149,604	49,341	-	-	-	19,947	1,926	835	221,653
Employee Benefits	86,887	25,696	-	-	-	10,905	1,261	407	125,156
Supplies	9,038	13,745	-	-	-	4,944	150	19	27,896
Contractual Services	64,134	53,733	-	-	-	84,670	4,814	373	207,724
Capital Outlay/Depreciation	-	1,732	-	19,913	-	72,073	3,276	6	97,000
Retirement Benefit Payments	-	-	-	-	-	-	-	104,900	104,900
Debt Service	-	17	32,362	-	-	73,501	-	-	105,880
Non-Recorded Grants/Other	-	18,798	-	-	-	1,452	-	-	20,250
Operating Transfers Out	9,509	14,472	-	-	-	-	-	-	23,981
TOTAL USES	319,172	177,534	32,362	19,913	-	267,492	19,161	106,540	942,174
SOURCES OVER (UNDER)	(8,061)	(10,327)	(180)	-	-	(48,880)	743	33,733	(32,972)
BALANCES, JANUARY 1	43,001	106,932	10,462	50	38,284	703,238	24,951	1,106,845	2,033,763
ADJUSTMENTS	-	-	-	(50)	-	(7,225)	-	-	(7,275)
BALANCES, DECEMBER 31	\$ 34,940	\$ 96,605	\$ 10,282	\$ -	\$ 38,284	\$ 647,133	\$ 25,694	\$ 1,140,578	\$ 1,993,516
TOTAL USE OF FUNDS INCLUDING OPERATING TRANSFERS BETWEEN FUNDS FROM ABOVE									\$ 942,174
LESS: OPERATING TRANSFERS IN (These are excluded so as not to overstate total City-Parish spending.)									\$ (23,320)
TOTAL USE OF FUNDS EXCLUDING OPERATING TRANSFERS BETWEEN FUNDS									\$ 918,854

**Consolidated Government City of Baton Rouge - Parish of East Baton Rouge
General Fund Adjusted Budget
Year Ended December 31, 2018**

EXHIBIT 2

2018	ADOPTED BUDGET	ADJUSTMENTS	REVISED BUDGET
(Dollars in \$000)			
<u>GENERAL FUND SOURCES OF FUNDS:</u>			
General Property Tax	\$ 27,243	\$ -	\$ 27,243
Gross Receipts Business Tax	23,516	(1,360)	22,156 (1)
PEG Programming Access Fees	50		50
General Sales & Use Tax	187,340	(42,225)	145,115 (2)
General Sales & Use Tax- Audits	1,000		1,000
Occupancy Tax	1,313		1,313
Occupational License Taxes	11,214	(2,983)	8,231 (3)
Insurance Premiums Tax	4,343	(589)	3,754 (4)
Gaming Tax	10,280		10,280
Interest & Penalties-Del. Taxes	1,527		1,527
Total Taxes	267,826	(47,157)	220,669
Licenses & Permits	4,265	(839)	3,426 (5)
Intergovernmental Revenues	13,711	(519)	13,192 (6)
Charges for Services	21,908	254	22,162 (7)
Fines & Forfeits	1,608	(13)	1,595 (8)
Billing to Other Departments	-		-
Miscellaneous Revenues	1,298	(27)	1,271 (9)
Retirement Contributions	-		-
Other Financing Sources	405	-	405
Operating Transfers In	90	-	90
Non-Operating Revenues	-		-
Deficit funded by Fund Balance	8,061		8,061
TOTAL SOURCES	\$ 319,172	\$ (48,301)	\$ 270,871
<u>GENERAL FUND USE OF FUNDS:</u>			
<u>Required Expenditures</u>			
Constitutionally/Plan of Govt. Mandated Expenses for Parish	\$ 37,979		
Debt Service	4,743		
Local Ordinance Requirement for Parish	1,151		
Plan of Government Agreements with Other Municipalities	288		
	44,161	-	
<u>Expenditures with Limited Ability to Reduce</u>			
City of Baton Rouge Court System	13,705		
Tax Collection Offices for Parish	4,809		
Public Safety (Primarily Police and Fire for Baton Rouge)	150,159		
	168,673	-	
<u>Remaining Expenditures</u>			
Support Services for the Consolidated Government	36,153		
Entities Providing Health Culture and Economic Development	12,860		
Maintenance of Public Infrastructure	57,325		
	106,338	48,301	45% (a)
TOTAL USES	\$ 319,172	-	
Total Limited and Remaining Expenditures	\$ 275,011	\$ 48,301	18% (b)

(a) - Required percentage reduction in Remaining Expenditures portion of the Budget

(b) - Required percentage reduction in Limited Ability and Remaining Expenditure portions of the Budgets Combined

Consolidated Government City of Baton Rouge - Parish of East Baton Rouge
General Fund Adjusted Budget
Year Ended December 31, 2018

EXHIBIT 2

- (1) Gross Receipts Tax - Allocation of the taxes collected based on the population within the boundaries within the proposed City of St. George to the total population of East Baton Rouge Parish
- (2) General Sales and Use Taxes - Allocation of the 2% parish sales tax collections based on specific identification taxpayers located in the boundaries of the propose City of St. George adjusted for estimated collections on deliveries within the boundaries.
- (3) Occupational License Taxes - Allocation based on specific identification of taxpayers located within the boundaries of the proposed City of St. George.
- (4) Insurance Premium Tax - Allocation of the insurance premiums taxes collected in it he unincorporated area of East Baton Rouge Parish based on population of the population within the boundaries of the propose City of St. George total population of the unincorporated area of East Baton Rouge Parish
- (5) - (9) Remaining Revenues - Allocation of remaining revenues based on the following:
 - Revenues identified with the services provided by the City of Baton Rouge; not allocable to the proposed City of St. George.
 - Revenues identified with parish wide constitutional activities; not allocable to the proposed City St. George.
 - Revenues identified with parish wide activities; allocated based on the population within the boundaries of the proposed City of St. George to the total population of the Parish of East Baton Rouge.

Consolidated Government City of Baton Rouge - Parish of East Baton Rouge
Primary Data Sources
August 28, 2018

EXHIBIT 3

<u>Description</u>	<u>Date</u>
City of Baton Rouge - Parish of East Baton Rouge - Annual Operating Budget	Year Beginning January 1, 2018
City of Baton Rouge - Parish of East Baton Rouge - Comprehensive Annual Financial Statements	Year Ended December 31, 2017
City of Baton Rouge - Parish of East Baton Rouge Revenue Facts	2012- 2016, 2017 (draft)
An Examination of Revenues and Expenditures for the Proposed City of St. George by James A. Richardson and Jared J. Llorens	2018
Committee for the Incorporation of the St. George, Louisiana by CRI Carr Riggs & Ingram	January 3, 2018
Committee for the Incorporation of the St. George, Louisiana by CRI Carr Riggs & Ingram	12-May-15