



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, 2019. 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, 2019, 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's 2 CFR 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*. 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
➤ Capitol House Economic Development District	Blended Component Unit
➤ Lafayette-Main Economic Development District	Blended Component Unit
➤ Third-Florida Economic Development District	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 d/b/a Build Baton Rouge	Discrete Component Unit
➤ Cyntreniks Group/King Hotel Special Taxing District	Discrete Component Unit
➤ Bluebonnet Convention Hotel Taxing District	Discrete Component Unit
➤ EBRATS Building Special Taxing District	Discrete Component Unit
➤ Old LNB Building Redevelopment Taxing District	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 and/or contracts prior to their release to vendors. Purchase orders and contracts 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-15 through A-17. For other governmental funds, the annual budget comparison is presented in the Combining and Individual Fund Statements and Schedules, Exhibits B-3 through B-37.

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 evaluation 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.

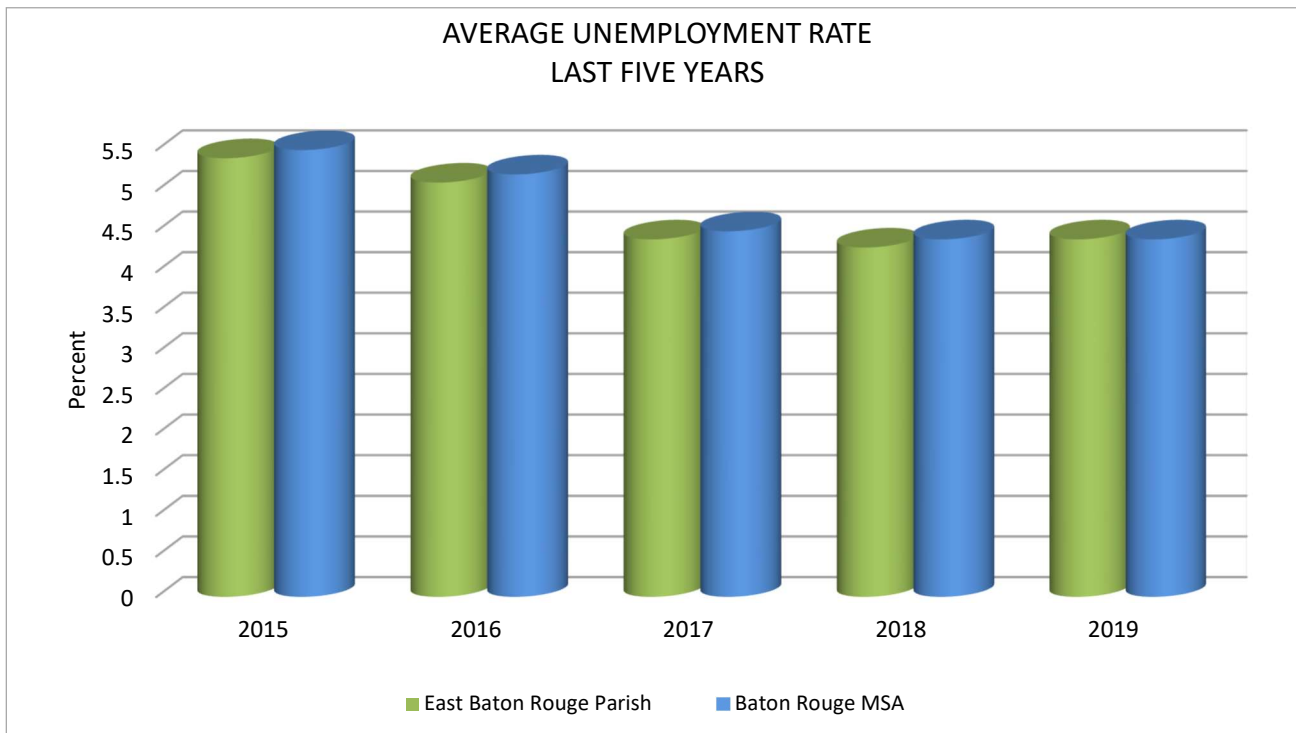


A number of significant companies engaged in oil refining, petrochemical processing, and paper towel and bath tissue manufacturing are found in the industrial corridor along the Mississippi River near Baton Rouge. These industries are major employers of Baton Rouge's labor force. Other important industries 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 increased 0.1% in East Baton Rouge Parish and remained the same in the Baton Rouge MSA in 2019, as reflected in the following chart:

	<u>% in East Baton Rouge Parish</u>	<u>% in Baton Rouge MSA ⁽¹⁾</u>
2015	5.4	5.5
2016	5.2	5.2
2017	4.4	4.5
2018	4.3	4.4
2019	4.4	4.4

⁽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 2020 and 2021 for our region. In September 2019, 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 his predictions of economic growth in East Baton Rouge Parish and the Baton Rouge MSA for 2020-2021. It should be noted that these predications are based on pre COVID-19 assumptions. The full effect of the pandemic on the City-Parish’s economy is not yet known.

“The lull in industrial projects in the Baton Rouge MSA should be in the rearview mirror going forward. Big projects will provide a major kick to the industrial construction sector, while several significant public projects—including the Comite Diversion Canal and widening of I-10 will boost public construction... We are projecting 5,700 new jobs (+1.4%) in 2020 and 6,000 (+1.4%) in 2021 for the Baton Rouge MSA...There are several major projects in this MSA region that are still under construction. They include:

- *In early 2020, Formosa Plastics will begin a \$332 million expansion of its PVC production plant in Baton Rouge. The expansion will create 15 new jobs paying an average of \$77,667.*

- *Epic Piping will be spending \$40 million on expansion of its manufacturing facilities and an administration building. The latter will be in Baton Rouge, but it is unclear where the manufacturing expansion will take place.*
- *Stupp Piping in Baton Rouge will spend \$22 million to expand its yard and add 217 jobs paying \$60,567.*

Private industrial construction will not be the only spark to this MSA's economy over the next two years. There are several unusually large public construction projects that will be generating jobs as well.

- *\$1.4 Billion had been awarded to the area for two key projects. The first is \$343 million to help complete the Comite River Diversion Canal. The total cost of this project is \$450 million, with the balance to be covered by taxes assessed by the Amite River Basin Commission. Completion of the canal will take 3-4 years. Another \$255 million has been provided for clearing, widening, and dredging Parish waterways, a project that will take about 5 years. Another \$1.2 billion has been provided for flood resiliency protection. These dollars will be spread over 5 years... The Hazard Mitigation Grant Program is providing \$300 million in the Capital Region to elevate homes, buy homes, and tear down some homes and to implement flood control measures. This program is underway.*
- *The Baton Rouge MSA has been awarded \$583 million in state road lettings from the state (double the \$276 million last year). Among the projects covered:*
 - *\$256.2 million on a pedestrian/bike path along Ward's Creek;*
 - *\$38.3 million for a College Drive flyover at the I-10/I-12 split; and*
 - *\$12.4 million to widen LA30 from West Chimes to South Boulevard.*
- *Some \$360 million has been set aside via GARVEE bonding to widen I-10 from the Mississippi River Bridge to the I-10/I-12 split.*
- *Voters have approved \$400 million in new school construction in East Baton Rouge Parish*
- *The MOVEBR program is a \$1.1 billion program to improve roads, ditches, lights, and landscaping in the Parish.*

Baton Rouge experienced modest revenue growth in 2019. General sales and use tax (2%) collections for General Fund operations and debt service dedications of the City and Parish combined were \$196.3 million, net of Tax Increment Financing District adjustments, an increase of \$4.0 million over 2018 revenues, a 2.10% increase. Sales tax collections for the ½ cent sewerage tax and the ½ cent road and street improvement tax both increased by 0.61% and 0.68%, respectively, during fiscal year 2019. During its first year of collections, the MOVEBR ½ cent road and street improvement tax collections totaled \$34.9 million from April through December.

World-wide Pandemic - COVID-19

The world-wide pandemic associated with COVID-19, a respiratory illness caused by a novel strain of the coronavirus ("COVID-19"), has spread across the state of Louisiana, including East Baton Rouge Parish. As with many areas in the United States and the world, COVID-19 has had an impact on the operations of the Parish and on certain businesses within the Parish. The continued spread of COVID-19 and the stay-at-home and social distancing orders of Federal, State and Local government authorities will have a negative impact on the economy as a whole and on the sales tax revenues of the City-Parish. With respect to the current fiscal year, the City-Parish anticipates some impact to sales tax revenue. While working with local economists, the City-Parish Finance Department anticipates a General Fund revenue shortfall of approximately \$23 million for 2020. While working with local economists, the City-Parish Finance Department currently anticipates a General Fund revenue shortfall of approximately \$23 million for 2020. Although this estimate is based on the current situation, the full extent of the financial impact is unknown given the evolving nature of the spread of COVID-19 and the responses of governments, businesses and individuals. Through the combination of strong financial policies on maintaining reserves at prudent levels, applying for Federal and State reimbursements for COVID-19 expenses, instituting a hiring freeze, and reductions in operational costs due to efficiencies, the City-Parish expects to maintain a balanced budget for 2020.

Major Initiatives in 2019



An \$18.1 million renovation of the River Center Theatre began in the winter of 2019 and will include upgrades to the surrounding site and Mestrovic Court. A drop-off lane on the east side of the theatre/court area will be included as part of the renovations to increase visitor access. In addition, ADA accessible ramps will be constructed to increase accessibility from the street to the River Center Theater and City Hall. Upgrades to Mestrovic Court are also expected as part of this project. The renovation is expected to be complete in the beginning of 2021.

The East Baton Rouge Parish Library system has several ongoing projects. The River Center Branch Library construction is nearing completion and the building should be open to patrons soon. Planning continues for the South Baton Rouge Branch Library. A site has been selected and design/engineering cost were included in the 2020 Budget. Negotiations with an architectural firm are underway and the design phase should begin before the end of 2020. Major renovations are taking place at several locations. Construction began in August 2018 on the Greenwell Springs Branch and is nearing completion. The Jones Creek Branch construction began in July 2019; it is estimated to take 18 months to complete. A roof replacement and HVAC system upgrades are underway at the Outreach Services building, which will be used as a Disaster Recovery site in the future.

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 City-Parish was able to comply with consent decree requirement for the Sewer Capital Improvements Program projects to be substantially complete by 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 and the construction of a flow equalization basin, and other improvements at the South Wastewater Treatment Plant Facility.



With a customer base of over 151,000, the Parish's sanitary sewer system serves a population of approximately 425,000. The system is extremely complex, consisting of over 500 pump stations, 10.5 million feet of separate gravity and pressure sewer system pipes and two major treatment plants. Like many other cities, Baton Rouge has encountered overflow problems with this aging system which has led to the inception of the Sanitary Sewer Overflow (SSO) Improvement Program. The SSO Improvement Plan had 115 projects and all were functionally complete on December 31, 2018 and the final closeout of these projects was completed in 2019. The value of these projects, as of the end of 2019 was \$1.66 billion. The City-Parish has moved into the compliance phase of the consent decree with measures how successful the RMAP2 program is in reducing SSO's and meeting discharge permit requirements at the two wastewater treatment plants for twelve consecutive months following the completion of the RMAP2 projects.

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. As of December 31, 2019, the City-Parish had appropriated over \$2.6 billion for sewer capital improvements, including funding from long-term bonds, impact fees, EPA grants, and pay-as-you-go funding. This \$2.6 billion represents all capital appropriations since the inception of the Comprehensive Sewerage System Enterprise Fund in 1985.

Road and Street Improvement Programs

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 extended the tax until 2030, and allowed for 70% of the proceeds to be used for transportation improvements, 27% for recurring road rehabilitation projects, and 3% for beautification and street enhancement. The construction program, called the “Green Light Plan”, authorized the long-term issuance of debt, which has allowed for an accelerated road construction schedule and helped to alleviate the effects of inflation on project costs.

It is estimated that over the 25-year period from January 1, 2006, through December 31, 2030, the tax will fund \$620 million in road improvement projects. The remainder of the tax will provide \$313 million for the rehabilitation and beautification components of the program.

An additional ½ cent sales tax proposition was approved by the voters of East Baton Rouge Parish on December 8, 2018. The tax went into effect on April 1, 2019 and continues for 30 years until March 31, 2049. The MOVEBR Infrastructure Enhancement and Traffic Mitigation Plan is the most significant transportation infrastructure investment in East Baton Rouge Parish history.

On December 4, 2019, the Metropolitan Council approved \$151 million in bond proceeds for Road and Street Improvement Sales Tax Revenue Bonds and appropriated the first phase of debt proceeds on the MOVEBR Infrastructure Enhancement and Traffic Mitigation Plan. Additional information on the bond issuance can be found in Note 10 of the Notes to Financial the Statements.

In the 30 year collection period, it is estimated the tax along with the remaining pay-as-you-go portion from the “Green Light” plan will fund \$912 million in infrastructure and traffic enhancement projects for the MOVEBR program. Approved projects consist of four categories: new capacity improvements, improving existing corridors, constructing community enhancement road projects, and parishwide signalization/synchronization. New capacity improvements with proposed funding of \$636.2 million, represent roadways where additional lane capacity will be constructed. One hundred seventy million is proposed for improving existing corridors, such as resurfacing, signal synchronization and ADA compliance features. Community enhancement road projects include repairs, enclosing drainage ditches and adding lighting, curbs, sidewalks or landscaping. These projects have proposed funding in the amount of \$65.8 million. The remaining \$40 million of the tax will provide for parishwide signalization and synchronization.

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, 2018. 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 31-year period ending December 31, 2018. 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. 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 timely preparation of this report was extremely challenging this year due to the social distancing requirements necessitated by COVID-19, and could not have been accomplished without the services of a highly qualified and dedicated 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,



Linda Hunt
Finance Director