

**Committee for the
Incorporation of St. George, LLC**

January 3, 2018



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

Members of the Committee:

We were engaged on October 30, 2017 by the Committee for the Incorporation of St. George, LLC (“Committee”) to prepare an update through December 31, 2016 to our report dated May 12, 2015 on the estimated Operating Budget for the proposed City of St. George, Louisiana (“City of St. George”) and the estimated financial impact to the Consolidated Government of the City of Baton Rouge, Louisiana (“City of Baton Rouge”) and Parish of East Baton Rouge (“East Baton Rouge Parish”).

We have also included as Exhibit 1 the per capita expenditures of selected southern cities of similar population size.

Our conclusions are summarized on page 9 of this report.

Overview

The area which would be incorporated as the City of St. George is located in an unincorporated area of East Baton Rouge Parish. According to our discussions with Committee members, the City of St. George intends to utilize, and pay for, certain services offered by East Baton Rouge Parish, similar to the cities of Baker, Zachary, and Central. The services not contracted for with East Baton Rouge Parish will have to be provided by the City of St. George or privatized. For those services not contracted by the City of St. George, East Baton Rouge Parish can reduce its workforce over the incorporation transition period, which is expected to take two to three years, through normal employee 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 in order to mitigate the impact to its budget.

The City of St. George is estimated to have a population of approximately 86,000 residents (5th largest incorporated city in the State of Louisiana).

Fire protection will be provided by the St. George Fire Department, which already collects a dedicated millage from the residents of the City of St. George. Police protection will be provided by the East Baton Rouge Sheriff’s Office, which is already funded by dedicated taxes that residents of the City of St. George will continue to pay. Sewer and garbage pick-up services are already funded by Parish-wide dedicated taxes. All such dedicated taxes will continue to fund the agencies and services in accordance with the original tax dedication. 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 located in the City of St. George or it will privatize such services. Given the amount and nature of dedicated taxes, our analysis focused on the general (undedicated) operations (i.e., General Fund) of the City of St. George and the Consolidated Government of the City of Baton Rouge and East Baton Rouge Parish (“Consolidated Baton Rouge Government”).

Once incorporated, the Governor of the State of Louisiana will appoint a Mayor and a five-member Council to govern the City of St. George. 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 of the Consolidated Baton Rouge Government, which includes audited financial statements for the year ended December 31, 2016. Other sources used in our analysis include demographic data and the audited Comprehensive Annual Financial Reports of the Consolidated Baton Rouge Government.
- B. The population of the City of St. George is assumed to be approximately 86,000. The population of the City of Baton Rouge is approximately 227,715 as of the most recent available data. The population of the unincorporated areas of East Baton Rouge Parish (including the City of St. George and excluding the cities of Baton Rouge, Baker, Central, and Zachary) is approximately 160,405. Total population of East Baton Rouge Parish is approximately 447,037. As such, the City of St. George would represent approximately 53.6% of all unincorporated areas of East Baton Rouge Parish and 19.2% of the entire Parish (including the cities of Baton Rouge, Baker, Central, and Zachary).
- C. The Committee proposes to continue to fund “Constitutional” offices, such as the District Attorney, Courts, Coroner, and certain other Parish-wide functions, at 19.2% (based on their percentage of the Parish population) of current expenditures. Any agreement concerning the costs to fund “Constitutional” offices would have to be negotiated and would likely involve a Cooperative Endeavor Agreement between the governments.
- D. 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’s Office would continue to be paid by the residents of the City of St. George. As a result, such services and related expenditures are not included in this analysis.

CITY OF ST. GEORGE
PROPOSED REVENUES BUDGET
YEAR 1

Budgeted Revenues		<u>Notes</u>
Sales Tax	\$ 53,300,000	a
Occupational License Taxes	2,108,000	b
Gross Receipts Business Taxes	1,056,000	c
Other Business Taxes	936,000	d
Licenses and Permits	754,000	e
Other Taxes	204,000	f
Interest Income	41,000	g
Total Budgeted Revenues	<u><u>\$ 58,399,000</u></u>	h
Total Budgeted Revenues	\$ 58,399,000	(above)
Total Budgeted Expenditures	<u>(33,911,000)</u>	(p. 4)
Total Budgeted Surplus	<u><u>\$ 24,488,000</u></u>	

See attached Notes to Budget beginning on page 5.

CITY OF ST. GEORGE
PROPOSED EXPENDITURES BUDGET
YEAR 1

Budgeted Expenditures

		<u>Notes</u>
Legislative		
City Council	\$ 450,000	i
Parish Attorney	1,417,000	j
Other	1,250,000	k
Constitutional		
Courts	1,943,000	l
Correctional	2,064,000	l
District Attorney	1,283,000	l
Coroner	532,000	l
Other	207,000	l
Mayor/Administration		
Mayor & Administration	300,000	m
Finance	1,500,000	n
Other	1,750,000	o
Other Expenditures		
EMS-Prison Medical Services	895,000	p
Juvenile Services	937,000	p
Mayor's Office of Homeland Security & Emergency Prep.	123,000	p
Department of Transportation & Drainage	2,247,000	q
Department of Development	1,366,000	q
Office of Business Ops. & Capital Programs	464,000	q
Department of Maintenance	3,822,000	q
Department of Buildings & Grounds	2,028,000	q
Outside Agencies	979,000	q
Downtown Development District	27,000	q
Animal Control and Rescue Center	327,000	q
Discretionary Expenditure		
Additional Police Protection (to be negotiated with Sheriff's Office)	4,000,000	r
Total Expenditures, excluding Legacy/Retirement Costs	<u>29,911,000</u>	
Legacy/Retirement Costs	<u>4,000,000</u>	s
Total Budgeted Expenditures	<u><u>\$ 33,911,000</u></u>	t

See attached Notes to Budget beginning on page 5.

Notes to the General Fund Budget for the City of St. George

- a. Sales taxes are the most significant revenue source for the City of St. George. Total sales tax collections in the unincorporated areas of East Baton Rouge Parish for the year 2016 totaled approximately \$86.7 million. This amount was reduced by \$4.0 million to account for the June 2017 annexation of Siegen Marketplace by the City of Baton Rouge, and \$14.0 million for industrial areas that would not be included in the City of St. George. Total sales tax collections in the unincorporated areas of East Baton Rouge Parish were further reduced by \$2.0 million to normalize for the increased collections in late 2016 related to the August 2016 flooding, resulting in total sales tax collections, net of reductions, of approximately \$66.7 million. Based on population (53.6% of the unincorporated areas of East Baton Rouge Parish), the retail activity in the City of St. George compared to the rest of unincorporated East Baton Rouge Parish, a reasonable and conservative estimate of the percentage of these sales taxes that would remain in the City of St. George is 80.0%. This results in approximately \$53.3 million (80% of \$66.7 million) in sales taxes to the City of St. George for budgetary purposes.
- b. The City of St. George represents approximately 19.2% of the population of East Baton Rouge Parish. Therefore, this amount was estimated by multiplying the 2016 Occupational License taxes for the Consolidated Baton Rouge Government by 19.2%.
- c. Gross Receipts Business taxes are primarily telephone and cable television fees. As a result, we utilized the percentage of the population of the City of St. George to the population of East Baton Rouge Parish (19.2%) as the multiplier to 2016 amounts.
- d. 19.2% of Sales and Use Tax-Audit collections, Insurance Premium taxes, and other business taxes of the Consolidated Baton Rouge Government. A significant exclusion from revenues in this budget line item was gaming taxes as no gaming facilities are located in the City of St. George.
- e. Amounts in specific categories of licenses and permits for East Baton Rouge Parish were multiplied by 19.2%. Categories used include licenses and permits for Air Conditioning and Heating, Electrical, Plumbing, Liquor, Restaurant, Buildings, and other related items.
- f. Other Taxes includes Beer taxes and Severance taxes, which are assumed at 19.2% of the 2016 amounts.
- g. Interest Income is based on earnings from estimated cash on hand.
- h. Certain categories of General Fund revenues for the Consolidated Baton Rouge Government were omitted from the City of St. George, including General Property taxes and taxes and fees dedicated to Constitutional Offices for the City 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 19.2% (based on their percentage of Parish population) of the total current expenditures of Constitutional and Parish-wide offices, such as the Parish Attorney.

Notes to the General Fund Budget for the City of St. George (continued)

- k. Other Legislative budgeted expenditures include 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 19.2% of the total current expenditures of Constitutional and Parish-wide offices.
- m. As with the Council (Legislative), the Committee envisions the executive branch as minimal. This amount is considered to be conservative based on the estimated size of the City of St. George's government.
- n. Due to the estimated size of the City of St. George's government, this function will be less costly than for other municipal governments. This budgeted amount represents about 16.6% of the Consolidated Baton Rouge Government's expenditures and is considered conservative based on the estimated size of the City of St. George's government.
- o. Other Constitutional budgeted expenditures include Purchasing, Human Resources, Information Services, and Risk Management. These amounts are considered conservative estimates in terms of the size and scope of the anticipated municipal government and are based on similarly-sized cities.
- p. These expenditures are similar to the Constitutional offices' expenditures and, as such, the Committee is proposing to fund these at 19.2% of total current expenditures.
- q. These are all Parish-wide services and, therefore, the expenditures are allocated based on population (the City of St. George's population is approximately 19.2% of East Baton Rouge Parish's population).
- r. The Committee plans to negotiate an agreement for additional substations and/or police presence with the East Baton Rouge Sheriff's Office. This would only be an expenditure to the City of St. George if such an agreement is finalized.
- s. Legacy/Retirement Costs would be paid directly to the City of Baton Rouge to cover ongoing 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 relates to Police and Fire and, therefore, would not carry forward to the City of 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 the City of St. George as the obligations exist based on services already provided by Parish employees.
- t. Total budgeted expenditures for the City of St. George are considered reasonable based upon expenditures of other similarly-sized cities as set forth in Exhibit 1 to this report.

Potential Effects on the Consolidated Baton Rouge Government General Fund

	St. George Budget	Effect Positive/(Negative)	2016 Actual	Adjusted 2016 Actual	Notes
REVENUES					
Total Budgeted Revenues	\$ 58,399,000	\$ (58,399,000)	\$ 318,010,560	\$ 259,611,560	a
EXPENDITURES					
Legislative					
City Council	450,000	-	3,549,220	3,549,220	b
Parish Attorney	1,417,000	1,417,000	7,380,200	5,963,200	c
Other	1,250,000	330,000	3,333,430	3,003,430	d
Judicial - City Court	-	-	12,143,910	12,143,910	e
Constitutional					
Courts	1,943,000	1,943,000	10,120,480	8,177,480	c
Correctional	2,064,000	2,064,000	10,750,700	8,686,700	c
District Attorney	1,283,000	1,283,000	6,680,290	5,397,290	c
Coroner	532,000	532,000	2,773,120	2,241,120	c
Other	207,000	207,000	1,078,210	871,210	c
Mayor/Administration					
Mayor & Administration	300,000	-	2,713,170	2,713,170	b
Finance	1,500,000	1,737,000	11,914,330	10,177,330	f
Other	1,750,000	2,798,000	14,574,960	11,776,960	f
Other Expenditures					
Police Department	-	-	87,372,710	87,372,710	e
Fire Department	-	-	49,899,950	49,899,950	e
Civil Service/Human Development	-	-	740,520	740,520	e
EMS-Prison Medical Services	895,000	895,000	4,663,350	3,768,350	c
Juvenile Services	937,000	937,000	4,880,670	3,943,670	c
Mayor's Office of Homeland Security	123,000	123,000	642,060	519,060	c
Department of Transportation & Drainage	2,247,000	2,247,000	11,705,540	9,458,540	g
Department of Development	1,366,000	1,366,000	7,114,940	5,748,940	g
Office of Business Ops. & Capital Programs	464,000	464,000	2,418,800	1,954,800	g
Department of Maintenance	3,822,000	3,822,000	19,905,960	16,083,960	g
Department of Buildings & Grounds	2,028,000	2,028,000	10,561,690	8,533,690	g
Outside Agencies	979,000	979,000	5,100,500	4,121,500	g
Non-Departmental Budgets	-	-	1,624,640	1,624,640	e
Downtown Development District	27,000	27,000	142,500	115,500	g
Animal Control and Rescue Center	327,000	327,000	1,704,780	1,377,780	g
Limited Tax Bonds, Capital Improvement, etc.	-	-	17,722,470	17,722,470	e
Prior Year Expenditures (encumbrances)	-	-	6,741,850	6,741,850	e
Additional Police Protection (discretionary)	4,000,000	-	-	-	h
Total Expenditures, excluding Legacy/Retirement Costs	29,911,000	25,526,000	319,954,950	294,428,950	
Legacy/Retirement Costs	4,000,000	4,000,000	-	(4,000,000)	i
Total Budgeted Expenditures	\$ 33,911,000	\$ 29,526,000	\$ 319,954,950	\$ 290,428,950	
Budgeted Surplus/(Deficit)	\$ 24,488,000	\$ (28,873,000)	\$ (1,944,390)	\$ (30,817,390)	

See attached Notes to Budget on page 8.

Notes to the General Fund Budget for the Consolidated Baton Rouge Government

- a. Revenues for the City of St. George result in a dollar-for-dollar reduction to revenues for the Consolidated Baton Rouge Government. The only possible exception noted was interest income, which is not considered significant to our analysis.
- b. These expenditures are duplicative in nature and result in no reduction to Consolidated Baton Rouge Government expenditures.
- c. These expenditures are for “Constitutional” and other Parish-wide services that are assumed to benefit all citizens equally. The Committee has proposed to fund constitutional services at 19.2% (based on their percentage of the Parish population) of current expenditures.
- d. This budget item includes items which are not considered the responsibility of the City of St. George’s residents, such as Community Centers and the City Prosecutor, as well as Public Information and Planning. Public Information and Planning are estimated to reduce the Consolidated Baton Rouge Government’s budget, but not dollar-for-dollar. The assumption is that savings to the Consolidated Baton Rouge Government would be 19.2%.
- e. These line items are the sole responsibility of the City of Baton Rouge and, as such, were excluded from the City of St. George’s budget.
- f. These line items are primarily amounts which would create savings to the Consolidated Baton Rouge Government, but not on a dollar-for-dollar basis. A savings of 19.2% 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 Consolidated Baton Rouge Government expenditures on a dollar-for-dollar basis.
- h. The Committee plans to negotiate an agreement for additional substations and/or police presence with the East Baton Rouge Sheriff’s Office. This would not have any financial effect on the Consolidated Baton Rouge Government’s budget.
- i. Legacy/Retirement Costs would be paid directly to the City of Baton Rouge to cover ongoing 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 relates to Police and Fire and, therefore, would not carry forward to the City of 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 the City of St. George as the obligations exist based on services already provided by Parish employees.

Conclusions

A. City of St. George

Based on our assumptions included in the preceding analysis, the City of St. George would be financially viable with an estimated General Fund budget surplus in year 1 of \$24.5 million (42% of Budgeted General Fund Revenues). First year revenues are budgeted at \$58.4 million, and expenditures are budgeted at \$33.9 million, including \$4.0 million of discretionary additional police expenditures.

B. Consolidated Baton Rouge Government

The incorporation of the City of St. George would result in a manageable General Fund operating deficit of \$28.9 million (or 9% of General Fund revenues) to the Consolidated Baton Rouge Government's General Fund budget. 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.

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

City Budget Comparison Per Capita Spending

The City Parish is divided into numerous taxing districts that provide traditional municipal services such as Police and Fire Protection. Because of that, residents of the City of St George are already paying for the following governmental services that would not be included in the City budget: Fire Protection (St George Fire), Police Protection (EBRSO), Libraries, Recreation (BREC), EMS (EBREMS), and Mosquito Abatement. The below expenditures were found in the latest available operating budgets for the respective cities. In order to accurately compares expenditures of the below listed Cities to the future expenditures of the City of St. George, expenditures that would not be in the St. George budget have been removed.

	Population	Expenditures	Per Capita
<u>Wilmington, North Carolina</u>	75,000	\$ 61,780,280	\$ 823.74
<u>Tuscaloosa, Alabama</u>	77,000	\$ 51,253,299	\$ 665.63
<u>Gulfport, Mississippi</u>	71,000	\$ 28,286,152	\$ 398.40
<u>Sugarland, Texas</u>	83,000	\$ 39,643,967	\$ 477.64
<u>Johns Creek, Georgia</u>	82,000	\$ 19,144,519	\$ 233.47
<u>Fayetteville, Arkansas</u>	78,000	\$ 14,458,816	\$ 185.37
<u>Lake Charles, Louisiana</u>	71,000	\$ 31,560,000	\$ 444.51
<u>Kenner, Louisiana</u>	70,000	\$ 33,671,426	\$ 481.02
<u>St. George, Louisiana (Est.)</u>	86,000	\$ 33,911,000	\$ 394.31

Average Per Capita Expenditures (excluding City of St. George): \$ 460.95