

A REVIEW OF FINANCES FOR THE PROPOSED CITY OF ST. GEORGE

DECEMBER 2014 / FAULK & WINKLER LLC, CERTIFIED PUBLIC ACCOUNTANTS

*Baton Rouge  
Area Foundation*





December 18, 2014

Mr. John Davies, President  
 Baton Rouge Area Foundation  
 Baton Rouge, Louisiana

Mr. Adam Knapp, President & CEO  
 Baton Rouge Area Chamber  
 Baton Rouge, Louisiana

Gentlemen:

We have been engaged to review the proposed operating budget for the City of St. George (St. George) and addresses the following issues with supporting materials attached:

**City of St. George**

A summary of the adjustments and other considerations are discussed below.

**REVENUES**

- 1) The primary source of revenue for St. George is sales tax of \$67,686,600. However, after removing collections from industrial and annexed taxpayers, the analysis shows 2013 collections range from \$40,468,000 to \$50,898,000 with an average of \$45,700,000. An adjustment of \$21,986,600 was made.
- 2) Gaming revenues of \$7,000,000, due to the annexation of L'Auberge casino, will not materialize as this property will be a part of the City of Baton Rouge (CBR).
- 3) Licensing and permit fees are budgeted at \$4,389,000. When compared to 2013 collections, the amount anticipated is approximately 77% of collections by the City of Baton Rouge/Parish of East Baton Rouge (CPEBR) in the unincorporated area of the parish, which appears to be a high expectation considering recent annexation. The budget amount appears to be overstated by \$600,000.
- 4) The revenues of St. George were projected to be \$80,827,400; the effect of these adjustments is a reduction of \$29,586,600 in projected revenues to \$51,240,800.

<u>Description</u>	<u>Amount</u>	<u>Adjustments</u>	<u>Revised</u>
Sales tax	\$ 67,686,600	\$ (21,986,600)	\$ 45,700,000
Gaming taxes	7,000,000	(7,000,000)	-
License tax	3,160,000	(600,000)	2,560,000
License & permit fees	1,228,800	-	1,228,800
Franchise fees	900,000	-	900,000
Insurance premium tax	760,000	-	760,000
Planning & zoning fees	92,000	-	92,000
Total annual revenue	<u>\$ 80,827,400</u>	<u>\$ (29,586,600)</u>	<u>\$ 51,240,800</u>

Furthermore, the loss of this revenue will reduce the St. George budget surplus of \$20,529,672 to a projected deficit of \$9,056,928 before expenditure changes are considered. A summary of the effect of revenue adjustments to the budget surplus is shown below:

Projected budget surplus	\$ 20,529,672
Revenue adjustments	<u>(29,586,600)</u>
Revised	<u>\$ (9,056,928)</u>

**EXPENSES**

Anticipated annual expenditures are \$60,297,728 and are reflected in generic categories, such as Finance, Public Works or Constitutional Offices. The proposed budget does not provide any detail concerning these expense functions; therefore, an analysis of anticipated spending on a functional basis was not performed. Additionally, since governmental spending is based on policy, a review of the underlying decisions made in preparing the expense portion of the budget was not made. The following factor was identified concerning certain aspects of the expense budget.

**Expense adjustment**

- 1) Legacy costs associated with employee obligations for pension and other post-employment benefits approach \$1.35 billion. The loss of a significant portion of the funding resources for these obligations will require an equitable resolution between CPEBR and St. George with the latter having, in all probability, a significant funding responsibility.

If the obligation were shared based on total anticipated resources by CPEBR and St. George, the estimated share of this commitment for St. George is \$106,800,000. If paid over 30 years, annual expenses are increased by \$3,560,000 for this obligation without consideration of inflationary factors.

With an operating deficit of \$9,057,000 projected based on the revenue adjustments described above, the operating deficit is increased by \$3,560,000 for additional expenses to \$12,617,000.

**Other expense considerations**

A few factors were identified below that merit budget consideration. However, any budget adjustments related to these factors have not been quantified at this time, but will likely increase the budget shortfall discussed above.

- 1) A comparison of annual expenditures on a per capita basis by select cities was made to the amounts reported by St. George. St. George has an anticipated per capita spending of \$564 per person which is significantly below the per capita spending (average of \$1,152) of cities with similar populations.

- 2) Spending for police protection is budgeted to be \$3,163,000 for a population of 107,000, or \$29.57 per capita; the average per capita spending for the cities reviewed was \$223 per capita.

Furthermore, according to their 2013 audited financial report, the East Baton Rouge Parish Sheriff's expenses were \$84,486,000 for the current unincorporated area, inclusive of the Jail with \$27,000,000 in expenditures. After subtracting the expense of the Jail, law enforcement activities cost \$57,486,000 or \$366 per capita. Applying an arbitrary factor of 33% to the EBR Parish Sheriff per capita expense results in a \$121 per capita expense, that when applied to the population of St. George results in an estimated budget expense of \$12,947,000; using a 20% factor on the per capita expense (\$97) results in an estimated expense of \$10,379,000.

As a result, the budgeted expense of \$3,163,000 appears to be low.

### **Regulatory and additional taxes**

State statutes preclude adoption of a budget with a deficit in equity; therefore, the deficit will require resolution through an increase in revenue or a decrease in expenditures, or some combination of these options. In our experience, any decrease in expenditures will have a marginal effect. Generally, an increase in revenue is achieved by the imposition of additional taxes.

Assuming property taxes were approved to eliminate the deficit, St. George will need 11.5 mills of property tax revenue on \$1.16 billion on the assessed value of property presently in the St. George and Eastside Fire Districts. For property with a taxable value of \$350,000, the tax cost to the property owner will be approximately \$400.

### **St. George School District**

**Facilities.** Since creating an independent school district is motivating St. George's incorporation, the analysis includes a review of current school capacity and student body, and construction costs of new facilities. The analysis indicates a deficiency in facilities requiring construction of new schools whose costs may approach \$140,000,000 before considering any growth.

Funding the construction of school facilities is generally made through issuance of bonds which are serviced over the debt term through property or sales tax collections. Thus, a decision will be necessary as to how the independent school district will fund the debt service for the construction costs discussed above. Assuming the bond is paid over a 20 year term at 4% annual interest, the approximate debt service will be \$10,200,000 annually.

If a property tax millage of 9 mills is needed to retire the debt, for the same property discussed above, the tax cost to the property owner is approximately \$315. This analysis does not contemplate growth in students which may occur.

**Debt.** Additionally, consideration should be given to current debt obligations of the East Baton Rouge Parish School Board (EBR). To the extent EBR's revenues are redirected to fund the independent school district, there is an impact to the bondholders of EBR's debt since the debt is funded by EBR's property tax revenue.

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

*Faulk & Winkler, LLC*  
Certified Public Accountants

Baton Rouge, Louisiana  
December 18, 2014

## NARRATIVE

### **Introduction and background**

There has been an effort to form an independent school district in the southeastern part of East Baton Rouge Parish that has led to the proposed formation of the City of St. George. As a result, these efforts included securing voter support through a written petition for a public election to decide whether the city will be created. St. George will be formed under the Lawrason Act if incorporation attempts are successful and will have elected offices for Mayor, Chief of Police and Council.

According to the information provided on the website [www.stgeorgelouisiana.com](http://www.stgeorgelouisiana.com), the proposed city will have a population of approximately 107,000 which is about 24% of the Parish's population of 445,000. St. George will encompass approximately 85 square miles and rank the city as the 5<sup>th</sup> largest in Louisiana by population. Since forming a city was not the original intention of the promoters of the incorporation effort, we assume that the formation of an independent school district will be initiated subsequent to formation of St. George.

### **Scope of services**

The scope of services consisted of analyzing the anticipated operating budget for the proposed City of St. George. The analysis consisted of the following areas:

- 1) **Revenue.** Review the primary revenues reported in the budget for reasonableness.
- 2) **Expenditures.** Review expenditures for:
  - a. Amounts customary to a municipal operating budget that may be omitted,
  - b. Legacy expenditures that should be addressed but omitted from the budget, and
  - c. Comparison of the proposed expenditure budget on a per capita basis with comparable communities in terms of population size.
- 3) Consider legacy expenditures relative to an independent school district, if created.

The analysis is reported below and includes schedules attached as additional support.

### **Revenue**

#### **Procedures performed**

As part of the analysis, certain amounts were reviewed for reasonableness. The analysis included the following procedures:

- 1) Interviews with representatives from the CBR finance department concerning revenue activity in the proposed incorporated areas, as follows:
  - a. Sales tax collections,

- b. Franchise fee collections,
  - c. Occupational licensing,
  - d. Permit fees,
  - e. Insurance premium tax collections,
  - f. Impact on tax collections due to CBR annexations.
- 2) Reviewed sales tax collections for 2013 for CBR and the unincorporated area.
- 3) Review 2015 operating budget proposed by CBR for the unincorporated area tax activity.

## **Conclusions**

The analysis provided the following:

### **Sales tax collections (Budget, \$67,686,600).**

The City of St. George estimated sales tax collections to be \$67,686,600. Issues arising during the analysis are as follows:

- a) The estimate does not consider recent annexations made by CBR that will decrease sales tax/receipts, and
- b) The large industrial taxpayers in present unincorporated area that will not be in the St. George city limits.

As a result, these two factors were considered when reviewing the tax collections provided by CBR. Two methods of estimating sales tax collections were used in this analysis.

### **Method 1**

2013 sales tax collections for the current unincorporated area were the starting point. Since sales tax receipts from the industrial and recently annexed taxpayers are identifiable, these amounts (\$23,000,000) were removed from the total collection base. The remaining amount collected was allocated on the basis of population in St. George to the total population of the present unincorporated area. Using these assumptions, sales tax collections were estimated at \$40,468,000.

### **Method 2**

CBR's records provide for sales tax information in three primary classifications: (a) zip code for local vendors, (b) motor vehicle collections and (c) out of parish vendors. Since these classifications do not provide a precise measure of current tax collections from St. George, it is difficult to project a reasonable estimate of tax collections for St. George. The allocation on Attachment A was based on the following:

- a) **Local vendors.** The taxes collected by local vendors is based on a review of a map of the proposed city and related zip codes with a subjective estimate of a percentage of collections by zip code for the unincorporated area.

- b) **Motor vehicle taxes.** The collection of motor vehicle taxes was based on an allocation percentage of the population of St. George to the total population of the present unincorporated area.
- c) **Out of parish vendors.** The allocation of out of parish vendors was based on the same method as motor vehicle taxes.

Following these assumptions, sales tax collections were estimated at \$51,000,000.

As a result, a reasonable projection of sales tax collections ranges from \$40,500,000 to \$51,000,000.

**License and permit fees (Budget \$4,388,800).**

A collection history was requested from CBR so that an estimate could be made based on activity in the proposed city limits. CBR captures collection activity between CBR and the unincorporated area, but does not maintain records of fee collections for St. George.

St. George estimates fee collections at \$4,388,800. The amount collected by CBR in the unincorporated area for 2013 was \$5,730,000. Thus, the St. George estimate represents 77% of 2013 collections. The projected fee collections in the St. George area appear high due to industrial taxpayers and newly annexed taxpayers that will not be included in St. George.

With an allocation based on population in the unincorporated area and the proposed city (107,000 in St. George and 50,000 in unincorporated area), 67% of 2013 collections results in a projection of \$3.8 million of license and permit fees for St. George.

**Franchise fees (Budget, \$900,000).**

Based on discussion with CBR, CPEBR cable franchise fees of approximately \$5.5 million are collected but are not identifiable by area. By using information available on the U.S. Census website ([www.census.gov](http://www.census.gov)), the number of households located in East Baton Rouge (City of Baton Rouge and unincorporated areas) is 147,000 for 2013. Based on a review of overall households in the Parish (167,000 including Baker, Zachary and Central), the percentage of households to population is 37.5%. When applied to the anticipated population of St. George, there are 40,000 households.

As reflected on Attachment A, the cable franchise fee may be based on households so an estimate for St. George is approximately \$1,500,000 in potential revenue. However, the fee collected is also based on consumption, and there are probably a larger number of non-residential users located in CBR whose cable fees are greater than residential users. As a result, the estimate by St. George of \$900,000 seems reasonable since basing the allocation solely on households would likely overstate the estimate.



## **Insurance premium tax (Budget \$760,000)**

Insurance premium taxes (IPT) are license fees collected by governmental units from insurance companies doing business within their geographical boundaries and are based on premiums collected. Insurance premiums collected are reported annually to the Louisiana Department of Insurance and are segregated by governmental unit. As a result, information reporting premiums collected in St. George is not available.

The City of St. George estimates IPT will generate \$760,000 annually. The amount collected in the unincorporated area for 2013 was \$921,000, so \$760,000 is 83% of 2013 collections. If an allocation is made based on population in the unincorporated area and the proposed city as assumed for license and permit estimates, 67% of 2013 collections is \$617,000. A difference of \$143,000 results; however, we have not proposed an adjustment to this item.

## **Expenditures**

### **Procedures performed**

The following procedures were performed regarding the projected expenditures.

- 1) Review the anticipated operating budget.
- 2) Compare expenditures with comparable municipalities with similar population.
- 3) Consider legacy expenditures in the budget proposal.
- 4) Consider the potential cost of transition assuming that an independent school district is formed, which included an interview with administrative employees with the East Baton Rouge Parish School System.

## **Conclusions**

The following considerations relative to the budgeted expenditures for St. George are provided:

### **Per capita expense comparison**

Budgeted expenditures for St. George are \$60,297,728 with a per capita spending of \$564 per person. Attachment C outlines per capita spending for select municipalities with similar populations showing a range of spending per capita from a low of \$487 to a high of \$2,977. These calculations exclude the utility operations of the municipalities presented since St. George does not plan to operate a utility system.

**Police protection (Budget \$3,163,640)**

St. George has budgeted \$3,163,640 of expenditures to provide police protection. With an anticipated population of 107,000, the per capita spending is approximately \$30 per person. Based on a review of other cities with similar population, the average per capita spending for police protection was \$223 with a range of \$106 to \$342.

Two cities in Ascension Parish are contracting services from their parish sheriff. The costs are shown on Attachment B. These cities, smaller geographically and by population, have incurred a per capita expenditure that averages \$185 for police protection.

The 2013 audited financial statements of the East Baton Rouge Parish Sheriff indicates annual expenditures are \$84,486,000 including the Jail with expenditures of approximately \$27,000,000. The population in EBR's unincorporated area is approximately 157,000, inclusive of St. George, resulting in a per capita expense of \$366 for East Baton Rouge Parish excluding the Jail operations. Additionally, police departments are maintained by political subdivisions of the Parish with expenditures in their most recent year end audits as follows:

City of Baton Rouge	\$ 82,726,000
City of Baker	1,714,000
City of Zachary	4,271,000
City of Central	182,000

The City of Baker had supplemental expenses for police and firemen salaries of \$1,480,000; based on the information available, \$830,000 supplements the amount above. Based on this analysis, the estimate of \$3,163,000 in annual expenditures for police protection appears low.

**Legacy costs**

The budget does not appear to identify the inclusion of transitional expenses for unfunded pension and postemployment benefits. CBR representatives provided actuarial reports on these two areas that are used in this analysis.

There are certain unfunded liabilities related to employment obligations for CPEBR's pension and other postemployment benefits. Since the revenues received by CPEBR are significant relative to funding these obligations, resolution of the funding responsibility between CPEBR and St. George will be an issue in effecting an orderly transition. As detailed on Attachment D, the unfunded pension obligation is \$397,939,000 and the unfunded obligation for other postemployment benefits is \$948,511,000. Collectively, this obligation is \$1.35 billion and will require the revenues collected by CPEBR and/or St. George to honor.

If the obligation were shared based on total anticipated resources received by CPEBR and St. George, transition of this obligation is significant. As shown on Attachment D, an estimate for St. George is approximately \$106,800,000. If paid over a 30 year period, the annual obligation will be approximately \$3.6 million with no provision for inflationary increases.

## **St. George School District**

Since a focus of the incorporation effort is to create an independent school district, this analysis includes consideration of student demand and facility availability. This analysis is shown on Attachment E.

Assuming an independent school district uses the municipal boundaries of St. George, there are three matters that should be considered, as follows:

### **School facilities**

St. George organizers, as indicated on the website [www.stgeorgelouisiana.com](http://www.stgeorgelouisiana.com), believe that 6 additional schools (1 high school, 2 middle schools and 3 elementary) are needed to provide adequate facilities. The discussion was dated December 2013, and was based on a larger district than the proposed city boundaries and included more existing schools. As a result, additional schools may be needed in excess of those discussed above since fewer schools from EBR will be available to the district.

An analysis has been prepared on Attachment E to estimate the approximate cost of construction to meet present demand. Cost of construction of new facilities was obtained from the school systems of East Baton Rouge and Ascension parishes. The key information obtained was student size by school, facility square footage and recent average of construction cost per square foot. Based on historical construction costs, new school construction costs approximate \$140,000,000, excluding land acquisition, development and design, and furnishings/equipment all of which represent significant costs.

To the extent there is a facility shortfall, this matter will require immediate attention. Furthermore, this analysis does not address future student growth and facility needs. However, it is reasonable to project that student growth will occur based on the location of the independent school district and experience of the Central School District. As a result, additional facilities should be planned for construction in the near term beyond those presently needed to meet present demands.

### **East Baton Rouge Parish School System (EBR) – Legacy costs**

EBR has an unfunded actuarially determined obligation of \$477,216,000 (as of June 30, 2013) for post-employment benefits related to medical benefits.

This matter will need to be addressed in the event that an independent school district is formed. Since resources received by EBR are used to fund this obligation, transition of a portion of this obligation is significant to both EBR and the proposed independent school district.

EBR has approximately 45,000 students at February 1, 2014 as published by the Louisiana Department of Education in its MFP budget letter. If the independent school district were to service 12,000 of these students, 27% of the student body will shift to the new district. Assuming that the unfunded obligation matures over 30 years, 27% of the annual obligation is approximately \$4.3 million.

**EBR debt**

According to the 2013 audit report of EBR, bonds outstanding are \$36,608,000 that were issued for facility construction and improvement.

Since these bonds are secured by a pledge of property tax and were incurred to educate children from the St. George area, it is anticipated that bondholders and EBR will be entitled to an allocation of revenues of the St. George school district to fund debt retirement through the maturity date of December 2025.

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**Sales tax - 2013 collections**

**Allocation Method 1**

2013 unincorporated sales tax collections		83,400,000	
Less: Industrial taxpayers	(14,000,000)		
Annexed taxpayers	(9,000,000)	(23,000,000)	
Net collections		60,400,000	
Discount for non St. George taxpayers (based on population)		33%	
		(19,932,000)	40,468,000

**Allocation Method 2**

By zip code - St. George

			Estimated for St. George	
70809	22,107,568		40%	8,843,027
70810	7,026,239		90%	6,323,615
70816	7,944,898		40%	3,177,959
70817	5,108,859		100%	5,108,859
70819	185,513		40%	74,205
70820	691,269	43,064,346	50%	345,635
Motor vehicle taxes unincorporated	8,859,366		67%	5,935,775
Out-of-Parish vendors unincorporated	31,476,288	40,335,654	67%	21,089,113
		83,400,000		50,898,188
		<b>Average of Methods 1 &amp; 2</b>		<b>45,683,094</b>
		Budgeted - St. George		<u>67,686,000</u>

**Franchise fees**

Cox/Eatel

2013 collections		5,500,000	
	Population	Households	
Baker	14,000	5,000	
Zachary	16,000	5,000	
Central	28,000	10,000	
Baton Rouge	230,000	87,000	
Unincorporated	157,000	60,000	
	445,000	167,000	37.5%
Baton Rouge	230,000	87,000	59.2%
St. George	107,000	40,000	27.2%
Remaining unincorporated	50,000	20,000	13.6%
	387,000	147,000	
Allocation by households		1,496,599	1,500,000
Budgeted			900,000

**License and permit fees**

		EBR collected	St. George budget
Unincorporated area - fees 2013	Occupational	4,078,000	3,160,000
	license and permits	1,652,000	1,228,800
		5,730,000	4,388,800
			77%

**Insurance premium tax**

		EBR collected	St. George budget
Unincorporated area - fees 2013	Occupational	921,000	760,000
			83%

Budgeted amount	3,163,640
Population estimate	107,000
Per capita	29.57
Per capita average	223.00

**Local police outsourcing:**

	<u>Cost</u>	<u>Population</u>	<u>Per capita</u>
Donaldsonville	1,000,000	7,500	133.33
Sorrento	354,000	1,500	236.00
Proposed - St. George	3,163,640	107,000	29.57
East Baton Rouge	84,486,000		
Less: Jail facility	<u>(27,000,000)</u>		
	57,486,000	157,000	366.15

City	State	1 Annual Expenditures	Population	Per Capita Spending	Police Protection	Per Capita Spending
<b>St. George</b>	<b>Louisiana</b>	<b>60,297,728</b>	<b>107,000</b>	<b>564</b>	<b>3,163,640</b>	<b>29.57</b>
<b>Outsourced cities</b>						
Falls Church	Virginia	75,036,000	14,000	5,360	*	-
Reading	Pennsylvania	93,468,000	88,000	1,062	29,310,000	333.07
<b>Other cities - similar population</b>						
Sandy Springs	Georgia	75,222,694	100,000	752	16,692,000	166.92
Roanoke	Virginia	291,715,000	98,000	2,977	22,877,000	233.44
Macon	Georgia	43,863,000	90,000	487	9,597,000	106.63
Gainesville	Florida	143,012,000	127,000	1,126	*	-
Clarksville	Tennessee	91,948,000	142,000	648	23,383,000	164.67
Wichita Falls	Texas	88,557,000	105,000	843	20,885,000	198.90
Clearwater	Florida	134,512,000	110,000	1,223	36,674,000	333.40
Columbia	South Carolina	162,582,000	133,000	1,222	32,025,000	240.79
Coral Springs	Florida	138,463,000	127,000	1,090	43,488,000	342.43
<b>Average - cities with similar population</b>				<b>1,152</b>		<b>223</b>

**Louisiana cities**

Central	Louisiana	5,582,000	28,000	199	182,000	6.50
Lake Charles	Louisiana	102,357,000	74,000	1,383	18,311,000	247.45
Alexandria	Louisiana	77,629,000	48,000	1,617	*	-
Lafayette	Louisiana	238,601,000	124,000	1,924	*	-
Pineville	Louisiana	17,353,000	15,000	1,157	5,192,000	346.13

**Footnotes:**

1 - annual expenditures exclude utility operations. The expenditures are for governmental services only.

\* - unavailable from municipalities audit report.

The City of Baton Rouge/Parish of East Baton Rouge has the following unfunded liabilities determined on an actuarial basis which will be paid from future revenues.

Unfunded pension liability - 1/1/2014	397,938,938
Unfunded other post employment benefits	<u>948,510,515</u>
<b>Total</b>	<b>1,346,449,453</b>

Since future revenues collected by the City/Parish will be used to fund these obligations as they become due, the obligation has been allocated between the City/Parish and St. George based on each municipalities revenue.

			<u>Assumed obligation</u>
St. George revenue - if adjusted	51,240,800	8%	<u>106,798,058</u>
City/Parish revenue, net of St. George	<u>594,774,200</u>	92%	<u>1,239,651,395</u>
	646,015,000		1,346,449,453

The assumed obligation being funded over a 30 year period.

Annual obligation	<u><u>3,559,935</u></u>
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	Student Capacity	Square Feet	Land Acreage	Construction Cost per Sq. Ft.	Anticipated Construction Cost
<b>East Baton Rouge</b>					
Elementary	660	87,000	12 acres	180	15,660,000
Middle	825	120,000	20 acres	200	24,000,000
High School	1,350	180,000	26 acres	256	46,080,000

**Ascension Parish**

Elementary	600	78,500	15 acres	175	13,737,500
Middle	750		20 acres		20,000,000
High School	2200		60 acres		55,000,000

**Potential construction costs**

	Square Feet	St. George estimate	Construction Cost per Sq. Ft.	Cost
Elementary	85,000	3	180	45,900,000
Middle	120,000	2	200	48,000,000
High	180,000	1	260	46,800,000
		<u>6</u>		<u>140,700,000</u>