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PARISH PRESIDENT

ST. CHARLES PARISH

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October 26, 2010

To: The citizens of the Parish and members of the St. Charles Parish Council

In accordance with Article V, Sections B and C of the St. Charles Parish Home Rule Charter, I am pleased to submit the balanced 2011 Consolidated Operating and Capital Budget.

This document follows an intensive examination and review process that began in May of this year. It is a reflection of the financial plan for providing essential governmental services to the public for 2011. Our community is growing quickly and the Parish must be able to meet the increased demand for services. Unlike a private business, St. Charles Parish has a broad range of responsibilities in providing these services. This budget covers these responsibilities and addresses the needs of the citizens of our Parish.

The priorities I have incorporated into this document are as follows:

All Parish employees will work in a safe environment where each department is adequately staffed, trained, and equipped to effectively carry out their missions.

Drainage, streets, road lighting, and other infrastructure will be well maintained.

The water and sewer system will meet the environmental needs of the Parish.

The Parish's Judicial System, prison and volunteer fire departments will be adequately supported to provide a safe community for our citizens.

Parish parks will be maintained to provide recreational opportunities for our citizens.

Development of business enterprises will be encouraged to provide economic opportunities for our citizens.

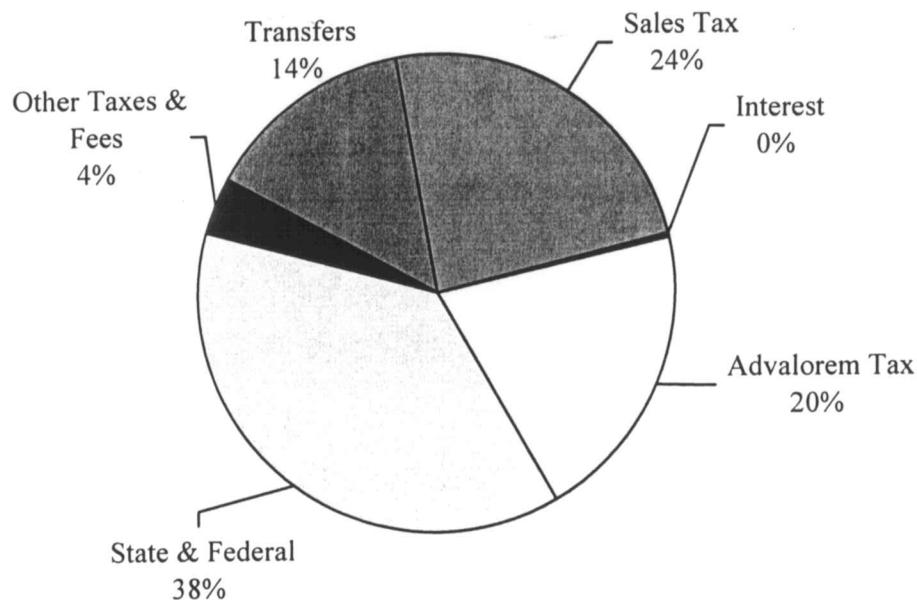
To the extent permitted by our remaining resources, quality-of-life projects will be pursued.

BUDGET OVERVIEW & HIGHLIGHTS

The summary of the operating and capital budget for governmental funds for 2011 includes revenues and other financing sources of \$101 million plus estimated fund balances carried over from 2010 (beginning fund balances) of \$65 million and expenditures of \$145.9 million. The summary of operating and capital budget for proprietary funds includes revenues of \$27.3 million, cash expenses of \$23.5 million, non cash depreciation expenses of \$6.5 million, and capital outlay of \$8.1 million.

Sales tax collections equal 24% of budgeted revenues, and ad valorem taxes equal 20 % for governmental funds. The remaining sources of revenue for governmental funds are shown below.

Revenue Sources - Governmental Funds



User fees provide 82% of the revenues in proprietary funds. The remaining 18% comes from interest earnings, transfers from General Fund, and Grants.

Over the past ten years, the Parish's sales tax collections have varied by as much as 19%. The volatility of sales tax collections is primarily due to the varying industrial activity in the Parish and in recent years, the current state of the United States Economy. The Parish's sales tax collection office does expect an overall decrease in Sales Taxes for the 2011 year much like the unexpected decrease in Sales taxes experienced in Fiscal Year 2010.

ST CHARLES PARISH HISTORY OF SALES TAX COLLECTIONS

Year		Collections	% Change
2002	Actual	18,046,778	
2003		18,043,802	-0.02%
2004		20,304,469	11.13%
2005		24,488,947	17.09%
2006		28,935,942	15.37%
2007		29,571,280	2.15%
2008		32,221,164	8.22%
2009		32,710,536	1.50%
2010	Projected	27,595,045	-18.54%
2011	Budgeted	24,904,528	-10.80%

Throughout this budget message, I have made comparisons to the Parish's 2009 financial information because it is the most recent audited financial information available. Expectations of the estimated 2010 financial information, the original 2010 budget and the proposed 2011 budget are also presented herein.

GENERAL FUND

The ending 2009 General Fund balance of \$35.5 million was approximately \$7.7 million less than that of 2008. The ending fund balance for 2010 is estimated to be \$33.2 million. The 2011 budget includes \$25.9 million of expenditures in excess of revenue budgeted which will leave an ending fund balance of approximately \$7.4 million. Included in these expenditures are transfers totaling \$14 million. The largest transfers of \$12.5 million and \$1.3 million are budgeted for the West Bank Hurricane Protection levee construction fund, and the purchase of land for a new boat launch located on Highway 90 as well as Capital Outlay for the Recreation Department. Other transfers include the following operating subsidies: \$200,000 for RSVP and \$30,700 for Solid Waste.

Year 2011's budgeted revenues are not enough to cover the budgeted expenditures. This will require the use of accumulated fund balance to fund a majority of the projected expenditures.

For several years, the General Fund has not been able to recoup indirect cost from several funds because of their financial condition. In 2009, over \$1.6 million was not reimbursed from Waterworks, Wastewater, Roads and Drainage, and Recreation. Another \$381,000 was not reimbursed from the Workforce Investment Act fund.

The General Fund is heavily dependent upon sales tax revenue as a funding source. Currently, forty-one percent (41%) of its revenue is derived from sales tax. Sales tax

revenue can vary significantly from year to year as can be seen in the schedule above. For this reason a sufficient fund balance must be maintained in the General Fund to continue current operations during periods of economic downturn. I recommend that the General Fund' fund balance not be allowed to be reduced any further. I also recommend that the Parish Council consider adopting financial policies that include requirements for reserve cash balances.

It should be noted that the General Fund is providing seventy-four (74) percent of the cost of the Summer Feeding Program. This program was started with Federal funds many years ago. In 2009, approximately \$25,000 was received in Federal funds and the General Fund provided approximately \$52,000 for a total cost of \$78,000. Of this total, \$22,546 (29% of total expenses) was paid to the St. Charles Parish School Board for use of busses, schools and a per meal fee. Approximately 8,007 meals were served at a cost of \$9.70 each. Changes in this program will be required if it is to be continued.

The other major allocations included in this budget are funding of \$8.1 million for Emergency Preparedness, which includes funding of \$3.3 million directly from the General Fund with the remaining funding coming from Hazard Mitigation Grants, the Department of Homeland Security, Department of State Treasury, etc, \$7.8 million for operating and maintaining general governmental buildings, including \$2 million for converting the old jail into much needed office space and approximately \$1.9 million for the new Parish Community Center, \$2.5 million for Planning & Zoning, CZM and Building Codes, \$1.76 million for the District Attorney, \$1.7 million for the Sheriff's office, including the feeding and housing of parish prisoners, \$1.2 million for the court system, \$1.05 million to Parks and Recreation for land acquisition for the Highway 90 Boat Launch as well as capital outlay, and \$200,000 to supplement the operations of RSVP program.

The requested budget for Personal services in the General Fund is increasing approximately \$168,000 from the 2010 original budgeted amount. Included in this cost are increases discussed later in this message.

Operating subsidies for the Sunset Drainage District and the German Coast Farmers Market are not included in this budget and are being left up to the discretion of the Council.

SPECIAL REVENUE FUNDS

It is estimated that the fund balance of the Parish's Special Revenue Funds will decrease by \$12.8 million from that of 2009. Expected revenues budgeted for 2011 are not sufficient to cover recurring expenses and capital outlay. Accumulated fund balance is therefore being used to fund capital projects. Once the accumulated fund balance is depleted, there will be no money available for capital expenditures. Proposed capital expenditures for 2011 are approximately \$4.9 million more than that originally budgeted for 2010. The fund balances previously used for capital outlay have been used for drainage, road, and recreation projects.

Please note that new Funding sources for capital outlay will be required to continue implementation of the master drainage plan. The increased sales taxes experienced in recent years was used for several of these projects; however, it does not begin to address the drainage issues this Parish faces coupled with the current state of the economy and the significant decreases in Sales Tax collection the Parish is currently witnessing and will continue to witness in the foreseeable future. It should also be noted that we are currently budgeting approximately \$35.1 million of Roads and Drainage projects for 2011. Should these projects be implemented, the unrestricted fund balance will be depleted to approximately \$9 million, down from the \$22.6 million expected to remain as of 12/31/2010.

The Road and Drainage M&O Fund is also heavily dependent upon sales tax revenue as a funding source. Over thirty-two percent (32%) of the revenues expected in 2011 are estimated to come from sales tax. Since sales tax revenue can vary significantly from year to year, a sufficient fund balance must be maintained to continue current operations during periods of economic downturn. The fund balance in this fund should be held at a level high enough to cover emergency expenditures, including flood and hurricane events.

Grass cutting and field maintenance consumes the largest portion of the Department of Parks and Recreation's budget. New parks and responsibilities are added with each new subdivision. The Department maintains over 290 acres of parks and ball fields at 91 locations throughout the Parish. The department's budget includes estimated expenditures of \$4.8 million, including \$1.5 million of Capital Outlay expenditures. These expenditures are \$1.1 million above the revenue that is expected to be generated in 2011. As a result of this deficit, there is a budgeted \$1.3 million transfer from the General Fund to Recreation. The budgeted expenses in this fund are approximately \$293,000 under the original budget of 2010. The Recreation program is a vital service to citizens of all ages in our Parish and we must work to maintain its core programs within the budget constraints.

I want to call to your attention that 2011 is the last year the Parish Council can levy the ad valorem tax for Mosquito Control. I am requesting that the Parish Council

call an election in 2011 to authorize the Parish to continue levying these taxes in 2012 and beyond.

The General Fund has provided funding for the Retired Senior Volunteer Program. Contributions are now higher than the funding provided by the state and local grants. This budget includes a subsidy of \$200,000 and the fund is estimated to begin 2011 with approximately \$101,000.

Expenditures in the Road Lighting Fund have increased over the years due to the increased cost of lighting and the increased capital needs in our growing Parish. It is estimated to have an ending fund balance of \$906,000.

Expenditures in the Mosquito Control Fund have also increased. The cost of increased surveillance and suppression for encephalitis are primarily responsible for these increases.

Personal Services in the Parish's Special Revenue Funds are expected to increase by \$181,745 from that originally requested in 2010. All Special Revenue funds are budgeted to provide an acceptable level of service to the public during 2011 and ending fund balances met the minimum recommended level, with the exception of Retired Senior Volunteer Program. However, to insure sound financial operations and capital improvements, changes are required for some of the Special Revenue Funds. Long term capital improvement funding for Roads and Drainage must be obtained, and the functions of the Department of Parks and Recreation, Mosquito Control and Retired Senior Volunteer Program must be maintained within budget constraints.

CAPITAL PROJECT FUNDS

Ending fund balance in the Parish's Capital Project Funds is expected to increase to \$957,000 by the end of 2011. Included in the 2011 Capital Outlay expenditures are \$17 million for the construction of the West Bank Hurricane Protection Levee. This project is of extreme importance to the West Bank of our Parish and even though its total funding is far beyond the capacity of our Parish we must continue to work for its permitting and construction. To date, the engineering company responsible for acquiring the required permits for the West Bank Hurricane Protection Levee estimates that the total cost to construct the levee with one hundred year protection will be over \$150 million.

Proceeds of the 1996 one percent sales tax bond issue and the Public Improvement Sales Tax Bond Construction Fund are now depleted. In previous years, this money funded projects addressing the major drainage problems identified by the Master Drainage Plan and Wastewater projects. As you are aware, this has not solved all of the Parish's drainage problems, but it has afforded some degree of relief to a number of our Parish's citizens. Funding to implement the remainder of the master drainage

plans' recommendations far exceed the Parish's current financial capabilities and further construction will require additional funding sources.

DEBT SERVICE FUNDS

The Parish's Debt Service Funds were established pursuant to the provisions of bond resolutions for the exclusive purpose of retiring the debt of various Parish bond issues. The budgets are self explanatory in nature.

ENTERPRISE FUNDS

For years the Solid Waste Collection & Disposal fund was self-sufficient by utilizing customer service charges to fund the program. The Parish's businesses and industry were not burdened with additional ad valorem or sales taxes to pay for a service they were not using. Rate adjustments as recommended in past budget messages were not implemented, therefore, the General Fund had to subsidize this fund \$888,400 between 2002 and 2010.

Only half of the Wastewater rate adjustments recommended by the 2005 and 2006 Wastewater rate studies were implemented, due to the hardship recent adjustments have caused our citizens. Therefore the Wastewater system has not reached the full 15% residual. This has caused a corresponding decrease in the Wastewater Funds unreserved net assets. The new reporting requirements of GASB 34 dictate the separation of Net Assets into four different groups: Amount invested in Capital Assets Net of Related Debt, Restricted for Debt Service, Restricted for Capital Projects, and Unrestricted. Over the past several years, the Wastewater Funds unreserved net assets have depleted significantly which has resulted in a cash shortage for capital maintenance and improvements. The Parish has received approval for a \$6.5 million, 0.95 percent 20 year loan from LDEQ for the purpose of repairing 6 Lift Stations Vital to the Parish, as well as major repairs for the Parish's Eastbank and Westbank WasteWater Treatment facilities. The principle and interest payments on the this loan will be subsidized from the General Fund at an amount of approximately \$360,000 per year, which is included in the ½ % Public Improvement Sales Tax Bond Reserve Fund.

In order to relieve the Waterworks from violating the bond covenants for the Waterworks revenue bonds, the water user rate was adjusted effective January 1, 2005. Another adjustment was implemented in June of 2006, to provide funds for capital projects required to maintain the integrity of the system. The Parish sold \$24 million in new money bonds for the construction of additions, extensions and improvements to the Parish's combined waterworks plants and systems. On September 22, 2008, St. Charles Parish signed a contract with M.R. Pittman Group, LLC for the construction of the East Bank Water Treatment Plant Upgrade. The total contract price for this upgrade is \$26,450,000 which will be funded in part by an

\$8.2 million transfer from the General Fund which will occurred in 2009, with the remaining funds coming from the proceeds of the Series 2007A Water Revenue Bonds and the 2007B and 2007C Water Revenue Refunding Bonds.

PERSONAL SERVICES

Personal Services, wages and benefits, are budgeted to increase 11% in the governmental funds and 8% in proprietary funds over the estimate for 2010. Also included in this budget is a 2.2% cost of living increase for our employees and up to 3% in merit raises for eligible employees. This budget also includes funding for up to a 15% increase for employee health insurance coverage, life insurance, and employee disability insurance.

Medical insurance benefits for Parish employees have increased approximately 99% from 2000 to 2009. In 2000, the Parish paid \$488 per month for family coverage and is currently paying \$1,085 per month. That is an additional \$7,164 per employee with family coverage. This year an employee pays only \$150 (average) per month for family coverage and \$57 per month for individual coverage.

The Parish's contributions for the Parochial Employees Retirement System have also increased. In 2003 the Parish paid 7.75% (\$1.1 million) for employee retirement contributions. This increased over the years and is 15.75 % for 2010 and 2011. The 2011 cost to the Parish is estimated at \$3.3 million.

I know that our employees are our most important asset and I will always keep them and their well being in mind through every budget process.

FUTURE REQUIREMENTS

The goal in preparing this budget was to provide the same level of Parish services without increasing taxes. However it is important to note that in doing so, the fund balance of the General Fund and the Road and Drainage Maintenance and Operations Fund have been drawn down considerably. There are still millions of dollars of drainage improvements that are necessary along with Wastewater and Water system improvements. Funding for these projects must be secured before these improvements can be budgeted. I think it is vital that we budget the funds for these projects now, as opposed to delaying them, which could possibly lead to higher costs and thus a greater drain on the fund balance.

The Government Accounting Standards Board (GASB) has issued rules (GASB Statement 45) regarding how public agencies must account for and fund Post Employment Benefits. In previous budgets, amounts were included to fund Post Employment Benefits but until a proper funding mechanism can be established, it was decided to remove this from the 2011 budget as the probability of funding these benefits in 2011 is highly unlikely, and as such, this amount will be included in the

2012 budget. To date, the total liability, which will be required to be funded, stands at approximately \$3.7 million and will continue to increase.

Final decisions in budgetary matters belong, quite properly, to the Legislative Branch. On the way to those final decisions, I hope that you will find our work in proposing this budget to be intelligent, honest, cooperative and helpful.

In closing, I want to thank the staff of the Finance Department, the Chief Administrative Officer, the Finance Director, and other department heads and staff who worked with us for their dedication and cooperation in preparing this proposed budget. My staff and I stand ready to answer your questions as best as we can.

Sincerely,

A handwritten signature in black ink, appearing to read 'V.J. St. Pierre, Jr.', with a horizontal line extending to the right.

V.J. St. Pierre, Jr.
Parish President