



V.J. ST. PIERRE, JR.
PARISH PRESIDENT

ST. CHARLES PARISH

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September 28, 2011

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 2012 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 2012. 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.

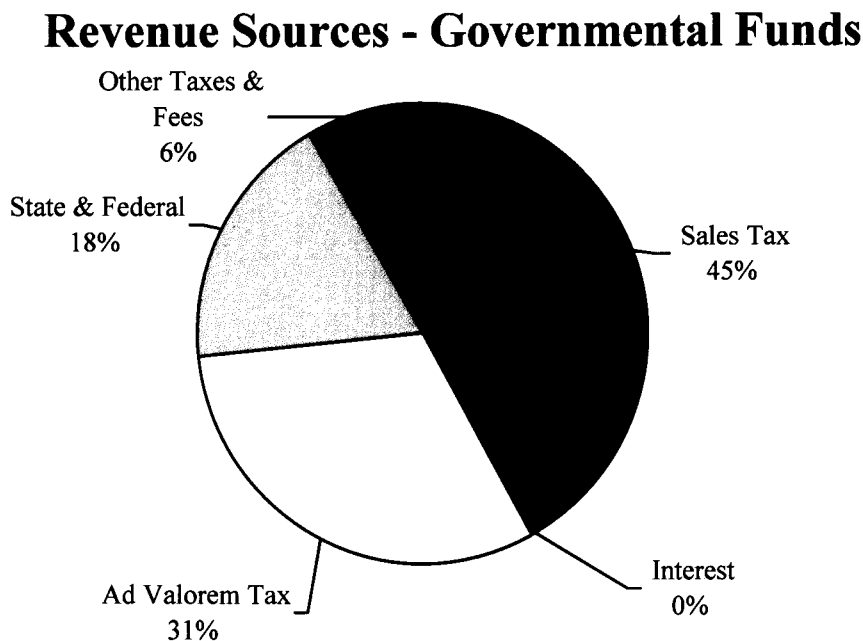
Development of business enterprises will be encouraged to provide economic opportunities for our citizens.

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 \$94 million plus estimated fund balances carried over from 2010 (beginning fund balances) of \$55 million and expenditures of \$118.8 million. The summary of operating and capital budget for proprietary funds includes revenues of \$22.3 million, cash expenses of \$22.1 million, non cash depreciation expenses of \$6.5 million, and capital outlay of \$4.9 million.

Sales tax collections equal 45% of budgeted revenues, and ad valorem taxes equal 31 % for governmental funds. The remaining sources of revenue for governmental funds are shown below.



User fees provide 98% of the revenues in proprietary funds. The remaining 2% comes from interest earnings and Grants.

Over the past ten years, the Parish's sales tax collections have varied by as much as 17%. 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 expects a slight increase in Sales Taxes for the 2012. Additionally, Sales Taxes are estimated to be higher than that of 2010, which initial forecasts had 2011 coming in much

lower than the reduced amount collected in 2010, which is a definite positive for the Parish and Sales Taxes are approximately 4% under the record highs achieved in 2008 and 2009. The Parish is certainly encouraged by the trend in increased taxes from 2010, brought on by several plant expansions within the Parish, but as mentioned in previous budget messages, these increasing trends cannot be relied upon year in and year out, especially considering the current state of the National Economy, therefore any additional funds received as a result of these increases should be devoted to capital projects, which are generally one time in nature, versus using these additional funds for general maintenance and operation of the Parish.

HISTORY OF SALES TAX COLLECTIONS

Year		Collections	% Change
2003	Actual	18,043,802	
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		28,288,787	-15.63%
2011	Projected	31,081,468	8.99%
2012	Budgeted	31,338,468	0.82%

Throughout this budget message, I have made comparisons to the Parish's 2010 financial information because it is the most recent audited financial information available. Expectations of the estimated 2011 financial information, the original 2011 budget and the proposed 2012 budget are also presented herein.

GENERAL FUND

The ending 2010 General Fund balance of \$37.3 million was approximately \$1.5 million higher than that of 2009. The ending fund balance for 2011 is estimated to be \$24.7 million. The 2012 budget includes \$17 million of expenditures in excess of revenues budgeted which will leave an ending fund balance of approximately \$7.64 million. Included in these expenditures are transfers totaling \$14.9 million. The largest transfers of \$13.6 million and \$1.1 million are budgeted for the West Bank Hurricane Protection levee construction fund, and Capital Outlay for the Recreation Department. Other transfers include the following operating subsidies: \$275,000 for RSVP and \$37,000 for Solid Waste.

Year 2012'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 2010, over \$1.77 million was not reimbursed from Waterworks, Wastewater, Roads and Drainage, and Recreation. Another \$438,335 was not reimbursed from the Workforce Investment Act fund.

The General Fund is heavily dependent upon sales tax revenue as a funding source. Currently, fifty-one percent (51%) 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 even though the Parish Council approved an ordinance on November 22, 2010 establishing an minimum required fund balance of no less than \$7 million, I strongly believe we should not let the balance get that low. In keeping the General Fund balance at \$7.64 million, it allows us breathing room in case of an emergency such as a hurricane or man-made disaster. I would encourage the Council to keep this in mind when reviewing the budget. We should consider ourselves very fortunate to be in the situation we are in especially when considering the current state of the National Economy where Public Agencies with any sort of reserves are in very short supply.

It should be noted that the General Fund is providing seventy-one (71) percent of the cost of the Summer Feeding Program. This program was started with Federal funds many years ago. In 2010, approximately \$25,500 was received in Federal funds and the General Fund provided approximately \$53,200 for a total cost of \$78,700. Of this total, \$22,703 (29% of total expenses) was paid to the St. Charles Parish School Board for use of busses, schools and a per meal fee. Approximately 6,705 meals were served at a cost of \$8.50 each. Changes in this program will be required if it is to be continued.

In addition to the transfers mentioned above, the other major allocations included in this budget are funding of \$2.5 million for Emergency Preparedness, \$4.9 million for operating and maintaining general governmental buildings, including \$2.1 million for converting the old jail into much needed office space, \$2.5 million for Planning & Zoning, CZM and Building Codes, \$1.96 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, and \$1.05 million for Retired Employees Group Insurance, \$1 million of which relates to a portion of our GASB 45 Net Other Post Employment Benefit Obligation(OPEB). Further discussion regarding GASB 45 will be discussed later in this message.

The requested budget for Personal services in the General Fund is increasing approximately \$2.1 million from the 2011 original budgeted amount. Included in this cost are increases discussed later in this message.

GASB 45

In 2004, the Governmental Accounting Standards Board (GASB) released Statement 45 (GASB 45) concerning health and other non-pension benefits for retired public employees also referred to as “other postemployment benefits”. The Parish was required to implement this new standard in its 2008 financial statements. This rule requires the Parish to report its annually accruing cost of future health benefits for retirees whether they have provided the funds to offset the cost or not. The premise is to report the current cost associated with the employees working years that is paid out after they retire. This rule does not impose regulations on the Parish as to ‘how’ we should fund retiree health benefits, it does however govern the rules that auditors must follow in providing opinions on the reliability of our financial statements.

This budget includes a portion (\$1 million) of the amounts actuarially determined to fund the Parish’s postemployment benefits without changing those benefits. This portion is considered a dedication only, to actually fund our total obligation; the Parish would be required to reserve approximately \$6.6 million to reach our current obligation. Also note that this dedicated amount is only within the General Fund at this time; when the obligation is actually fully funded, the cost will be spread out over all departments based on employees and therefore will impact all governmental and proprietary funds. There are several reasons why we should fund the entire amount when available funds are secured. Those reasons are:

- Funding results in a reduction in costs over time as investment earnings would supplement employer and employee contributions for retiree health costs.
- Funding helps secure expected benefits for employees by creating a pool of assets strengthening the ability to continue to offer benefits over time.
- Funding contributes to higher bond rating as bond rating agencies monitor the funding status of the retiree health program, and help determine the interest rates paid on debt.

In order to fully fund our obligation, a trust will be required to be set up which would thus allow the investment earnings from the trust to supplement employer and employee contributions over time. Given the state of the economy at this time, setting up a trust is not too desirable of an option as rates are so poor, and hence returns on investments are extremely low. The administration is currently reviewing ways to limit our future liability and when a viable option is established, the information will be presented to the Parish Council.

SPECIAL REVENUE FUNDS

It is estimated that the fund balance of the Parish’s Special Revenue Funds will decrease by \$18 million from that of 2010. Expected revenues budgeted for 2012 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 2012 are approximately \$18 million, which is on par with what was spent in 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 were used for several of these projects; however, it does not begin to address the drainage issues in this Parish. It should also be noted that we are currently budgeting approximately \$35.4 million of Roads and Drainage projects to be completed by the end 2011 with another \$13.6 million budgeted for 2012. Should these projects be implemented, the unrestricted fund balance will be depleted to approximately \$15.7 million, down from the \$20.6 million expected to remain as of 12/31/2011.

The Roads and Drainage M&O Fund is also heavily dependent upon sales tax revenue as a funding source. Over fifty-nine percent (59%) of the revenues expected in 2012 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. Although Sales taxes are budgeted to increase in 2011 and 2012, these increases are primarily attributed to onetime expansions at Dow Chemical, Valero, and the Monsanto plants. As such, these spikes in Sales tax revenues cannot be relied on in future years, especially considering the current state of the national economy. This uncertainty in Washington D.C. and thus the current and future state of the economy could directly impact our sales tax figures, which could then result in significant decreases in Sales Tax Revenue and thus significant decreases in the unreserved fund balance. Therefore, it is imperative that the fund balance in this fund should be held at a level high enough to cover emergency expenditures, including flood and hurricane events, but also a to help the Roads and Drainage Fund weather the storm of economic uncertainty.

A recent development concerning the documentation of best practice standards for pump stations as provided by the Federal Emergency Management Agency (FEMA) could very well result in significant costs to the Roads and Drainage Fund, which would be on a perpetual basis. Since those costs are unknown at this time and most likely, if implemented would not take effect until late 2012 or early 2013, the Administration has decided not to budget a general figure for these likely costs, rather we decided to keep the unreserved fund balance as high as possible to not only cover these costs, but as mentioned above, to also provide a safety barrier not only for emergency expenditures such as hurricanes, as well as provide a safety barrier for the continual uncertainty in Washington.

As the Roads and Drainage Department represent the Parish's largest single department, it will also be impacted significantly by GASB 45. The Public Works department currently employs 173 individuals and thus stands to bear a significant portion of the \$6.6 million current obligation for our net post employment benefit obligation. As previously mentioned, only \$1 million of the total obligation was budgeted in the current year, and this amount was only reserved in the General Fund. Beginning with the 2013 budget, amounts will be budgeted across all funds with a goal of at least \$2 million budgeted in the Roads and Drainage Department, which is yet another reason to maintain a high fund balance to cover such costs.

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 320 acres of parks and ball fields at approximately 51 locations throughout the Parish. The department's budget includes estimated expenditures of \$6.8 million, including \$3.4 million of Capital Outlay expenditures, \$2.3 million of which relates to infrastructure repairs at the Spillway recreation park. These expenditures are \$327,000 above the revenue that is expected to be generated in 2012. As a result of this deficit, there is a budgeted \$1.1 million transfer from the General Fund to Recreation. The budgeted expenses in this fund are approximately \$358,000 under the original budget of 2011. 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.

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 \$275,000 and the fund is estimated to begin 2012 with approximately \$40,000.

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 \$1,326,000.

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 \$594,325 from that originally requested in 2011. All Special Revenue funds are budgeted to provide an acceptable level of service to the public during 2012 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 \$960,000 by the end of 2012. Included in the 2012 Capital Outlay expenditures are \$18.5 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 \$926,000 between 2002 and 2012.

Only half of the Wastewater rate adjustments recommended by the 2005 and 2006 Wastewater rate studies were implemented, due to the hardship 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 54 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. In 2011, the Parish 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. As of September 20, 2011, the Parish has utilized \$2.1 million of this loan for Capital Outlay, and expects to utilize the remaining \$4.4 million in the remainder of 2011 and 2012.

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 occur 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 10.4% in the governmental funds and 4.5% in proprietary funds over the original budget for 2011. Also included in this budget is a 3.2% cost of living increase for our employees and up to 3% in merit raises for eligible employees. This budget also includes funding for increases for employee health insurance coverage, life insurance, and employee disability insurance.

Medical insurance benefits for Parish employees have increased approximately 99% from 2000 to 2010. In 2000, the Parish paid \$488 per month for family coverage and is currently paying \$1,125 per month. That is an additional \$7,644 per employee with family coverage. This year an employee pays only \$160 (average) per month for family coverage and \$61 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 2011 and 2012. The 2012 cost to the Parish is estimated at \$3.4 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.

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 and we look forward to working with you to make 2012 another great year for St. Charles Parish.

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