

## **Chapter Six**

### **Capital Improvements Program**

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One of the most essential aspects of comprehensive planning is the provision of adequate financial resources with which to implement the Master Plan. A Capital Improvements Program (CIP) is a management and fiscal planning tool that communities use for providing adequate financing for constructing needed public improvements. A properly designed CIP allows communities to identify, prioritize and coordinate their scheduling based upon the fiscal capacity of the community.

Like many cities, Baton Rouge relies on a CIP as the mechanism for analyzing its financial condition and projecting future needs. The Horizon Plan identifies short and long-term projects - capital improvements - which improve the quality of life for the citizens of the City-Parish. Capital improvements include facilities such as utility systems, landfills, land acquisition, parks, streets and sidewalks, drainage, libraries and major equipment. Capital improvements projects, once identified, are typically scheduled over a five-year period and long-range 20-year period.

The CIP should not be confused with ordinary operating expenditures. Capital improvements projects are those which are generally long-term, have a significant impact on the community, are non-recurring (i.e. they do not occur every year), and are often too expensive to be financed in the annual operating budget. The CIP can be viewed as the five-year capital facilities plan. The first year of the CIP becomes the basis of the capital budget for that fiscal year, and the remaining four years are the long-term planning document. The CIP is updated annually such that when the current year is eliminated, another is added to the five-year program.

#### **Relationship of CIP and Comprehensive Planning**

Planning for capital maintenance and improvements is sound development practice. A rational, carefully planned program of capital improvements is necessary in order to attract new business investments. This, in turn, will increase tax revenues and provide an increase in employment opportunities. Moreover, the planning for capital improvements is necessary to ensure that public investments in new or improved facilities are made in locations which make the most sense for service and maintenance and for the quality of life for the citizens of Baton Rouge.

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Planning for capital improvements involves both planning for the maintenance of existing capital facilities as well as the planning for major investments in the construction of new facilities. The Capital Improvements Program serves as the linkage between the Horizon Plan and the City-Parish's financial planning and budgeting process for capital development. The Horizon Plan identifies existing and future growth and development patterns and the capital investments that will adequately support them.

### **The Budget Process**

Every year, each City-Parish agency re-assesses its mission, re-evaluates its Goals and Objectives, compiles its performance measures and submits its budget requests to the Mayor-President for review. The Mayor-President reviews the requests and considers the recommendations of his staff. During the review process the Mayor-President must also assess the fiscal conditions of the City-Parish and review economic forecast projections. The proposed current expense budget and the Capital Budget are then submitted to the Metropolitan Council for review. Once adopted, the Capital Budget takes effect in January, at the start of the next fiscal year.

### **Adoption of CIP**

The adoption of a CIP is not a commitment to finance approved projects and does not lock the City-Parish into the program for the upcoming years. The CIP is reviewed and updated each year to accommodate changing needs and priorities, unexpected emergencies or events, unique opportunities, cost changes, or alternate financing strategies.

When the annual budget is approved by the Metropolitan Council, the City-Parish must ensure that the budget contains adequate funds for capital projects to be financed from current revenues or from other sources. Additionally, revenue sources are reviewed to ensure that sufficient funds will exist in a capital reserve fund, or other special accounts, in order to meet that portion of the capital financing not to be paid by debt financing. Since several projects may require the use of bonds, which require voter approval, some legislative changes and other Metropolitan Council approvals may be necessary to implement various aspects of the recommended capital financing program.

### **Funding Sources**

The City-Parish exercises many options for funding capital improvements including property taxes, a general sales tax (2 percent), a one-half cent dedicated street improvement sales tax, a one-half cent dedicated sewer sales tax, sewer impact fees, traffic impact fees, sewer and solid waste fees, state and federal grants, and state shared revenue sources.

Funding for City-Parish projects comes primarily from two categories: borrowing, which provides the requisite funding upfront but increases the cost of the project due to interest charges, and pay-as-you-go, which requires that money for projects be generated prior to the implementation of the project. Pay-as-you-go requires the City-Parish to live within its means

and has the advantage of saving money by not having to incur interest charges if the money were borrowed. Typical types of borrowing sources include general obligation and revenue bonds. Typical pay-as-you-go revenue sources include property taxes and sales taxes.

### **General Obligation (Property) Taxes**

General obligation or ad valorem property taxes are authorized by the Louisiana Constitution and are levied by parishes and municipalities as well as other authorized taxing bodies such as the school board, sheriff, and other special taxing districts. Property taxes are paid by property owners according to the assessed value and millages levied by taxing jurisdictions in which the taxable property is located. The total millage levied by taxing authorities is indirectly limited by the state limitation on total bonded indebtedness.

### **Sales and Uses Taxes**

The Louisiana Constitution allows the state, parishes, school boards and municipalities to impose local sales and use taxes, with voter approval. Special districts and other local taxing bodies may also levy sales taxes as authorized by the State Legislature. Sales taxes are paid by users and consumers, renters, or persons receiving taxable services and account for 70 percent of Baton Rouge's revenue. In 2002, the public voted to extend the One-Half Cent Sales and Use Tax for Street and Road Improvements through the year 2030.

### **Taxes from Gaming Sources**

Riverboat Casinos were established in 1995. Since 1995 Riverboat gaming has contributed over \$1 billion in state and local taxes. The City-Parish's share of the revenue generated by the riverboats is targeted for traffic and drainage improvements.

### **Borrowing**

Although borrowing has obvious disadvantages such as a higher overall cost of capital improvements due to the incurment of interest charges, there are some advantages to borrowing, such as:

- Rapid construction rates as the requisite construction money is provided up front;
- Intergenerational equity which spreads the cost of the capital improvements over many years, thus successive generations of beneficiaries also pay for use of the improvements;
- Enhanced stability as repayment is often at a fixed and predictable rate, eliminating wide fluctuations in expenditures; and

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- Repayment in cheaper dollars as the per capita cost of a project decreases in an expanding economy or as per capita income increases, as opposed to full payment at the time of facility acquisition.

The most common types of borrowing techniques are Government Obligation and Revenue Bonds. Government Obligation (GO) Bonds are issued to cities and the taxing power of the jurisdiction is pledged to pay both the principle and interest. The City of Baton Rouge has a very good bond rating because the city has not passed many bond issues over recent years. This is a result of the present tax structure within the City-Parish which generates much of its income from sales tax. Typically, property tax is used to amortize bonds, but the state of Louisiana allows for a high property tax exemption due to the Homestead Exemption, which exempts the first \$75,000 of the assessed value of a property from property taxation. This requires that parishes limit the amount of bonds issued.

Revenue bonds are another common revenue generating source. Revenue bonds are limited tax bonds which are secured by revenues generated by the application of a fixed rate for a provided service, such as water or sewage. Unlike GO bonds, revenue bonds generally do not require voter approval.

### **Alternative Funding Sources**

In addition to the traditional financing methods listed above, there are many other options available to the City-Parish for funding capital improvements. In a time of shrinking Federal and state budgets, City-Parish officials are continually searching for new and alternate methods for securing adequate funding to ensure that the City-Parish maintains the highest quality and most efficient infrastructure and facilities. The methods listed below are just some of the funding alternatives available to the City Parish.

#### **Impact Fees and User Fees**

User Fees and Impact Fees are fees levied upon those who directly use or benefit from specific service(s). User Fees are fees levied on those who use a particular service or facility with the collected fees used to pay for the cost of the facility. Water and sewer facilities are the most common capital projects for which a User Fee is charged. User Fees, however, can be employed to generate revenue to finance a variety of facilities including parks, transit systems and solid waste facilities. In 2007, the a Traffic Impact fee schedule was introduced for new developments.

Impact Fees are one-time assessments which are levied upon developers in an effort to place a portion of the burden of development costs or funding improvements onto developers who are creating the need for such improvements. These fees are intended to compensate the community for the extra costs for public facilities that the development will cause.

### **Special Assessment Districts**

A Special Assessment District is a method of geographically isolating the financing of infrastructure that serves a particular area by levying a service charge on those in an area who would benefit the most from capital improvements projects. Special Assessments, because they are levied on property, are similar to property taxes. Property taxes, however, are a method for collecting revenues that will allow the municipality to finance programs and projects. Special Assessments, on the other hand, are designed to recover all or part of the cost of an improvement that directly benefits an individual property.

Special Assessments can be used for a wide variety of projects. For example, a Special Assessment District can be employed to finance curbs and gutters in a neighborhood by allocating project costs to homeowners based on street frontage.

### **Sewer and Water Availability Charges**

Sewer and water availability charges allow an entity to assess land for the availability of the service regardless if the sewer or water services are actually used. The assessing agency may establish a charge according to the land use, the benefit to be derived from the user, the availability of the sewer or water facilities, or the degree of availability or quantity of the use of sewer or water services.

### **Capital Recovery Fee**

Capital recovery fees allow for the recovery of the cost of new infrastructure through the use of impact fees, service charges, hookup fees, or any combination of these. The fees are then discontinued upon the amortization of the facility. Capital recovery fees are typically used for facilities such as wastewater treatment plants or toll bridges.

### **Special Authorities**

Special authorities provide for the establishment of an ad hoc authority (e.g. school authority, water authority, toll authority, etc.) which provides a single service and generates its own revenue through taxes or revenue bonds.

### **Integrated Financing District**

This assessment district allows the imposition of “noncontingent assessments” and “contingent assessments.” Noncontingent assessments allow a municipality to form an assessment district using available authorized assessment procedures. Contingent assessments authorize the levy of an assessment that is contingent on the development of land that may be payable at the time of development approval, building permit issuance, or zoning change. The amount of assessment must be in proportion to the benefit received by each parcel and the benefit may be determined based on different land use categories. The

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integrated financing district has value in an area in which some development has occurred, but where there are still large vacant areas available for future development. The noncontingent assessment district allows the municipality to impose assessments to ensure security for improvements to be made while the contingent assessments allow for the distribution of the costs of the public facilities by land use and development intensity.

### **Tax Increment Financing**

Tax increment financing (TIF) is frequently employed for a specific development or redevelopment projects in “blighted” areas. The attraction of a TIF is that it allows for a development project to recapture and utilize the incremental increase in property tax revenues resulting from the new project versus existing development to fund a variety of public capital improvements associated with the development or redevelopment project. The funding is generated by the annual difference between the tax revenues of a delineated area which is set at some base level (typically the fiscal year prior to the initiation of the redevelopment project), and the amount of tax revenue generated by the development project itself. The difference of revenues from the pre-project tax income and the post-project income is reinvested within the TIF-designated area which, typically, promotes further investment and development

### **State Infrastructure Bank**

A State Infrastructure Bank, or Bond Bank, is a newly proposed method whereby participating states may utilize federal appropriations more judiciously. Federal money, which is typically awarded on an incremental basis, may be acquired in one lump sum and in advance of the construction of the project by individual states which can then use the money for loans, credit enhancement or to complete a construction project more rapidly.

The above funding alternatives and options represent just a part of the total number of possible financial programs that are available to the City-Parish. The Horizon Plan stipulates that all funding mechanisms and alternatives be explored to maximize the City-Parish’s fiscal opportunities.

## **Review of Capital Projects**

During the neighborhood planning meeting process, prior to the adoption of the Horizon Plan, Parishwide needs were identified and assessed by both City-Parish citizens and Horizon Resource and Steering Committees. The recommendations were prioritized and then listed for each of the seven Elements of the Horizon Plan. The list of Capital Projects which were identified during this process is provided in Appendix A. The Capital Projects should not be confused with the Capital Improvements Program that identifies specific improvements which are to be scheduled for inclusion into the Capital Budget.

Since the adoption of the Horizon Plan in 1992, City-Parish agencies have been working diligently to identify and implement capital improvements from the list of capital projects

identified in the neighborhood meeting process. Below is a summary of the progress of the capital projects for each of the elements of the Horizon Plan.

### **Land Use**

Major projects include the development and maintenance of a Parishwide Geographic Information System (GIS), the implementation of a Riverfront Development program, Fourth Street improvements, and an improved Trailblazer Sign Program along major roadways. Other projects have since been identified and are in various stages of implementation including development projects located downtown such as Catfish Town.

### **Transportation**

The Transportation Element contains many Capital Projects and subsequently generates the greatest number of projects in the Capital Improvements Program. The most substantial project involves Major Street improvements which generate many of the annual transportation capital improvements projects. Other Capital Projects, many of which are also long-term and ongoing, include traffic safety projects, a computerized traffic signal system, and traffic control maintenance.

On November 17, 2001, voters approved the renewal and continuation of the one-half percent sales and use tax that has been in effect since 1990. The tax is used for the purpose of improving streets and roads in the Parish. The tax was extended for five and a half years beginning July 1, 2002. Of the total revenue generated by the renewal of the street and road rehabilitation tax, 60 percent is dedicated for street construction and the remaining 40 percent is to be used for street rehabilitation. A detailed listing of recommended Major Street improvements for the next five-year Capital Improvements Program is provided in Appendix C.

### **Wastewater**

Many of the Capital Projects listed in the Wastewater Element involve the upkeep of the existing sewer system and the construction of new lines to accommodate new development. As with transportation projects, many wastewater projects are long-term commitments.

On March 14, 2002, the City-Parish entered into a new consent decree with the United States Environmental Protection Agency (EPA) and the Louisiana Department of Environmental Quality (DEQ) relative to sanitary sewer overflow (SSO) improvements in East Baton Rouge Parish. This new consent decree replaces the one that East Baton Rouge Parish has operated under since 1988. The new consent decree requires the City-Parish to make sewer infrastructure improvements to reduce sanitary sewer overflows. This consent decree prevents the federal government from imposing potential penalties of \$43 million on the City-Parish and allows until December 31, 2014, for completion of the Sewer Capital

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Improvements Program. The execution of this consent decree by all parties also avoided a protracted and expensive lawsuit.

Under the Capital Improvements component of the consent decree, the City-Parish will construct facilities to contain sanitary sewer overflows until they can be released into the system for treatment, construct additional conveyance facilities to avoid overloading during peak wet weather flow conditions and upgrade and construct new pump stations and force mains to provide the additional capacity required during wet weather conditions. The estimated cost to implement the SSO construction program is \$618 million.

### **Solid Waste**

Many of the initial Capital Projects listed in the Project Summary, such as the closure of the Devil's Swamp Landfill site, and the development of a new landfill site, have been completed. Other identified Capital Projects, such as the continuation of the North Landfill Development, are ongoing.

### **Drainage**

The Capital Projects Summary identifies several major projects including the development of a Drainage Criteria Manual, drainage maintenance and improvements, and flood control improvements. From these projects, specific Capital Improvements are scheduled, many of which involve flood control efforts along the area's rivers, creeks and bayous. Funding for drainage improvements is provided, in part, by revenues from gaming sources. A list of the recommended future capital improvements for drainage projects is included in Appendix D.

### **Recreation and Open Space**

Most of the projects for the Recreation and Open Space Element are separately funded through the Baton Rouge Recreation and Park Commission which prepares its own Capital Improvements Program. The projects identified in the Capital Project Summary, however, are projects identified for implementation by the City-Parish, including Greenlink projects and downtown park acquisition.

### **Housing**

Although only one project is listed for the Housing Element in the Capital Project Summary, there is some project overlap with other Elements. For example, the implementation of a GIS is listed in the Land Use Element but has applications with regards to Housing.

### **Public Services**

The Capital Project Summary lists numerous projects for the Public Services Element, some of which are long-term and ongoing. Many of the projects involve the replacement, repair or upgrade of police vehicles, fire fighting vehicles, and other emergency service equipment. Equipment replacements are often listed in the Capital Improvements Program and are scheduled in the annual Capital Budget as they are needed.

### **Public Buildings**

The Capital Projects for the Public Buildings Element include the construction and renovation of new and existing public buildings such as the Community Development Building. Due to the cost and scale of the projects, many of the projects are long-term commitments.

### **Health and Human Services**

The Capital Projects Summary lists two projects: the establishment of a central clearinghouse and the development of a Parish Health Unit. The clearinghouse is an ongoing project that will continue to coordinate existing services. The Parish Health Unit is scheduled to be upgraded and expanded in order to provide satellite facilities. However, the upgrade and expansion has not yet been initiated and is currently awaiting funding.

### **CIP Summary**

The Capital Improvements Program (CIP) is an essential component to the planning process. The CIP is the mechanism for identifying and prioritizing projects, and ensuring adequate funding for such projects. The CIP ensures that the City-Parish lives within its financial means while, at the same time, providing the facilities and equipment which promote the growth and vitality of Baton Rouge for its citizens. With the re-dedication of the road and street improvements tax, development of impact fees, and new and alternative funding mechanisms, the City-Parish is working towards providing the most efficient and cost-effective services for its citizens. The Capital Improvement Program appendices located at the end of this report were provided by the Department of Public Works.

