

CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the City-Parish government, we offer readers of this financial statement an overview and analysis of the financial activities of the City of Baton Rouge, Parish of East Baton Rouge Consolidated Government. This narrative is designed to assist the reader in focusing on significant financial issues, identify changes in the government's financial position, identify any material deviations from the approved budget documents, and identify individual fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts. It should be read in conjunction with the Letter of Transmittal and the financial statements that begin with Exhibit A-1.

FINANCIAL HIGHLIGHTS

- Assets of the City-Parish primary government exceeded its liabilities at the close of the most recent fiscal year by \$1,508.5 million (*net assets*). Of this amount, \$409.5 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The primary government's total net assets increased by \$126.4 million during 2007. Governmental activities' net assets increased \$58.9 million during 2007, primarily as a result of the increase in capital assets from capital grants and donated infrastructure (\$38.6 million), dedicated sales taxes for road and street improvements collected in excess of pay-as-you-go capital outlay expenditures (\$15.9 million), investment earnings (\$23.3 million), dedicated property taxes and other revenues collected in excess of operating expenses in the Library Board of Control Fund (\$12.8 million) and other miscellaneous increases in net assets (\$8.0 million). These increases were offset by an increase in expenses and long-term debt (\$39.7 million) due to the implementation of GASB Statement No. 45. Sales tax revenues collected in excess of debt service interest and operating expenses in the sewerage fund (\$27.3 million), contributions from the federal and state governments, subdivision developers, and impact fees (\$23.7 million), increased investment earnings (\$17.8 million), and increased sewer user fees (\$3.0 million), offset by an increase in expenses and long-term debt (\$4.2 million) due to the implementation of GASB Statement No. 45 and other miscellaneous decreases (\$0.5 million) resulted in a net increase in net assets in business-type activities.
- As of the close of the current fiscal year, the primary government's governmental funds reported combined ending fund balances of \$529.8 million, an increase of \$35.4 million in comparison with the prior year. Approximately 21% of the fund balances, \$109.4 million, is *available for spending* at the City-Parish's discretion (*unreserved, undesignated fund balance*).
- At December 31, 2007, unreserved fund balance for the General Fund was \$89.3 million, or 38% of total 2007 General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City-Parish financial statements focus on the government as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the reader to address relevant questions, broaden a basis for comparison (year to year or government to government) and should enhance the City-Parish's accountability.

Government-Wide Financial Statements

The government-wide financial statements (see Exhibits A-1 and A-2) are designed to be similar to those of private sector businesses in that all governmental and business-type activities are consolidated into columns which add to a total for the primary government. The statements combine all governmental funds' and internal service funds current financial resources with capital assets and long-term obligations. Also presented in the government-wide financial statements is

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

a total column for the business-type activities of the primary government. Component units are separate legal governmental entities to which the City-Parish Metropolitan Council may be obligated to provide financial assistance and are presented as a separate column in the government-wide statements and as individual activities within the basic financial statements. All City-Parish component unit agencies except for four fire protection districts and two crime prevention districts (see Exhibits E-1 through E-12) issue separate independently audited financial statements.

The Statement of Net Assets (Exhibit A-1) presents information on all the government's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the City-Parish is improving or deteriorating.

The Statement of Activities (Exhibit A-2) presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods. For example, uncollected taxes and earned but unused vacation leave result in cash flows for future periods. The focus of the Statement of Activities is on both the gross and net cost of various activities which are funded by the government's general tax and other revenues. This is intended to summarize information and simplify the user's analysis of the cost of various governmental services and/or subsidy to various governmental and business-type activities and component units.

The governmental activities reflect the City-Parish's basic services including public safety (fire, law enforcement, emergency medical services, emergency preparedness, communications), general government services (executive, legislative, judicial), health and welfare (mosquito control, animal control), sanitation (street-sweeping), transportation (street and road maintenance), culture and recreation (library), conservation and development (social programs), and interest and fiscal charges on long-term debt. These services are financed primarily with taxes. The business-type activities reflect private sector type operations (sewer utilities, airport, parking facility, convention center, solid waste collection and disposal) where the fee for service typically covers all or most of the cost of operations, including depreciation.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The governmental major fund (see Exhibits A-3 through A-9) presentation is presented on a modified accrual basis. This is the manner in which the budget is typically developed excluding certain timing differences between the budget basis and the generally accepted accounting principle (GAAP) basis. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements. The City-Parish has presented the General Fund, Library Board of Control Special Revenue Fund, Grants Special Revenue Fund, and the Capital Projects Fund as major funds. All nonmajor governmental funds are presented in one column, titled other governmental funds. Combining financial statements of the nonmajor funds can be found in the combining and individual fund statements and schedules that follow the basic financial statements.

Proprietary Funds encompass both enterprise and internal service funds on the fund financial statements. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The proprietary major fund (see Exhibits A-10 through A-12) presentation is presented on an accrual basis. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City-Parish's various functions. The government uses internal service funds to account for its equipment rental and replacement program and the Central Garage fleet maintenance and fuel activities. Because both of these services predominantly

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

benefit governmental rather than business-type functions, they have been included within the governmental activities section in the government-wide financial statements. Combining statements of the nonmajor individual enterprise and internal service funds can be found in the combining and individual fund statements following the basic financial statements.

Fund financial statements also allow the City-Parish to present *fiduciary funds*. While these funds represent a trust responsibility, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

While the total column on the business-type fund financial statements for enterprise funds (see Exhibit A-10) is the same as the business-type column at the government-wide financial statement, the governmental major funds total column requires a reconciliation to the government-wide financial statement because of the different measurement focus which is reflected on the page following each statement (see Exhibits A-4 and A-6). The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources and will show capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations into the governmental activities column in the government-wide statements.

Capital Assets

General capital assets include land, improvements to land, easements, buildings, vehicles, machinery and equipment, infrastructure, and all other tangible assets that are used in operations and that have initial useful lives greater than two years and exceed the government's capitalization threshold (see Note 6, Exhibit A-17). The City-Parish has capitalized all purchased general capital assets. Donated infrastructure assets (those placed into the government's maintenance through contributions from private development) accepted into City-Parish maintenance since year 1980 have been capitalized.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are a required part of the basic financial statements and can be found in Exhibit A-17 of this report.

Other Information

The audited combining statements referred to earlier in connection with the nonmajor governmental and proprietary funds are presented in Exhibits B-1 through E-12.

Certain supplementary financial information can be found in Exhibits F-1 through G-3 of this report. These schedules and the statistical section (Exhibits H-1 through H-22) are included for additional information and analysis and do not constitute a part of the basic financial statements.

Also included in the report is the Office of Management and Budget A-133 Single Audit auditor reports, findings, and schedules. This information can be found under the Single Audit section.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

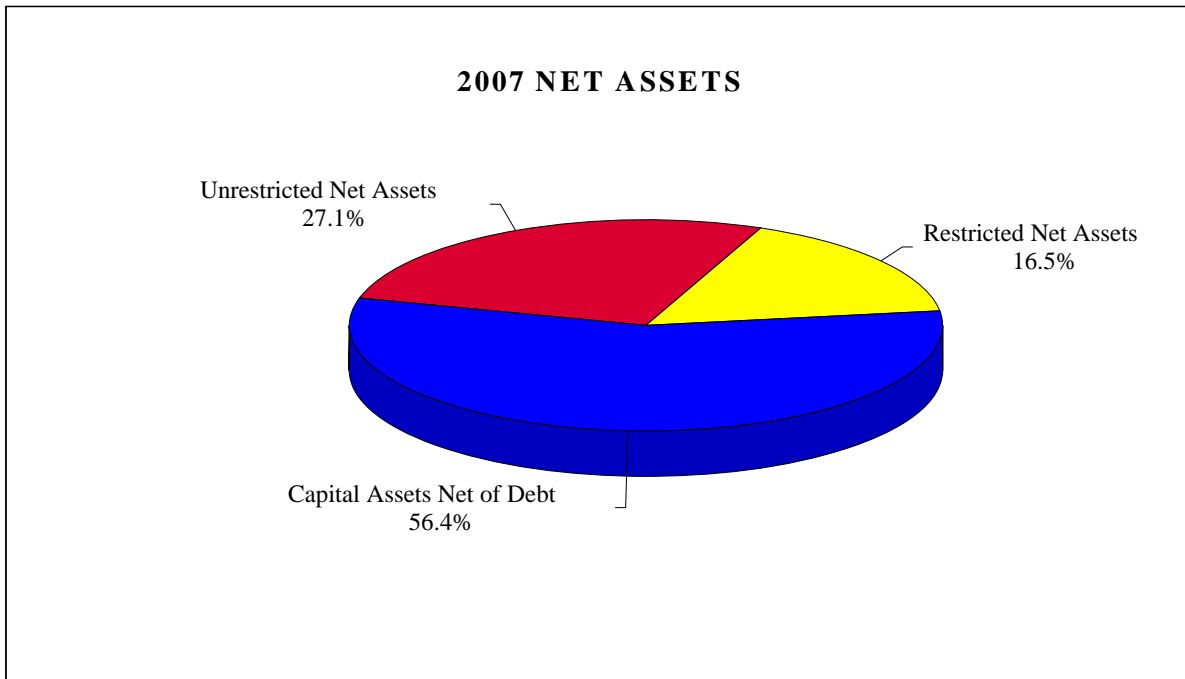
Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Assets for 2007, with comparative figures from 2006:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Net Assets
December 31, 2007 & 2006
(in millions)

	Governmental Activities		Business- Type Activities		Total	
	2007	2006	2007	2006	2007	2006
		<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Assets:						
Current and Other Assets	\$ 604.3	\$559.0	\$ 386.8	\$313.4	\$ 991.1	\$ 872.4
Restricted Assets	--	--	74.0	90.2	74.0	90.2
Capital Assets	<u>510.1</u>	<u>462.4</u>	<u>658.3</u>	<u>648.8</u>	<u>1,168.4</u>	<u>1,111.2</u>
Total Assets	<u>1,114.4</u>	<u>1,021.4</u>	<u>1,119.1</u>	<u>1,052.4</u>	<u>2,233.5</u>	<u>2,073.8</u>
Liabilities:						
Current Liabilities	56.9	51.1	16.8	16.4	73.7	67.5
Non-current Liabilities	<u>331.0</u>	<u>302.7</u>	<u>320.3</u>	<u>321.5</u>	<u>651.3</u>	<u>624.2</u>
Total Liabilities	<u>387.9</u>	<u>353.8</u>	<u>337.1</u>	<u>337.9</u>	<u>725.0</u>	<u>691.7</u>
Net Assets:						
Invested in Capital Assets Net of Debt	439.0	402.1	411.3	402.4	850.3	804.5
Restricted	211.6	187.2	37.1	40.6	248.7	227.8
Unrestricted	<u>75.9</u>	<u>78.3</u>	<u>333.6</u>	<u>271.5</u>	<u>409.5</u>	<u>349.8</u>
Total Net Assets	<u>\$ 726.5</u>	<u>\$667.6</u>	<u>\$ 782.0</u>	<u>\$714.5</u>	<u>\$1,508.5</u>	<u>\$1,382.1</u>

For more detailed information see Exhibit A-1, the Statement of Net Assets.



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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

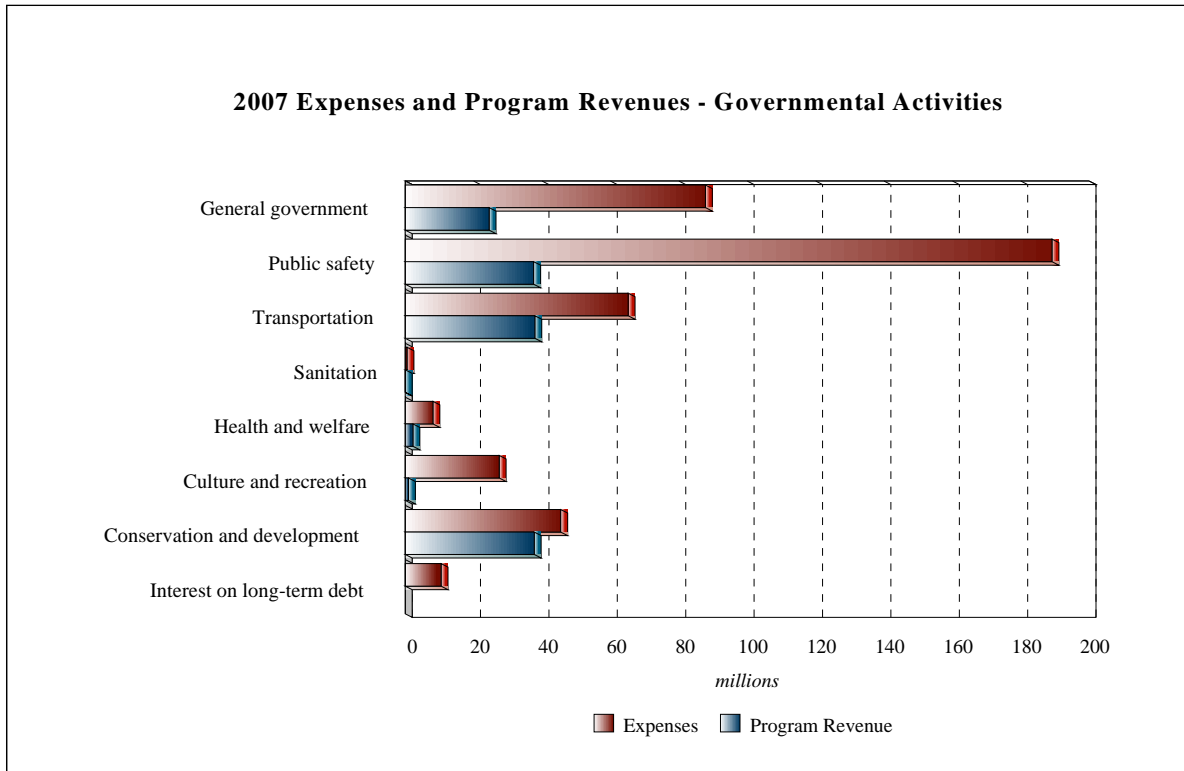
Approximately 56.4% (\$850.3 million) of the City-Parish's net assets as of December 31, 2007, reflect the government's investment in capital assets (land, buildings, infrastructure, machinery and equipment) less any related outstanding debt used to acquire those assets. The City-Parish government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Another 16.5% (\$248.7 million) of the government's net assets is subject to external restrictions on how those assets may be used, such as a property tax approved by the electorate for specific purposes. The remaining 27.1% of net assets, referred to as *unrestricted* (\$409.5 million), may be used to meet the ongoing obligations of the government to citizens and creditors.

The table below provides a summary of the changes in net assets for the year ended December 31, 2007, with comparative figures from 2006:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Changes in Net Assets
For the Years Ended December 31, 2007 & 2006
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u> </u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 50.3	\$ 50.5	\$129.5	\$ 121.6	\$ 179.8	\$ 172.1
Operating Grants and Contributions	52.1	45.6	0.6	2.2	52.7	47.8
Capital Grants and Contributions	38.6	15.8	23.7	24.3	62.3	40.1
General Revenues:						
Sales Taxes	204.2	205.9	39.9	40.0	244.1	245.9
Other Taxes	128.5	122.0	--	--	128.5	122.0
Grants and Contributions Not Restricted to Specific Programs	4.7	4.7	--	--	4.7	4.7
Other	<u>24.5</u>	<u>18.7</u>	<u>17.8</u>	<u>16.3</u>	<u>42.3</u>	<u>35.0</u>
Total Revenues	<u>502.9</u>	<u>463.2</u>	<u>211.5</u>	<u>204.4</u>	<u>714.4</u>	<u>667.6</u>
Expenses:						
General Government	87.8	72.8	0.7	0.6	88.5	73.4
Public Safety	189.1	146.5	--	--	189.1	146.5
Transportation	65.2	55.3	20.5	19.3	85.7	74.6
Sanitation	0.5	0.2	116.9	118.7	117.4	118.9
Health and Welfare	8.1	7.7	--	--	8.1	7.7
Culture and Recreation	27.5	23.5	15.7	15.8	43.2	39.3
Conservation and Development	45.5	36.8	--	--	45.5	36.8
Interest on Long-Term Debt	<u>10.5</u>	<u>9.1</u>	<u>--</u>	<u>--</u>	<u>10.5</u>	<u>9.1</u>
Total Expenses	<u>434.2</u>	<u>351.9</u>	<u>153.8</u>	<u>154.4</u>	<u>588.0</u>	<u>506.3</u>
Increase in Net Assets Before Transfers and Special Item	68.7	111.3	57.7	50.0	126.4	161.3
Special Item	--	--	--	(10.3)	--	(10.3)
Transfers	<u>(9.8)</u>	<u>(20.8)</u>	<u>9.8</u>	<u>20.8</u>	<u>--</u>	<u>--</u>
Increase In Net Assets	58.9	90.5	67.5	60.5	126.4	151.0
Net Assets, January 1, restated	<u>667.6</u>	<u>577.1</u>	<u>714.5</u>	<u>654.0</u>	<u>1,382.1</u>	<u>1,231.1</u>
Net Assets, December 31	<u>\$726.5</u>	<u>\$667.6</u>	<u>\$782.0</u>	<u>\$714.5</u>	<u>\$1,508.5</u>	<u>\$1,382.1</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

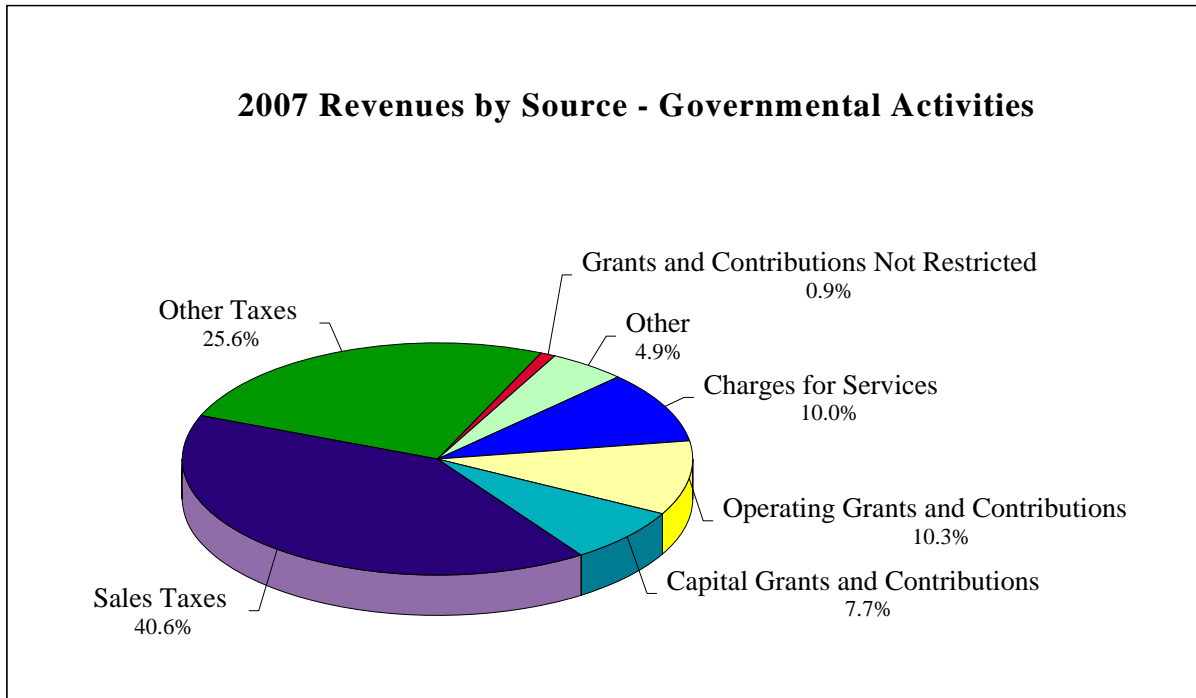


The government's net assets increased \$126.4 million during the current fiscal year.

Governmental Activities' net assets increased \$58.9 million in 2007, primarily due to:

- (1) Capital grants and contributions of \$38.6 million were capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$15.5 million), donated infrastructure from developers (\$18.2 million), and miscellaneous capital grants for public safety and conservation and development from the federal and state governments (\$4.9 million).
- (2) Approximately \$15.9 million of the dedicated ½ cent road and street sales tax were collected in excess of current year pay-as-you-go capital outlay expenditures.
- (3) Investment earnings of \$23.3 million as a result of both the rise in interest rates and from large cash balances due to the issuance of the Road and Street Improvement Sales Tax bonds during 2006.
- (4) Property tax collections and other revenues in excess of operating expenses in the Library Board of Control Fund in the amount of \$12.8 million. The library has implemented a very aggressive capital improvements program which is funded primarily from a dedicated property tax on a pay-as-you-go basis. Excess property tax collections over normal operational needs are currently being accumulated to begin the next phase of construction.
- (5) Other miscellaneous increases in net assets (\$8.0 million).
- (6) These increases were offset by an increase in expenses and long-term debt of approximately \$39.7 million due primarily to the implementation of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement required the City-Parish to record an expense and a liability in the government-wide financial statements for the annual actuarially required contribution, beginning in the year 2007, of providing postemployment healthcare and other non-pension benefits to retirees (See Note 8).

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

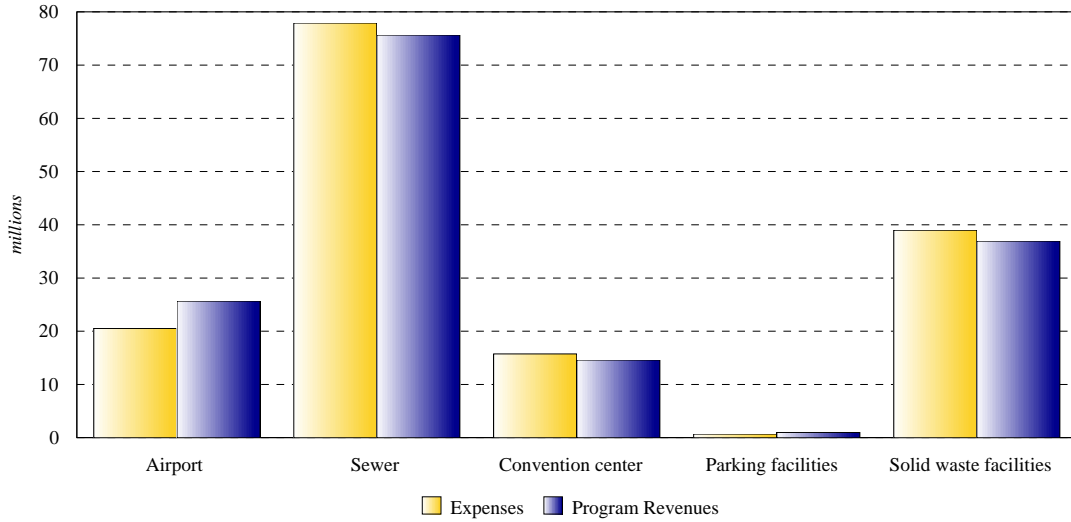


Business-Type Activities' net assets increased by \$67.5 million in 2007. The increase in net assets is a result of revenues exceeding expenses for the year. An analysis of major revenues and expenses is as follows:

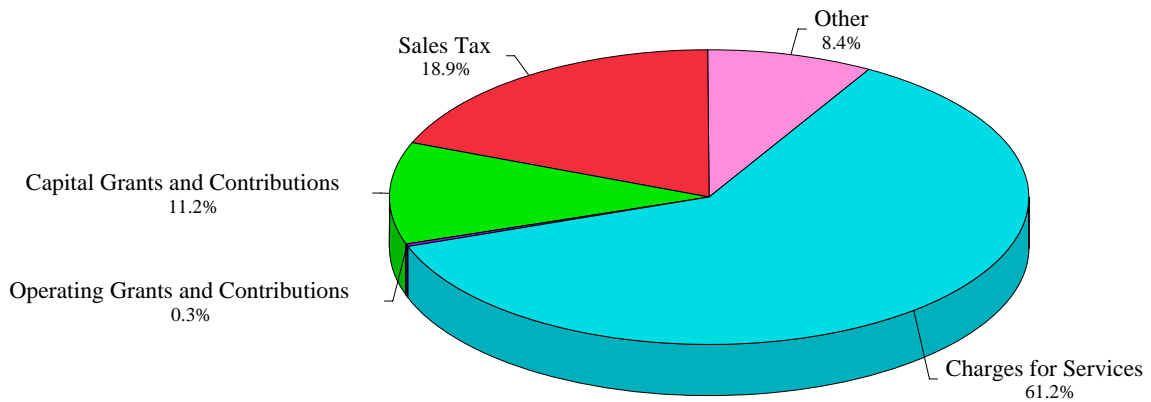
- (1) Sales tax (non-operating) revenues collected in excess of debt service interest and operating expenses in the sewerage capital improvements program in the amount of \$27.3 million.
- (2) Enterprise fund contributions from external parties of \$23.7 million from the following sources: airport grants from federal and state agencies (\$9.7 million), sewer grants from the U.S. Environmental Protection Agency (\$0.2 million), capital grants from the State of Louisiana for the Baton Rouge River Center (\$2.5 million), contributions of infrastructure from private developers to the sewerage system (\$4.7 million), and sewer impact fees (\$6.6 million).
- (3) Investment earnings of \$17.8 million as a result of the rise in interest rates, larger cash balances from sales tax and user fee increases, and the issuance of Sewer Revenue Bonds.
- (4) Sewer user fees increased \$3.0 million in 2007, primarily as a result of the annual increase of 4% recommended by the comprehensive financing model developed to manage the finances of the Sanitary Sewer Improvement Program.
- (5) These increases were offset by the increase in expenses and long-term debt of approximately \$4.2 million from the implementation of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement required the City-Parish to record an expense and a liability for the annual actuarially required contribution, beginning in the year 2007 (See Note 8).
- (6) Other miscellaneous decreases in net assets (\$0.5 million) also offset the increases above.

**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

2007 Expenses and Program Revenues - Business-Type Activities



2007 Revenues by Source - Business-Type Activities



**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Financial Analysis of the Government's Funds

As noted earlier, the City-Parish uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City-Parish's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City-Parish's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the primary government's governmental funds reported combined ending fund balances of \$529.8 million, an increase of \$35.4 million in comparison with the prior year. Approximately 33% of total governmental funds fund balance (\$172.7 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to: (1) liquidation of contracts and purchase orders of the prior period (\$47.8 million), (2) payment of debt service (\$23.1 million), (3) loans to low-income recipients (\$5.8 million), (4) legal appropriations in the 2008 operating budget (\$14.8 million), (5) continuing projects carried forward to the next fiscal year (\$265.0 million), or (6) investment of inventories at December 31, 2007 (\$0.6 million).

The General Fund is the chief operating fund of the Consolidated Government of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana. At the end of the current fiscal year, unreserved and undesignated fund balance of the General Fund was \$28.3 million, while total fund balance was \$126.4 million. Compared with total fund balance of \$118.2 million at the end of 2006, fund balance increased approximately \$8.2 million during 2007. The increase in fund balance was primarily the result of revenues exceeding expenditures. In comparison to budget, the revenue variance greater than expenditure variance were: sales taxes (\$11.3 million), property taxes (\$1.8 million), gross receipts business taxes (\$3.5 million), and occupational taxes (\$1.3 million) caused by growth in the economy, growth of property tax rolls, and increases in electricity and gas costs. Also, investment earnings increased fund balance due to the rise in interest rates (\$5.4 million). These increases in revenue were offset by the appropriation of additional funds for equipment, improvements to buildings, and infrastructure (\$32.0 million).

The Library Board of Control Fund collected revenues that exceeded expenditures by \$12.8 million in 2007. The primary source of revenue for this fund is an 11.1 mill property tax, which provides funding for all operating expenses of the library system and a pay-as-you-go capital improvement program. All revenues remaining after operational expenditures are funded are applied to the capital improvement program. Excess property tax collections over operations are currently being accumulated to begin the next phase of construction, which includes the replacement of the main library and the addition of a branch in the eastern district of the Parish.

The Grants Fund collected revenues that exceeded expenditures by \$0.7 million in 2007 primarily due to the receipt of more program income than expended in the Community Development Home Program (\$0.5 million). Also, investment earnings were collected in the amount of \$0.3 million.

Fund balance in the Capital Projects Fund increased (\$9.1 million) in 2007. This was primarily due to the transfer of funds from the General Fund for improvements to fire stations, police stations, and other public buildings as well as downtown improvements and other infrastructure projects (\$12.4 million) which were not completed during 2007. Also, approximately \$15.9 million of the ½ cent road and street tax were collected in excess of current year pay-as-you-go capital outlay expenditures. These increases were offset by outlays for the acquisition of right-of-way and construction of major street and intersection improvements (\$19.2 million) funded by the 2006 Road and Street Improvement Bonds.

Proprietary Funds: The City-Parish's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Unrestricted net assets of the Greater Baton Rouge Airport District were \$10.9 million at December 31, 2007. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of over \$184.1 million. The fund reported a net loss of \$3.8 million before capital contributions and transfers for the year ended December 31, 2007. Charges for services decreased approximately \$1.3 million, Passenger Facility Charges decreased almost \$0.2 million, and Customer Facility Charges decreased almost \$0.7 million primarily as a result of a slight decrease in enplanements as the post-Hurricane Katrina surge seems to have reached a plateau. The implementation of GASB 45 decreased net assets for the Airport District by \$0.8 million.

Unrestricted net assets of the Comprehensive Sewerage System Fund were \$305.1 million at December 31, 2007. This fund encompasses all assets associated with sewerage operations, maintenance, and capital improvements held by the City, the Parish, the Consolidated Sewerage District, and the East Baton Rouge Parish Sewerage Commission. Net assets invested in capital assets, net of related debt totaled approximately \$157.6 million, reflecting a heavy investment in capital assets. The fund realized a net income of approximately \$41.6 million before government contributions and transfers for the year ended December 31, 2007. During 2007, sales tax (non-operating) revenues were collected in excess of debt service interest and operating expenses in the amount of \$27.3 million. These revenues have been pledged as security on outstanding sewer sales tax revenue bonds and East Baton Rouge Sewerage Commission revenue bonds. Also, investment earnings increased net assets approximately \$15.6 million due to the rise in interest rates and large cash balances invested due to the issuance of the 2006 Sewer Bonds. The implementation of GASB 45 decreased net assets for the Sewerage System Fund by \$3.0 million.

Unrestricted net assets of the Solid Waste Collection and Disposal Fund were \$12.9 million at December 31, 2007. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of \$22.7 million. The fund reported a change in net assets of \$2.8 million for the year ended December 31, 2007. The primary sources of revenue for this fund are user fees, and subsidies from the Consolidated Garbage Service District, and the General Fund. Solid waste user fees increased \$5.8 million in 2007. This was Phase II of the three phases to have this service financed wholly by user fees by the year 2008. In conjunction with the increase in solid waste user fees, the operating subsidy from the General Fund to provide funding for solid waste collection and disposal was reduced by \$3.4 million during 2007. The dedicated property tax millage for solid waste collection and disposal was eliminated in 2007. As a result the operating subsidy from the Consolidated Garbage Service District to the Solid Waste Collection and Disposal Facility was reduced by \$2.6 million during 2007. The implementation of GASB 45 decreased net assets for this fund by \$0.3 million.

General Fund Budgetary Highlights

The total difference between the original General Fund budget and the final amended budget was an increase in appropriations of \$32.0 million. Most of the additional appropriations (\$30.4 million) were funded from 2006 excess funds for capital improvement projects and initiatives. Several of the larger project appropriations included:

- Drainage system rehabilitation and renovation (\$4.6 million) to prevent flooding during periods of intense rainfall.
- A gunshot detection system, camera system, and wireless network for the Police Department (\$3.5 million)
- Reconstruction of North Boulevard between Third and Convention Streets to create a town square (\$4.5 million)
- Roof replacements at two fire stations and the Parish Prison, renovations to three police department buildings, and other improvements to various City-Parish buildings (\$8.0 million)

**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Material differences between actual results and final amended budgeted amounts in the General Fund are as follows:

- Sales and use taxes were collected in excess of budget by approximately \$11.3 million. The original General Fund budget used a growth rate of four percent over a base adjusted for the lingering effects of Hurricane Katrina. Although sales and use tax collections for 2007 were \$2.4 million less than 2006, the use of conservative budget estimates resulted in a positive growth to fund balance.
- Gaming admissions taxes were collected in excess of budget by approximately \$4.4 million. Of the total projected \$6 million in annual revenues, the first \$4 million was dedicated for sewer rehabilitation projects and shown as a source of funds from fund balance in the 2007 budget. Estimated revenue of \$2 million was included for 2007 as a source of funds for recurring operations.
- Gross receipts business taxes were collected in excess of budget by approximately \$3.5 million primarily as a result of increases in electricity and gas costs.
- Approximately \$25.1 million of appropriations for departmental budgets were not spent during 2007. The Plan of Government allows for the carry-forward of funds that are allocated to one-time projects to subsequent years. These appropriations carried forward, in the amount of \$20.2 million, are listed on the balance sheet as “reserved for continuing projects”. The majority of these funds are appropriated to upgrade information services network systems and computers, purchase police vehicles and safety equipment, provide for replacement of departmental office equipment, and provide funds for public works projects such as drainage, street improvements and repairs to City-Parish buildings.

Capital Asset and Debt Administration

Capital Assets: The City of Baton Rouge, Parish of East Baton Rouge Consolidated Government's investment in capital assets for its governmental and business-type activities as of December 31, 2007, amounts to \$1,168.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, airport facilities, parking facilities, a convention center, a landfill, wastewater treatment facilities, roads, highways, bridges, and drainage systems. The total increase in the City-Parish's investment in capital assets for the current fiscal year was \$57.2 million, a 10.3% increase for governmental activities and a 1.5% increase for business-type activities.

Major capital asset events during the current fiscal year included the following:

- Capitalization of donated infrastructure in governmental activities from private subdivision developers (\$18.2 million) brought into City-Parish maintenance during the year.
- Began purchase of right-of-way land and construction on approximately thirty major street or intersection improvements funded by the one-half percent sales and use tax dedicated for street and road improvements (\$20.7 million).

**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

- Completion and capitalization of several infrastructure projects:
 - Millerville Road (I-12 to Old Hammond) (\$9.5 million)
 - Groom Road Improvements (\$7.5 million)
 - S. Sherwood at I-12 Phase I (\$5.6 million)
- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$25.1 million).
- Renovations and improvements to the Airport terminal building, runways, and other Airport improvements (\$15.4 million).
- Depreciation expense of \$30.0 million for governmental activities and \$36.5 million for business-type activities offset the above increases.

City of Baton Rouge, Parish of East Baton Rouge
Capital Assets
(Net of Depreciation)
December 31, 2007 & 2006
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 92.5	\$ 83.0	\$ 77.6	\$ 75.0	\$ 170.1	\$ 158.0
Buildings	83.2	88.6	98.0	102.4	181.2	191.0
Noise Mitigation Costs	--	--	25.3	26.3	25.3	26.3
Improvements (Other Than Buildings) and Infrastructure	265.1	239.9	439.6	433.5	704.7	673.4
Machinery and Equipment	27.3	18.3	1.9	2.4	29.2	20.7
Construction Work-In-Progress	<u>42.0</u>	<u>32.6</u>	<u>15.9</u>	<u>9.2</u>	<u>57.9</u>	<u>41.8</u>
Total	<u>\$510.1</u>	<u>\$462.4</u>	<u>\$658.3</u>	<u>\$648.8</u>	<u>\$1,168.4</u>	<u>\$1,111.2</u>

Additional information on the City-Parish's capital assets can be found in Note 6, Exhibit A-17 of this report.

**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Long-Term Debt: At the end of the current fiscal year, the City-Parish had total bonded debt outstanding of \$545.6 million. Of this amount, \$92.0 million comprises debt backed by the full faith and credit of the government. The remainder of the debt represents bonds secured solely by specified revenue sources such as sales tax and user fees. There were no general obligation bonds outstanding for the City of Baton Rouge or the Parish of East Baton Rouge at the end of the fiscal year.

City of Baton Rouge, Parish of East Baton Rouge
Summary of Excess Revenue and Revenue Bonds
December 31, 2007 & 2006
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Excess Revenue Contracts, Loans and Notes	\$ 65.8	\$ 67.8	\$ 26.2	\$ 24.7	\$ 92.0	\$ 92.5
Sales Tax Revenue Bonds	<u>172.7</u>	<u>181.6</u>	<u>280.9</u>	<u>291.5</u>	<u>453.6</u>	<u>473.1</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$238.5</u>	<u>\$249.4</u>	<u>\$307.1</u>	<u>\$316.2</u>	<u>\$545.6</u>	<u>\$565.6</u>

On March 28, 2007, the City of Baton Rouge issued \$30,395,000 of Revenue Refunding Bonds to current refund the City's \$4 million Series 1993 Public Improvement Sales Tax Revenue Bonds (original net interest cost 5.13%; principal refunded - \$2,615,000) and to advance refund the City's \$19.325 million Series 1997 Public Improvement Sales Tax Revenue Bonds (original net interest cost 4.79%; principal refunded - \$2,275,000), and the City's \$94.45 million Series 1998A Public Improvement Sales Tax Revenue and Refunding Bonds (original true interest cost 4.43%; principal refunded \$25,765,000). Details on the results of the refunding on the entity-wide financial statements are included in Note 10(a)16.

In 2007, the City-Parish borrowed additional funds from the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) program for airport improvements (\$2,956,755). Details of the loan agreements and outstanding amounts at December 31, 2007 are detailed in Note 10(a)14(a) and (b).

**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

As of December 31, 2007, City-Parish bonds were rated by three of the major rating services as follows:

	<u>Underlying Ratings</u>			<u>Insured Ratings</u>		
	Moody's			Moody's		
	<u>Investors</u> <u>Service</u>	<u>Standard</u> <u>and Poor's</u>	<u>Fitch</u> <u>Investors</u>	<u>Investors</u> <u>Service</u>	<u>Standard</u> <u>and Poor's</u>	<u>Fitch</u> <u>Investors</u>
City of Baton Rouge (2%) Sales Tax Revenue Bonds	Aa3	AA	AA	Aaa	AAA	AAA
Parish of East Baton Rouge (2%) Sales Tax Revenue Bonds	A1	AA	AA	Aaa	AAA	AAA
Parish of East Baton Rouge Sewer Improvement (½%) Sales Tax Revenue Bonds	A3	AA	A+	Aaa	AAA	AAA
Parish of East Baton Rouge Road and Street Improvements (½%) Sales Tax Revenue Bonds	A2	A+	A+	Aaa	AAA	AAA
East Baton Rouge Sewerage Commission Revenue Bonds	A1	A+	AA-	Aaa	AAA	AAA

Financial Guaranty Insurance Company (FGIC) provided a municipal bond insurance policy for the Parish's Series 2006B Road and Street Improvement Sales Tax Bonds. Early in 2008, FGIC was downgraded by the rating agencies and, as a result, the variable interest rate on the Series 2006B Bonds increased significantly and was at a rate that was unacceptable to the Parish. To remedy the situation, the Parish decided to replace FGIC with a letter of credit. The only way to affect the change in the municipal bond insurer was to issue refunding bonds. In April 2008, the Parish issued \$93,440,000 Road and Street Improvement Sales Tax Revenue Refunding Bonds, Series 2008A, for this purpose.

Additional information on debt administration can be found in Note 10 of the Notes to the Financial Statements including information concerning the computation of legal debt margins for different types of bonds.

Economic Factors and Next Year's Budget and Rates

The City-Parish's General Fund receives over 54 percent of its revenues from the 2 percent general sales and use tax levied by the City of Baton Rouge or the Parish of East Baton Rouge; therefore, economic indicators are very important in forming the General Fund budget estimates. Dr. James A. Richardson and Dr. Loren C. Scott, expert economists, prepare an econometric model for Louisiana and its major metropolitan areas each year. Statistics on personal income growth and employment growth are generated. From these numbers, a range of potential sales and use tax growth is estimated. Based upon the advice of these experts, the 2008 operating budget assumes a 4.0 percent growth rate for sales and use tax revenues based on an adjusted sales tax base that excludes the post-Katrina surge.

**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

The proposed budget for the year 2008 for all funds, exclusive of operating transfers between funds, totals \$678.7 million, an increase of 9.57% from the year 2007. The public safety function represents nearly 49.9% of the 2008 budget. Major changes in proposed public safety funding in the 2008 budget are: (1) Fourteen new positions have been added to the Police Department and funding is included for one hundred vehicles, ten motorcycles and various other computerization needs for the department. Also included is a 7.5% pay raise for municipal police employees. (2) twenty-two positions have been added in 2008 to the Fire Department's budget. Funding is also included to replace two fire stations built over fifty years ago, an aerial truck and other replacement vehicles, and a 3% pay raise for fire employees.

Requests For Information

This financial report is designed to provide a general overview of the finances of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana, for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Finance, Accounting Division, P.O. Box 1471, Baton Rouge, Louisiana, 70821-1471.

