

**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 \$1,569.9 million (*net assets*). Of this amount, \$384.3 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 \$61.4 million during 2008. Governmental activities' net assets increased \$6.0 million during 2008, primarily as a result of the increase in capital assets from capital grants and donated infrastructure (\$9.1 million), investment earnings (\$15.8 million), additional property tax revenue (\$5.9 million), and increases in operating grant revenues (\$40.7 million), offset by increases in risk management expenses (\$7.0 million), increases in public safety expenses related to Hurricane's Gustav and Ike (\$49.3 million), increases in pay and personnel allotments for police and fire departments (\$6.8 million), and other miscellaneous decreases (\$2.4 million). Sales tax revenues collected in excess of debt service interest and operating expenses in the sewerage fund (\$30.5 million), contributions from the federal and state governments, subdivision developers, and impact fees (\$23.5 million), investment earnings (\$12.7 million), and increased solid waste user fees (\$6.8 million), offset by operating expenses resulting from other postemployment benefits (\$4.3 million), an increase in solid waste collection costs (\$1.5 million), increased debt service expenses (\$1.5 million), the transfer of grantor required matching funds for hurricane expenses (\$5.0 million), and other miscellaneous decreases (\$5.8 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 \$504.1 million, a decrease of \$25.6 million in comparison with the prior year. Approximately 18% of the fund balances, \$88.3 million, is *available for spending* at the City-Parish's discretion (*unreserved, undesignated fund balance*).
- At December 31, 2008, unreserved fund balance for the General Fund was \$75.0 million, or 30% of total 2008 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.

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

**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 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 five fire protection districts and one crime prevention district (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.

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

**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 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.

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

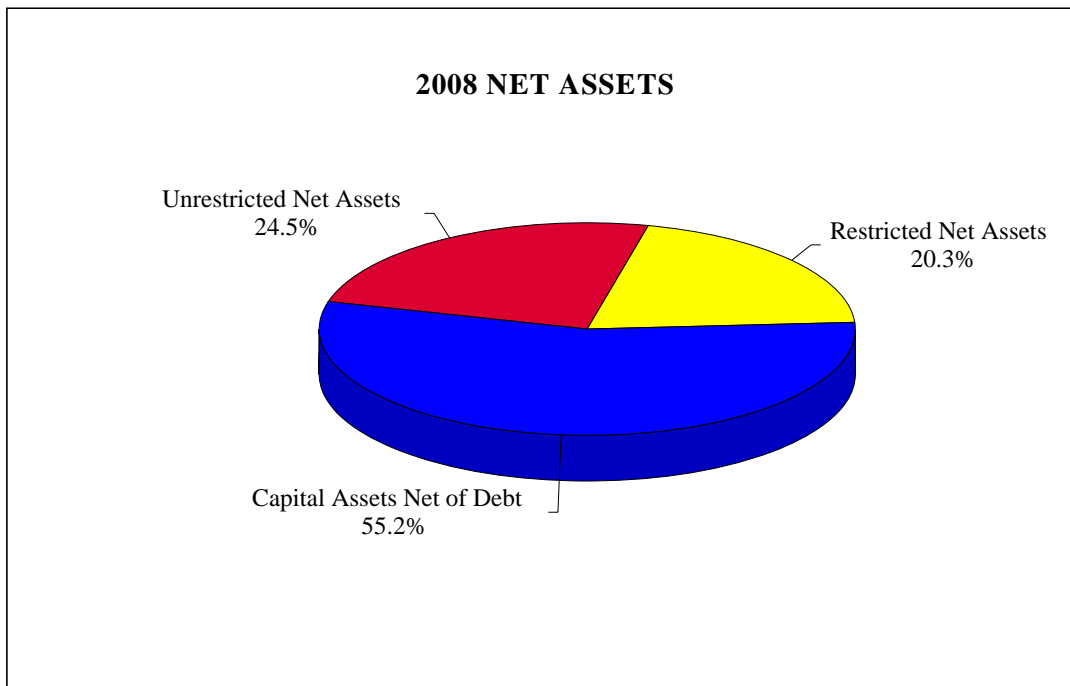
**Government-Wide Financial Analysis**

The following table reflects the condensed Statement of Net Assets for 2008, with comparative figures from 2007:

City of Baton Rouge, Parish of East Baton Rouge  
Condensed Statement of Net Assets  
December 31, 2008 & 2007  
(in millions)

	Governmental Activities		Business- Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets:</b>						
Current and Other Assets	\$ 620.3	\$ 604.3	\$ 381.3	\$ 386.8	\$1,001.6	\$ 991.1
Restricted Assets	--	--	153.8	74.0	153.8	74.0
Capital Assets	<u>558.5</u>	<u>510.1</u>	<u>672.6</u>	<u>658.3</u>	<u>1,231.1</u>	<u>1,168.4</u>
Total Assets	<u>1,178.8</u>	<u>1,114.4</u>	<u>1,207.7</u>	<u>1,119.1</u>	<u>2,386.5</u>	<u>2,233.5</u>
<b>Liabilities:</b>						
Current Liabilities	85.8	56.9	23.8	16.8	109.6	73.7
Non-current Liabilities	<u>360.5</u>	<u>331.0</u>	<u>346.5</u>	<u>320.3</u>	<u>707.0</u>	<u>651.3</u>
Total Liabilities	<u>446.3</u>	<u>387.9</u>	<u>370.3</u>	<u>337.1</u>	<u>816.6</u>	<u>725.0</u>
<b>Net Assets:</b>						
Invested in Capital Assets Net of Debt	450.6	439.0	416.0	411.3	866.6	850.3
Restricted	229.0	211.6	90.0	37.1	319.0	248.7
Unrestricted	<u>52.9</u>	<u>75.9</u>	<u>331.4</u>	<u>333.6</u>	<u>384.3</u>	<u>409.5</u>
Total Net Assets	<u>\$ 732.5</u>	<u>\$ 726.5</u>	<u>\$ 837.4</u>	<u>\$ 782.0</u>	<u>\$1,569.9</u>	<u>\$1,508.5</u>

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



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

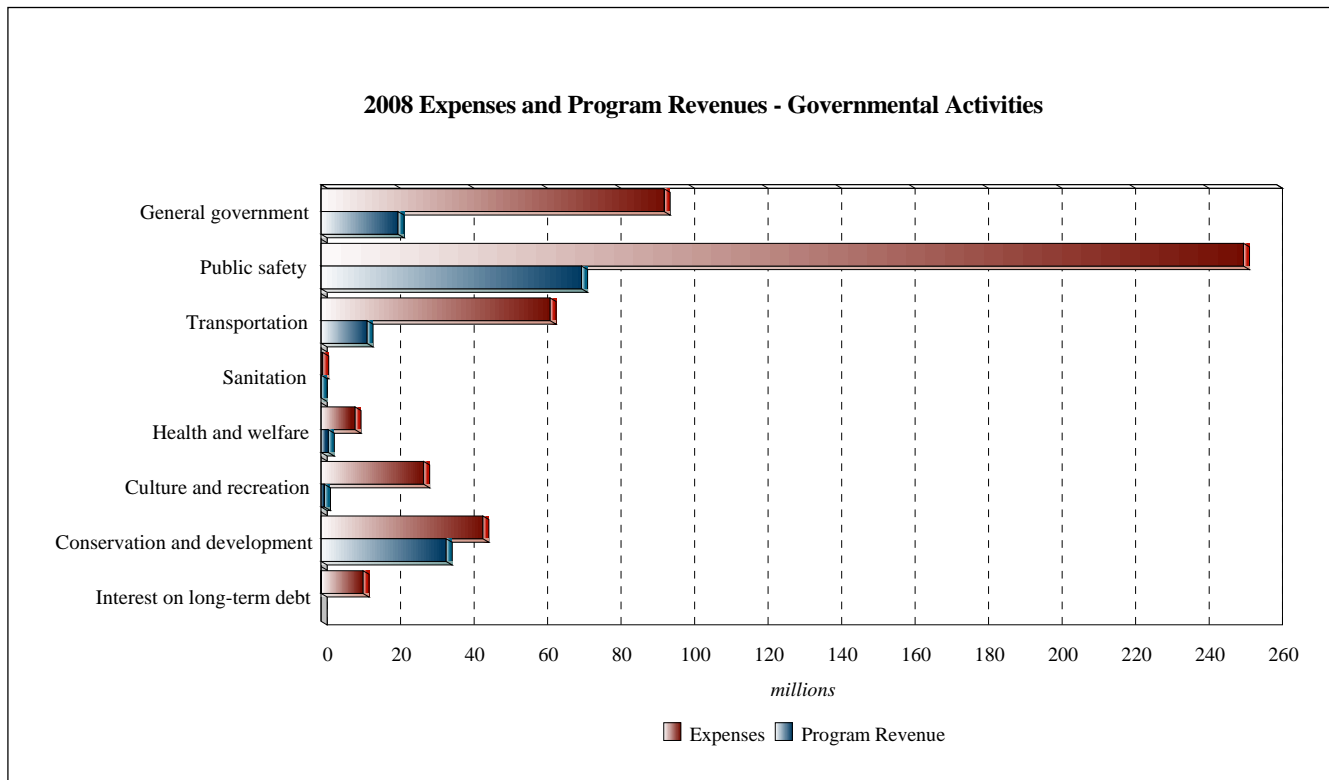
Approximately 55.2% (\$866.6 million) of the City-Parish's net assets as of December 31, 2008, reflect the government's investment in capital assets (land, buildings, infrastructure, machinery and equipment) less any related outstanding debt used to acquire those assets. The City-Parish government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Another 20.3% (\$319.0 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 24.5% of net assets, referred to as *unrestricted* (\$384.3 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, 2008, with comparative figures from 2007:

City of Baton Rouge, Parish of East Baton Rouge  
Condensed Statement of Changes in Net Assets  
For the Years Ended December 31, 2008 & 2007  
(in millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 44.3	\$ 50.3	\$135.6	\$129.5	\$ 179.9	\$ 179.8
Operating Grants and Contributions	87.9	52.1	0.3	0.6	88.2	52.7
Capital Grants and Contributions	9.1	38.6	23.4	23.7	32.5	62.3
General Revenues:						
Sales Taxes	206.7	204.2	42.4	39.9	249.1	244.1
Other Taxes	135.8	128.5	--	--	135.8	128.5
Grants and Contributions Not Restricted to Specific Programs	5.3	4.7	--	--	5.3	4.7
Other	<u>16.9</u>	<u>24.5</u>	<u>12.8</u>	<u>17.8</u>	<u>29.7</u>	<u>42.3</u>
Total Revenues	<u>506.0</u>	<u>502.9</u>	<u>214.5</u>	<u>211.5</u>	<u>720.5</u>	<u>714.4</u>
Expenses:						
General Government	93.4	87.8	0.7	0.7	94.1	88.5
Public Safety	251.0	189.1	--	--	251.0	189.1
Transportation	62.3	65.2	23.1	20.5	85.4	85.7
Sanitation	0.5	0.5	119.7	116.9	120.2	117.4
Health and Welfare	9.3	8.1	--	--	9.3	8.1
Culture and Recreation	27.9	27.5	15.8	15.7	43.7	43.2
Conservation and Development	44.0	45.5	--	--	44.0	45.5
Interest on Long-Term Debt	<u>11.4</u>	<u>10.5</u>	<u>--</u>	<u>--</u>	<u>11.4</u>	<u>10.5</u>
Total Expenses	<u>499.8</u>	<u>434.2</u>	<u>159.3</u>	<u>153.8</u>	<u>659.1</u>	<u>588.0</u>
Increase in Net Assets Before Transfers and Special Item Transfers	6.2	68.7	55.2	57.7	61.4	126.4
Increase In Net Assets	<u>(0.2)</u>	<u>(9.8)</u>	<u>0.2</u>	<u>9.8</u>	<u>--</u>	<u>--</u>
Net Assets, January 1	<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>
Net Assets, December 31	<u>\$732.5</u>	<u>\$726.5</u>	<u>\$837.4</u>	<u>\$782.0</u>	<u>\$1,569.9</u>	<u>\$1,508.5</u>

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

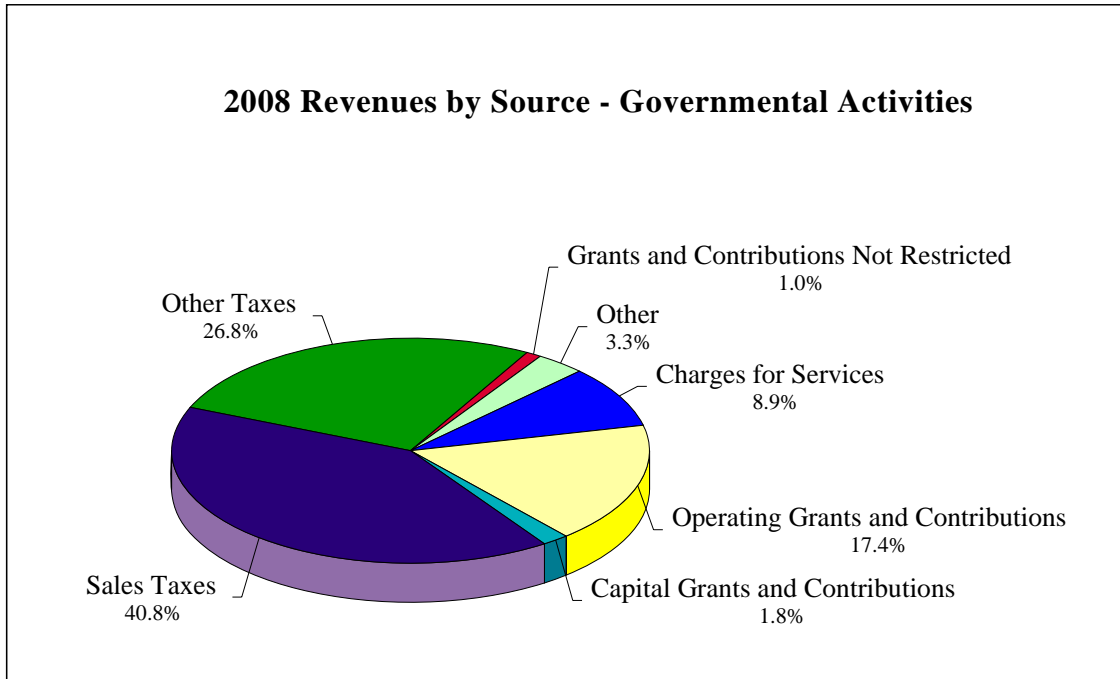


The government's net assets increased \$61.4 million during the current fiscal year.

*Governmental Activities'* net assets increased \$6.0 million in 2008, primarily due to:

- (1) Capital grants and contributions of \$9.1 million were capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$5.4 million), donated infrastructure from developers and private sources (\$3.0 million), and miscellaneous capital grants for public safety and conservation and development from the federal and state governments (\$0.7 million).
- (2) Investment earnings of \$15.8 million as a result of large cash balances due to the issuance of bonds and tax revenues collected in major capital improvement programs.
- (3) An additional \$5.9 million in property tax revenues primarily due to a reassessment of property values in 2008 and the rolling forward of millages in the Library Board of Control Fund, Emergency Medical Services Fund, Fire Pay Enhancement Fund and Downtown Development District.
- (4) Increases in operating grant revenues for reimbursements and accrued funds receivable from FEMA for Hurricane's Gustav and Ike of \$40.7 million.
- (5) These increases were offset by the following increases in expenses:
  - Increases in risk management expenses (\$7.0 million) due to increases in health care costs for the City-Parish's self-insured employee health plan and increases in compromise settlements for claims and judgments.
  - Increases in public safety expenses (\$49.3 million) as a result of Hurricanes Gustav and Ike response and recovery.
  - Increases in police and fire personnel allotments during 2008 in addition to pay increases of 7.5% for police and 3% for fire (\$6.8 million).
- (6) Other miscellaneous decreases in net assets (\$2.4 million).

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

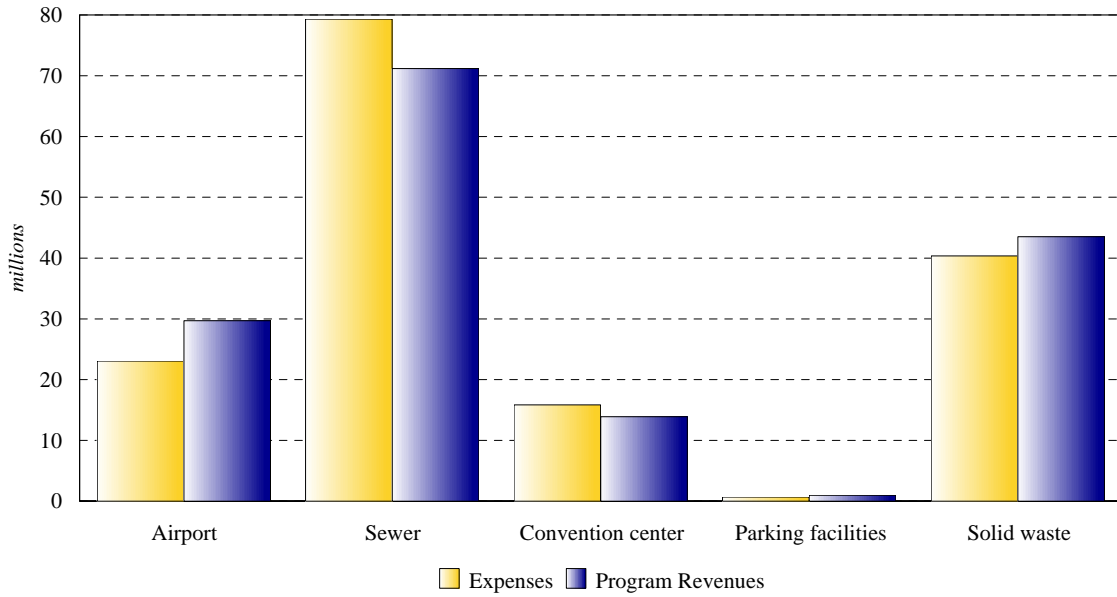


*Business-Type Activities'* net assets increased by \$55.4 million in 2008. The increase in net assets is a result of revenues exceeding expenses for the year. An analysis of major revenues and expenses is as follows:

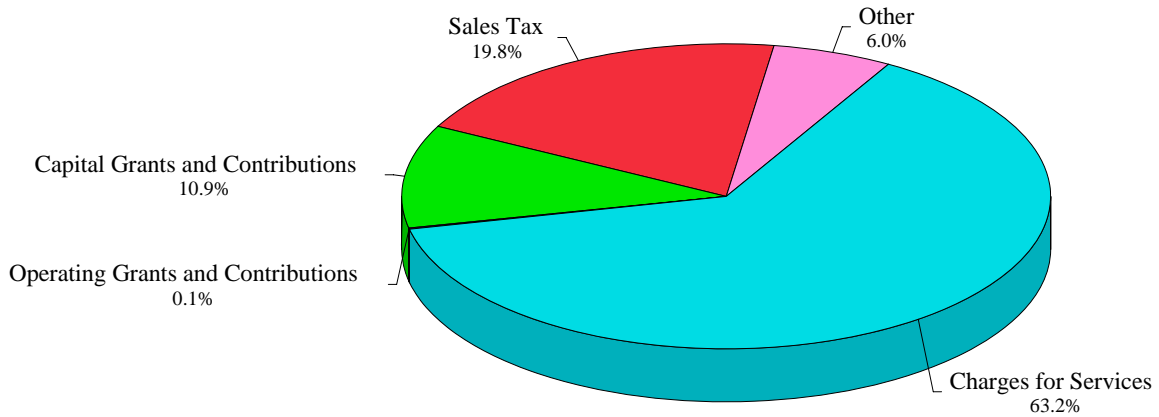
- (1) Sales tax (non-operating) revenues collected in excess of debt service interest and operating expenses in the sewerage capital improvements program in the amount of \$30.5 million.
- (2) Enterprise fund contributions from external parties of \$23.5 million from the following sources: airport grants from federal and state agencies (\$14.3 million), sewer grants from the U.S. Environmental Protection Agency (\$0.4 million), capital grants from the State of Louisiana for the Baton Rouge River Center (\$2.7 million), contributions of infrastructure from private developers to the sewerage system (\$0.5 million), and sewer impact fees (\$5.6 million).
- (3) Investment earnings of \$12.7 million as a result of large cash balances invested from pay-as-you-go funds for the sewer construction program and the issuance of bonds.
- (4) Solid Waste user fees increased \$6.8 million primarily as a result of an increase in the residential collection fee.
- (5) These increases were offset by the following increases in expenses:
  - Operating expenses as a result of Other Post Employment Benefits (\$4.3 million). (See Note 8).
  - An increase in operating expenses due to the amendment of the solid waste collection contract in 2008 (\$1.5 million).
  - Increased debt service expenses due to the issuance of bonds (\$1.5 million).
- (6) Net assets in enterprise funds decreased due to the transfer of approximately \$5.0 million to the Grants Fund to provide grantor required matching funds for Hurricanes Gustav and Ike expenses.
- (7) Other miscellaneous decreases in net assets (\$5.8 million) also offset the increases above.

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

**2008 Expenses and Program Revenues - Business-Type Activities**



**2008 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 \$504.1 million, a decrease of \$25.6 million in comparison with the prior year. Approximately 29% of total governmental funds fund balance (\$146.0 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 (\$103.2 million), (2) payment of debt service (\$21.8 million), (3) loans to low-income recipients (\$3.8 million), (4) legal appropriations in the 2009 operating budget (\$12.4 million), (5) continuing projects carried forward to the next fiscal year (\$216.3 million), or (6) investment of inventories at December 31, 2008 (\$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 \$18.5 million, while total fund balance was \$117.8 million. Compared with total fund balance of \$126.4 million at the end of 2007, fund balance decreased approximately \$8.6 million during 2008. Public safety expenditures increased approximately \$7.7 million primarily due to the addition of new positions in both the police and fire departments, and a 7.5% pay raise for municipal police employees and a 3% raise for fire employees during 2008. Additionally, risk management expenditures increased due to the payment of large claim settlements on compromised judgements during 2008.

The Library Board of Control Fund collected revenues that exceeded expenditures by \$14.8 million in 2008. 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. Property tax revenue increased almost \$3.2 million in 2008 primarily due to the reassessment of property values and the rolling forward of millages. 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 branches in the southern and eastern portions of the Parish.

During 2008, the City-Parish primary government incurred \$49.3 million of expenditures related to Hurricanes Gustav and Ike, including costs for staff overtime, collection of debris, and usage of City-Parish vehicles and equipment. The government recognized revenues in the Grants Fund in the amount of \$28.0 million related to these costs. At December 31, 2008, the Grants Fund reflected a deficiency of revenues under expenditures in the amount of \$21.7 million primarily related to these hurricanes.

Fund balance in the Capital Projects Fund decreased (\$16.8 million) in 2008. This was primarily due to outlays for the acquisition of right-of-way and construction of major street and intersection improvements (\$44.2 million) funded by the 2006 Road and Street Improvement Bonds. These decreases were offset by the transfer of funds from the General Fund and Special Revenue Funds for improvements to fire stations, police stations, public buildings and infrastructure projects (\$13.1 million) which were not completed during 2008 and investment earnings collected in the amount of \$8.6 million. Also, approximately \$5.7 million of the ½ cent road and street tax were collected in excess of current year pay-as-you-go capital outlay expenditures.

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

*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.

Unrestricted net assets of the Greater Baton Rouge Airport District were \$11.4 million at December 31, 2008. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of over \$191.5 million. The fund reported a net loss of \$6.5 million before capital contributions and transfers for the year ended December 31, 2008. During 2008, the airport continued to experience a slight decrease in enplanements primarily due to the downturn in the economy. Also, the issuance of bonds increased debt service expenses contributing an additional \$1.5 million to the net loss.

Unrestricted net assets of the Comprehensive Sewerage System Fund were \$303.2 million at December 31, 2008. 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 \$157.3 million, reflecting a heavy investment in capital assets. The fund realized a net income of approximately \$38.3 million before government contributions and transfers for the year ended December 31, 2008. During 2008, sales tax (non-operating) revenues were collected in excess of debt service interest in the amount of \$30.4 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 \$10.5 million due to large cash balances invested from pay-as-you-go funds and the prior year issuance of Sewer Bonds. Other postemployment benefits costs decreased net assets for this fund by \$3.1 million.

Unrestricted net assets of the Solid Waste Collection and Disposal Fund were \$10.7 million at December 31, 2008. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of \$21.8 million. The fund reported a decrease in total net assets of \$3.0 million for the year ended December 31, 2008. The primary source of revenue for this fund is the solid waste user fee which increased \$6.8 million in 2008. This was Phase III of the three phases to have this service financed wholly by user fees by the year 2008. This increase in user fees was partially offset by an increase in expenses for the solid waste collection contract of approximately \$1.5 million due to an amendment of the contract in 2008. Net assets also decreased as the result of a transfer of approximately \$5.0 million to the Grants Fund to provide grantor required matching funds for Hurricanes Gustav and Ike. Other postemployment benefits costs decreased net assets for this fund by \$0.4 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 \$25.4 million. The majority of the additional appropriations were funded from 2007 excess funds in fund balance-undesignated. Designated fund balances generally were used as a source for the risk management appropriations and the community center allocations. Additional appropriations were made in the following areas:

	<u>(in millions)</u>
Road and drainage capital improvements	\$16.0
Risk compromised judgements and claims settlements	3.4
Additional police officer positions	2.7
Other general fund departmental operational costs	1.2
Cooperative agreements with other governments and private business	1.4
Local match for Hurricanes Gustav and Ike	.6
Additional appropriations for community centers	<u>.1</u>
Total additional general fund appropriations	<u>\$25.4</u>

**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 \$4.5 million. 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 \$3.7 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 2008 budget. Estimated revenue of \$2 million was included for 2008 as a source of funds for recurring operations.
- Gross receipts business taxes were collected in excess of budget by approximately \$3.0 million primarily as a result of increases in electricity and gas costs.
- Approximately \$34.0 million of the appropriations for departmental budgets were not spent during 2008. 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 \$30.5 million, are listed on the balance sheet as "reserved for continuing projects." The majority of these funds are appropriated to purchase needed police and fire vehicles and other public safety equipment, provide repairs and improvements to the parish prison, upgrade information services network systems and computers, provide for replacement of departmental office equipment, and provide funds for public works projects such as drainage, street improvements, traffic calming 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, 2008, amounts to \$1,231.1 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 \$62.7 million, a 9.5% increase for governmental activities and a 2.2% increase for business-type activities.

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

- 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 (\$37.6 million).
- Completion and capitalization of several infrastructure projects:
  - Signal Synchronization System - Phase IV and V (\$6.0 million)
  - Burbank Drive - Segment 1 (\$9.7 million)
  - Burbank Drive - Segment 2 (\$6.6 million)
  - Veterans Memorial Boulevard (\$5.9 million)

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

- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$25.7 million).
- Renovations and improvements to the Airport terminal building, runways, and other Airport improvements (\$24.1 million).
- Depreciation expense of \$33.1 million for governmental activities and \$37.7 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, 2008 & 2007  
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$104.3	\$ 92.5	\$ 80.0	\$ 77.6	\$ 184.3	\$ 170.1
Buildings	78.5	83.2	97.0	98.0	175.5	181.2
Noise Mitigation Costs	--	--	24.2	25.3	24.2	25.3
Improvements (Other Than Buildings) and Infrastructure	281.3	265.1	420.8	439.6	702.1	704.7
Machinery and Equipment	29.3	27.3	1.3	1.9	30.6	29.2
Construction Work-In-Progress	<u>65.1</u>	<u>42.0</u>	<u>49.3</u>	<u>15.9</u>	<u>114.4</u>	<u>57.9</u>
Total	<u>\$558.5</u>	<u>\$510.1</u>	<u>\$672.6</u>	<u>\$658.3</u>	<u>\$1,231.1</u>	<u>\$1,168.4</u>

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

**Long-Term Debt:** At the end of the current fiscal year, the City-Parish had total bonded debt outstanding of \$559.8 million. Of this amount, \$68.2 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, LOUISIANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

City of Baton Rouge, Parish of East Baton Rouge  
Summary of Excess Revenue and Revenue Bonds  
December 31, 2008 & 2007

(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Excess Revenue Contracts, Loans and Notes	\$ 64.5	\$ 65.8	\$ 3.7	\$ 26.2	\$ 68.2	\$ 92.0
Sales Tax Revenue Bonds	<u>165.9</u>	<u>172.7</u>	<u>325.7</u>	<u>280.9</u>	<u>491.6</u>	<u>453.6</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$230.4</u>	<u>\$238.5</u>	<u>\$329.4</u>	<u>\$307.1</u>	<u>\$559.8</u>	<u>\$545.6</u>

On April 17, 2008, the Parish of East Baton Rouge issued \$93,440,000 of variable rate Revenue Refunding Bonds to current refund the Parish's \$92.4 million Series 2006B Variable Rate Sales Tax Revenue Bonds (principal refunded - \$92,240,000). Details on the results of the refunding on the entity-wide financial statements are included in Note 10(a)16.

On January 24, 2008, the City of Baton Rouge issued \$1,885,000 Public Improvement Sales Tax Revenue Bonds, Series 2008 A-1 (AMT) and \$47,205,000 Public Improvement Sales Tax Revenue and Refunding Bonds, Series 2008 A-2 (Non-AMT), for the purpose of (1) loaning the proceeds to the Greater Baton Rouge Airport District to enable the District to, in the case of the Series 2008 A-1 Bonds, acquire a loading bridge and to expand the ticket counter facilities located at the Baton Rouge Metropolitan Airport, and with respect to the Series 2008 A-2 Bonds, to make improvements to the Baton Rouge Metropolitan Airport and to refinance and restructure the District's Louisiana Community Development Authority Indebtedness, (2) paying the costs of issuance and (3) purchasing a reserve fund surety bond. The City also issued \$9,505,000 Public Improvement Sales Tax Revenue Bonds, Series 2008B (Taxable) for the purpose of (1) loaning the proceeds to the District to enable the district to construct a portion of a parking garage facility to be located at the Baton Rouge Metropolitan Airport (2) paying the cost of issuance and (3) purchasing a reserve fund surety bond. The 2008 Bonds were issued as a combination of serial and term bonds that mature on August 1 of each year through 2037 with interest from 3.50 - 5.50 percent.

In 2008, the City-Parish borrowed additional funds from the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) program for airport improvements (\$994,539). Details of the loan agreements and outstanding amounts at December 31, 2008 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, 2008, City-Parish bonds were rated by three of the major rating services as follows:

	<u>Underlying Ratings</u>			<u>Insured Ratings</u>		
	Moody's Investors <u>Service</u>	Standard and Poor's	Fitch Investors	Moody's Investors <u>Service</u>	Standard and Poor's	Fitch Investors
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 (1/2%) Sales Tax Revenue Bonds	A3	AA	A+	Aaa	AAA	AAA
Parish of East Baton Rouge Road and Street Improvements (1/2%) Sales Tax Revenue Bonds	A2	A+	A+	Aaa	AAA	AAA
East Baton Rouge Sewerage Commission Revenue Bonds	A1	A+	AA-	Aaa	AAA	AAA

In March 2009, Standard and Poor's upgraded the underlying rating for the East Baton Rouge Sewerage Commission Revenue Bonds from "A+" to "AA-."

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 55 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 2009 operating budget assumes a 3.0 percent growth rate for sales and use tax revenues based on an adjusted sales tax base that excludes the post-Katrina surge.

The proposed budget for the year 2009 for all funds, exclusive of operating transfers between funds, totals \$700.4 million, an increase of 3.01% from the year 2008. The public safety function represents nearly 51.2% of the 2009 budget. Major

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

changes in proposed public safety funding in the 2009 budget are: Thirty-nine new positions added to the Police Department during 2008, including thirty officers, as well as additional overtime pay for major events and specialized enforcement, and an increase in state supplemental pay recorded as on-behalf payments by the State. Funding is also included to purchase fifty police vehicles, ten fire department vehicles and various public safety equipment and tools.

**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.

