

## 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 and deferred outflows of resources of the City-Parish primary government exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1,540.1 million (*net position*). Unrestricted net position for governmental activities is a deficit of \$210.5 million, while unrestricted net position for business-type activities is approximately \$150.0 million. The deficit in governmental unrestricted net position is the result of the recognition of \$286.3 million in other postemployment benefit liabilities for governmental activities.
- The primary government's total net position decreased by \$41.1 million during 2013.
- Governmental activities' net position decreased \$24.4 million during 2013 primarily as a result of other postemployment benefits in excess of contributions (\$42.8 million), increased claims and judgements (\$9.3 million) offset by decreased public safety expenses (\$1.3 million), increase in revenues from sales tax (\$3.1 million), property tax (\$1.8 million), gross receipts business tax (\$2.3 million), occupational taxes (\$0.7 million), and gaming admissions tax (\$1.9 million), a decrease in compensated absences (\$1.5 million), contributions for capital assets from capital grants and donated infrastructure (\$13.1 million), and other miscellaneous increases (\$2.0 million).
- Net Position of business type activities decreased \$16.7 million during 2013 primarily as a result of increased depreciation expense (\$11.9 million) and other postemployment benefits in excess of contributions (\$3.9 million), bond issuance cost in the sewerage fund (\$3.2 million), a decrease in River Center charges for services (\$1.0 million) and other miscellaneous decreases (\$0.6 million), offset by excess of sales tax revenues over debt service expenses on bonded debt in the sewerage fund (\$3.9 million).
- As of the close of the current fiscal year, the City-Parish's governmental funds reported combined ending fund balances of \$422.5 million, a decrease of \$10.3 million in comparison with the prior year. Approximately 3.7% of the fund balances, \$15.6 million, is *available for spending* at the City-Parish's discretion (*unassigned fund balance*). The remainder of the fund balances are not available for discretionary spending because they are either restricted, committed or assigned for specific purposes.

### 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.

The Statement of Net Position (Exhibit A-1) presents information on all the government's assets and liabilities, and deferred inflows/outflows of resources, with the difference being reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the City-Parish is improving or weakening.

The Statement of Activities (Exhibit A-2) presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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 subsidies 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), 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 costs.

**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 inflows and 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)**

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.

**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.

### **Capital Assets**

General capital assets include land, improvements to land, noise mitigation costs, easements, buildings, vehicles, machinery and equipment, infrastructure, and all other 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 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**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City-Parish's progress in funding its obligation to provide other post-employment benefits to its employees. Required supplementary information can be found on Exhibit A-18.

The audited combining statements referred to earlier in connection with the nonmajor governmental and proprietary funds are presented in Exhibits B-1 through D-3.

Certain supplementary financial information can be found in Exhibits E-1 through F-2 of this report. These schedules and the statistical section (Exhibits G-1 through G-23) 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 Position for 2013, with comparative figures from 2012:

City of Baton Rouge, Parish of East Baton Rouge  
Condensed Statement of Net Position  
December 31, 2013 & 2012  
(in millions)

	Governmental		Business-		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets:						
Current and Other Assets	\$ 521.9	\$ 533.2	\$ 263.3	\$ 297.7	\$ 785.2	\$ 830.9
Restricted Assets	--	--	388.0	392.6	388.0	392.6
Capital Assets	<u>859.9</u>	<u>828.0</u>	<u>1,660.1</u>	<u>1,442.6</u>	<u>2,520.0</u>	<u>2,270.6</u>
Total Assets	<u>1,381.8</u>	<u>1,361.2</u>	<u>2,311.4</u>	<u>2,132.9</u>	<u>3,693.2</u>	<u>3,494.1</u>
Deferred Outflow of Resources	<u>16.9</u>	<u>26.8</u>	<u>44.8</u>	<u>92.0</u>	<u>61.7</u>	<u>118.8</u>
Liabilities:						
Current Liabilities	84.6	84.7	78.0	86.2	162.6	170.9
Non-current Liabilities	<u>699.0</u>	<u>663.3</u>	<u>1,352.7</u>	<u>1,196.5</u>	<u>2,051.7</u>	<u>1,859.8</u>
Total Liabilities	<u>783.6</u>	<u>748.0</u>	<u>1,430.7</u>	<u>1,282.7</u>	<u>2,214.3</u>	<u>2,030.7</u>
Deferred Inflow of Resources	<u>0.5</u>	<u>1.0</u>	--	--	<u>0.5</u>	<u>1.0</u>
Net Position:						
Net Investment in Capital Assets	626.6	601.1	704.2	698.1	1,330.8	1,299.2
Restricted	198.5	218.0	71.3	106.3	269.8	324.3
Unrestricted	<u>(210.5)</u>	<u>(180.1)</u>	<u>150.0</u>	<u>137.8</u>	<u>(60.5)</u>	<u>(42.3)</u>
Total Net Position	<u>\$ 614.6</u>	<u>\$ 639.0</u>	<u>\$ 925.5</u>	<u>\$ 942.2</u>	<u>\$1,540.1</u>	<u>\$1,581.2</u>

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

Approximately 86.4% (\$1,330.8 million) of the City-Parish's net position as of December 31, 2013, reflect the government's investment in capital assets (land, buildings, noise mitigation costs, 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. Restricted net position represents those assets subject to external restrictions on how those assets may be used such as a property tax approved by the electorate for a specific purpose. Restricted net position decreased by \$19.5 million from the previous year for governmental activities, because of the expenditure of dedicated funds as part of the continuation of the road improvement program and construction projects for library capital improvements. Restricted net position decreased by \$35.0 million for business-type activities, due to increases in amounts restricted for debt service and a decrease in collateral posted for swap agreements. Unrestricted net position decreased by \$30.4 million from the previous year for governmental activities. This decrease was primarily due to an increase in other postemployment benefits liability of \$42.8 million. Unrestricted net position increased by \$12.2 million for business-type activities. This increase was primarily due to funding of Sewer Capital improvement projects on a pay-as-you-go basis and a decrease in collateral posted for swap agreements.

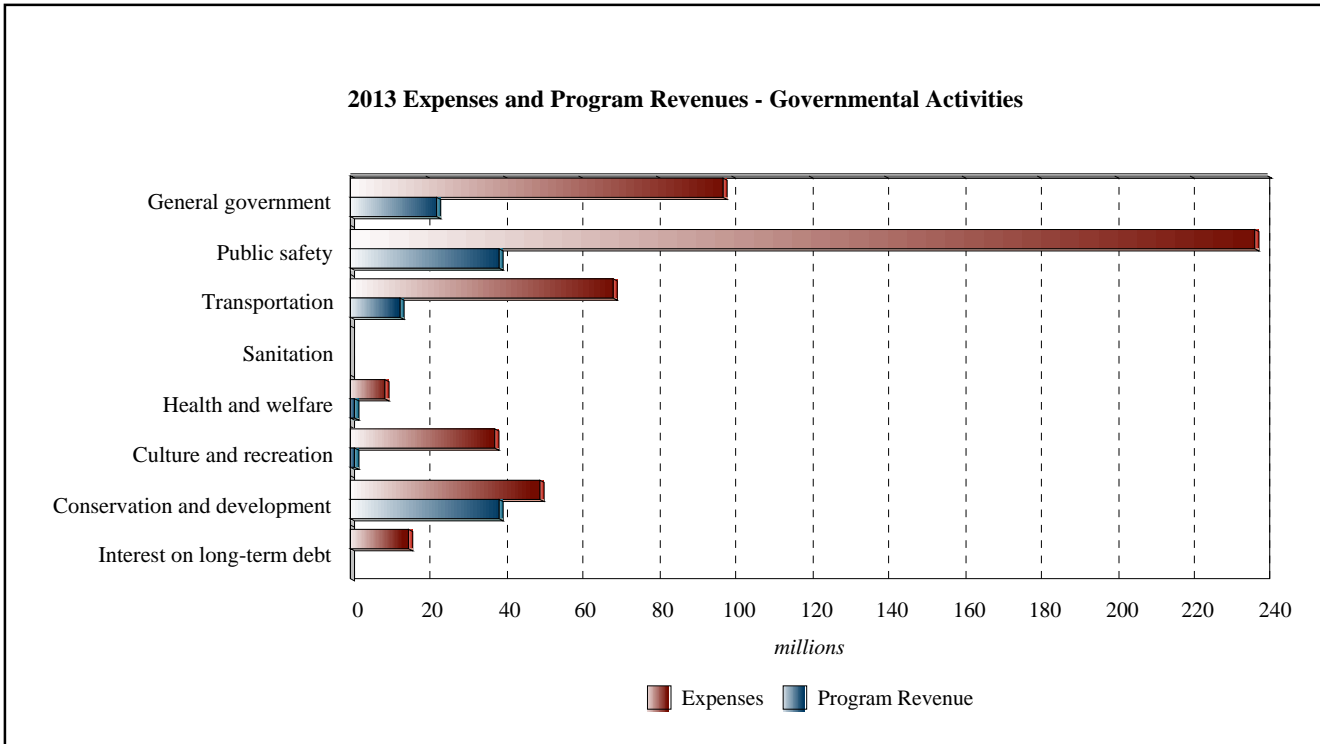
**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

The table below provides a summary of the changes in net position for the year ended December 31, 2013, with comparative figures from 2012:

City of Baton Rouge, Parish of East Baton Rouge  
Condensed Statement of Changes in Net Position  
For the Years Ended December 31, 2013 & 2012  
(in millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 55.7	\$ 52.1	\$135.9	\$137.3	\$ 191.6	\$ 189.4
Operating Grants and Contributions	48.2	57.8	7.6	7.7	55.8	65.5
Capital Grants and Contributions	13.1	15.8	9.6	17.8	22.7	33.6
General Revenues:						
Sales Taxes	219.6	216.5	43.0	42.1	262.6	258.6
Other Taxes	145.7	138.0	--	--	145.7	138.0
Grants and Contributions Not Restricted to Specific Programs	7.7	5.3	--	--	7.7	5.3
Other	<u>1.2</u>	<u>1.4</u>	<u>0.5</u>	<u>2.3</u>	<u>1.7</u>	<u>3.7</u>
Total Revenues	<u>491.2</u>	<u>486.9</u>	<u>196.6</u>	<u>207.2</u>	<u>687.8</u>	<u>694.1</u>
Expenses:						
General Government	97.8	88.2	1.1	0.8	98.9	89.0
Public Safety	237.0	238.3	--	--	237.0	238.3
Transportation	68.8	69.2	28.6	26.6	97.4	95.8
Sanitation	--	--	169.0	138.3	169.0	138.3
Health and Welfare	9.5	9.3	--	--	9.5	9.3
Culture and Recreation	38.2	34.7	13.3	13.4	51.5	48.1
Conservation and Development	50.0	55.6	--	--	50.0	55.6
Interest on Long-Term Debt	<u>15.6</u>	<u>14.8</u>	<u>--</u>	<u>--</u>	<u>15.6</u>	<u>14.8</u>
Total Expenses	<u>516.9</u>	<u>510.1</u>	<u>212.0</u>	<u>179.1</u>	<u>728.9</u>	<u>689.2</u>
Increase in Net Position Before Transfers	(25.7)	(23.2)	(15.4)	28.1	(41.1)	4.9
Transfers	<u>1.3</u>	<u>2.8</u>	<u>(1.3)</u>	<u>(2.8)</u>	<u>--</u>	<u>--</u>
Increase In Net Position	(24.4)	(20.4)	(16.7)	25.3	(41.1)	4.9
Net Position, January 1	<u>639.0</u>	<u>659.4</u>	<u>942.2</u>	<u>916.9</u>	<u>1,581.2</u>	<u>1,576.3</u>
Net Position, December 31	<u>\$614.6</u>	<u>\$639.0</u>	<u>\$925.5</u>	<u>\$942.2</u>	<u>\$1,540.1</u>	<u>\$1,581.2</u>

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



The government's net position decreased by \$41.1 million during the current fiscal year.

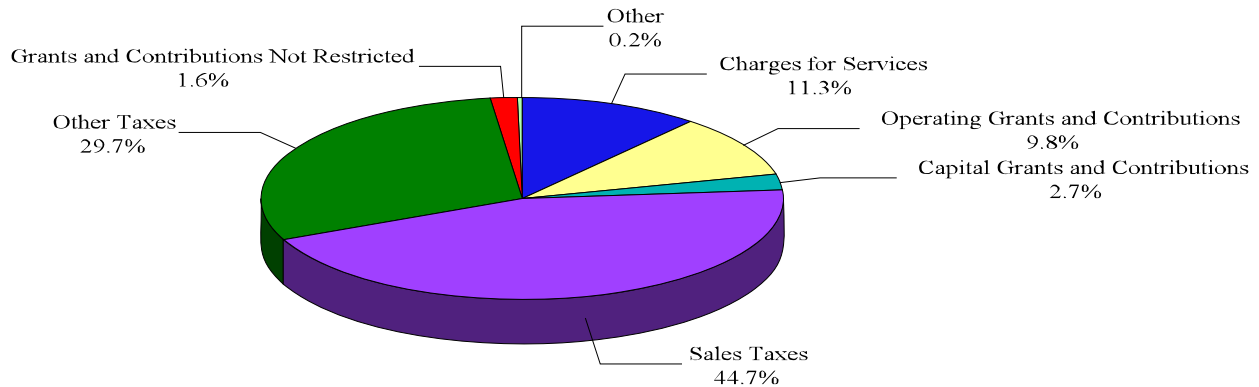
*Governmental Activities'* net position decreased \$24.4 million in 2013 primarily due to:

- (1) Continued reduction in net position resulting from other postemployment benefits costs in excess of contributions (\$42.8 million).
- (2) Increases in expenses for claims and judgements (\$9.3 million) resulting from potential settlements on lawsuits as estimated by the Parish Attorney's office.
- (3) The decrease in net position from the changes above were offset by:
  - Revenue increased for sales tax(\$3.1 million) and occupational tax (\$0.7 million) primarily due to an increase in audit collections and the improving economy.
  - Gaming admission tax increased \$1.9 million primarily due to the first full year of operations of the new L'Auberge Casino.
  - Decreased expenses (\$1.3 million) as a result of decreased costs for housing inmates in other parishes and other public safety related expenses.
  - An additional \$1.8 million in property tax revenues primarily due to an increase in assessed valuation from new growth.
  - Gross receipts business tax revenues increased \$2.3 million as a result of increases in sales of electricity and gas.
  - Capital grants and contributions of \$13.1 million capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$12.4 million), donated infrastructure from developers and private sources (\$0.2 million), and miscellaneous capital grants for public safety, health and welfare, and conservation and development from the federal and state governments (\$0.5 million).

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

- Decreased expenses for compensated absences (\$1.5 million) due to a decrease in the average number of hours accumulated.
- Other miscellaneous increases in net position (\$2.0 million).

**2013 Revenues by Source - Governmental Activities**  
\$491.2 million

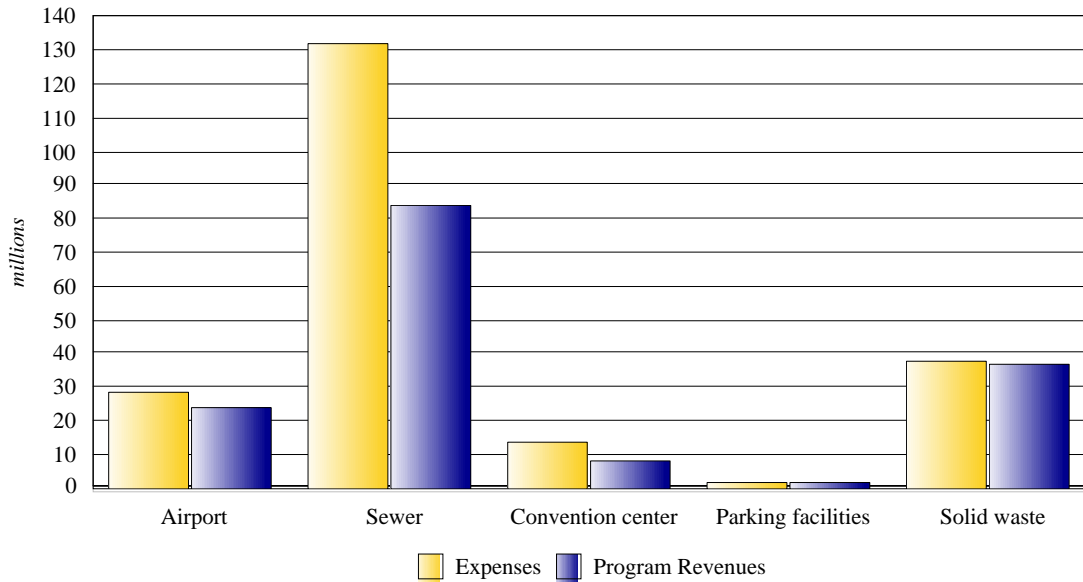


*Business-Type Activities'* net position decreased by \$16.7 million in 2013. The decrease in net position is a result of expenses exceeding revenues for the year. An analysis of major revenues and expenses is as follows:

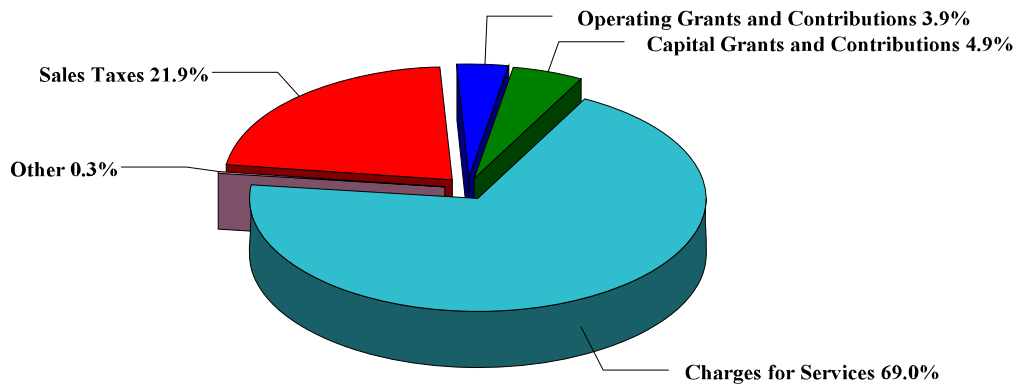
- (1) The Comprehensive Sewerage System Fund reported an excess of expenses over revenues causing a decrease in net position. The primary contributor to the decrease in net position was bond issuance cost in the amount of \$3.2 million and increased interest expense.
- (2) Food and beverage revenues decreased by \$1.0 million for the River Center Fund as a result of major events held at the facility in 2012.
- (3) Depreciation expense increased by \$11.9 million primarily as the result of major capital assets for the Comprehensive Sewerage System Fund being placed into service and depreciated.
- (4) Other postemployment benefit costs in excess of contributions (\$3.9 million).
- (5) Other miscellaneous decreases in net position (\$0.6 million).
- (6) These decreases were offset by the sales tax (non-operating) revenues collected in excess of debt service interest on bonded debt in the sewerage capital improvements program in the amount of \$3.9 million.

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

**2013 Expenses and Program Revenues - Business-Type Activities**



**2013 Revenues by Source - Business Type Activities**  
\$196.6 million





**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, *unassigned 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 \$422.5 million, a decrease of \$10.3 million in comparison with the prior year. Approximately 3.7% of total governmental funds fund balance (\$15.6 million) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. Of the remaining fund balance, \$0.6 million is *nonspendable* and is not in spendable form, \$283.2 million is *restricted* and has limitations imposed on its use by external parties, \$93.1 million is *committed* for specific purposes imposed by the Metropolitan Council, and \$30.0 million has been assigned for various purposes by the Finance Director. Additional information on governmental fund balance can be found in Note 14 of the Notes to the Financial Statements including information on the specific purpose for amounts restricted, committed and assigned.

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, unassigned fund balance of the General Fund was approximately \$15.6 million, while total fund balance was \$111.3 million. Compared with total fund balance of \$102.9 million at the end of 2012, fund balance had an increase of approximately \$8.4 million during 2013. This increase in fund balance was primarily due to increased collections from sales tax, property tax, gaming revenues and gross receipts business tax.

The Library Board of Control Fund collected revenues that exceeded expenditures by \$8.8 million in 2013. The primary source of revenue for this fund is an 10.78 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.

Grants Fund expenditures and other financing uses exceeded revenues and other financing sources by less than \$0.1 million during 2013.

Fund balance in the Capital Projects Fund decreased \$35.8 million in 2013. This was primarily due to outlays for the acquisition of right-of-way and construction of major street and intersection improvements (\$9.4 million) funded by Road and Street Improvement Bonds and construction of the new main library (\$19.8 million). Fund balance in the Capital Projects Fund will fluctuate year-to-year based on the status of projects and the progression of financing to fund those projects.

*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 position of the Greater Baton Rouge Airport District was \$3.2 million at December 31, 2013. Most of this major fund's assets are capital assets with a net investment in capital assets of almost \$222.6 million. The fund reported a net loss of \$10.2 million before capital contributions and transfers for the year ended December 31, 2013.

Unrestricted net position of the Comprehensive Sewerage System Fund was almost \$130.9 million at December 31, 2013. 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. The net investment in capital assets portion of net position totaled approximately \$415.7 million, reflecting a heavy investment in capital assets. The fund realized a net loss of approximately \$7.2 million before government contributions and transfers for the year ended December 31, 2013. During 2013, sales tax (non-operating) revenues were collected

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

in excess of debt service interest on bonded debt in the amount of \$3.9 million. These revenues have been pledged as security on outstanding sewer sales tax revenue bonds and East Baton Rouge Sewerage Commission revenue bonds. In addition, the government recognized revenue for a federal subsidy from the U.S. Department of the Treasury on its Series 2010B “Build America Bonds” in the amount of almost \$6.8 million.

Unrestricted net position of the Solid Waste Collection and Disposal Fund was \$10.9 million at December 31, 2013. Most of this major fund’s assets are capital assets with a net investment in capital assets of \$16.2 million. The fund reported a net loss before transfers out to other funds of \$0.8 million for the year ended December 31, 2013.

**General Fund Budgetary Highlights**

The 2013 general fund original budget of \$309.9 million (inclusive of transfers out) was increased by a net \$5.6 million during 2013 to reflect a final amended budget of approximately \$315.5 million. The additional appropriations were funded by increases in sales taxes and excess funds in fund balance - unassigned and assigned. Committed fund balances were generally used as a source for the risk management appropriations and assigned fund balances for the community center allocations.

Additional appropriations were made in the following areas:

	<u>(in millions)</u>
Medical treatment and housing of inmates	\$2.0
Other public safety costs	0.2
Risk management claims settlements from fund balance committed to self-insurance purposes	0.6
Community center expenses funded from center revenue and fund balance assigned to culture and recreation	0.1
Other general fund operational costs	0.8
Economic development initiatives	3.1
Constitutional offices operational costs	<u>0.2</u>
Total additional general fund appropriations	<u>\$7.0</u>

These increases were offset by a net decrease of \$1.4 million in other miscellaneous departmental operating costs.

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

- Sales and use tax collections were collected in excess of budget by almost \$2.2 million primarily due to an increase in audit collections.
- The risk management budget was underspent by approximately \$3.4 million when actual claims for the workers compensation self-insured program, general liability, and compromised claims were lower than projected in the operating budget. Excess appropriations were credited to fund balance committed to self-insurance purposes to offset increases in future years.

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

- Approximately \$24.1 million of the appropriations for departmental budgets were not spent during 2013. 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 \$17.6 million, are listed on the General Fund balance sheet as “assigned to approved continuing projects.” The majority of these funds are appropriated for needed police vehicles and other public safety equipment, to upgrade information services network systems and computers, provide for replacement of departmental office equipment, fund needed economic development and urban restoration programs, and provide funds for public works projects such as drainage, street improvements, and repairs and renovations 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, 2013, amounts to \$2,520.0 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 \$249.4 million, a 3.9% increase for governmental activities and a 15.1% increase for business-type activities.

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

- Planning, design, right-of-way acquisition, and construction on approximately twenty-one major street or intersection improvements funded by the one-half percent sales and use tax dedicated for street and road improvements (\$9.9 million).
- Completion of facility improvements and purchase of facilities for public agencies:
  - New Main Library (\$35.3 million)
  - Public Safety Complex (\$10.1 million)
- Completion and capitalization of several infrastructure projects:
  - Central Thruway (Sullivan to Greenwell Springs) (\$13.6 million)
  - O’Neal Lane (Segment 1) (\$12.9 million)
  - Staring Lane (\$21.4 million)
  - Mount Pleasant Intersection Improvements (\$2.3 million)
- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$276.3 million).

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

- Renovations and improvements to Airport buildings, runways, and other Airport improvements (\$6.9 million).
- Depreciation expense of \$42.7 million for governmental activities and \$64.9 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, 2013 & 2012  
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land and right-of-way	\$156.9	\$148.2	\$ 80.8	\$ 77.6	\$ 237.7	\$ 225.8
Buildings	137.5	102.5	126.3	120.4	263.8	222.9
Noise Mitigation Costs	--	--	58.1	57.9	58.1	57.9
Improvements (Other Than Buildings) and Infrastructure	506.7	477.8	1,277.9	974.1	1,784.6	1,451.9
Machinery and Equipment	22.3	23.2	0.9	1.0	23.2	24.2
Construction Work-In-Progress	<u>36.5</u>	<u>76.3</u>	<u>116.1</u>	<u>211.6</u>	<u>152.6</u>	<u>287.9</u>
Total	<u>\$859.9</u>	<u>\$828.0</u>	<u>\$1,660.1</u>	<u>\$1,442.6</u>	<u>\$2,520.0</u>	<u>\$2,270.6</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 \$1,536.0 million. Of this amount, \$95.9 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, 2013 & 2012  
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Excess Revenue Contracts, Loans and Notes	\$ 89.3	\$ 93.7	\$ 225.4	\$ 12.1	\$ 314.7	\$ 105.8
Sales Tax Revenue Bonds	<u>231.4</u>	<u>231.5</u>	<u>989.9</u>	<u>1,006.8</u>	<u>1,221.3</u>	<u>1,238.3</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$320.7</u>	<u>\$325.2</u>	<u>\$1,215.3</u>	<u>\$1,018.9</u>	<u>\$1,536.0</u>	<u>\$1,344.1</u>

On March 6, 2013, the East Baton Rouge Sewerage Commission authorized the issuance of \$45,000,000 Taxable Revenue Bonds, Series 2013A. The bonds were issued through a loan and pledge agreement with the Louisiana Department of Environmental Quality (DEQ) for the purpose of upgrading, rehabilitating, extending and improving the sewerage disposal system. Outstanding principal will carry a 0.45% interest rate and an administrative fee of 0.5% for a total of 0.95%. Funds will be drawn on a reimbursement basis from DEQ. Interest shall be payable only on the amount drawn from the date reimbursed. The bonds will mature on February 1 of each year beginning 2015 through 2034.

On May 2, 2013, the East Baton Rouge Sewerage Commission issued \$25,390,000 Taxable Revenue Refunding Bonds, Series 2013B, for the purpose of (1) providing sufficient funds to advance refund and defease the \$33,255,000 Parish Public Improvement Sales Tax Revenue Bonds, Series ST-2005A, of which \$26,605,000 was outstanding; and (2) paying the costs of issuance thereof. The 2013B Bonds will mature serially on February 1 of each year through 2024 with interest from 0.627 to 3.003 percent.

On May 9, 2013, the Louisiana Local Government Environmental Facilities and Community Development Authority (the "Authority"), a political subdivision of the State of Louisiana, issued \$126,260,000 Subordinate Lien Revenue Bonds (East Baton Rouge Sewerage Commission Projects), Series 2013A and \$92,500,000 Subordinate Lien Revenue Bonds (East Baton Rouge Sewerage Commission Projects), Series 2013B (LIBOR Index). The proceeds of the bonds will be loaned by the Authority to the East Baton Rouge Sewerage Commission pursuant to a Loan Agreement dated as of May 1, 2013, to be used for the purpose of (1) financing the cost of upgrading, rehabilitating, improving and extending the sewerage disposal system; (2) funding a deposit to a debt service reserve fund; (3) funding capitalized interest on the Series 2013A Bonds; and (4) paying the costs of issuance of the Bonds. The payments under the loan agreement are payable and secured on a junior and subordinate lien basis by a pledge and dedication of Pledged Revenues of the commission which consists of Sewer User Fees and one-half of one percent (½%) sewer sales and use tax. The 2013A Bonds will mature on February 1 of each year beginning 2033 through 2048 with interest from 4.00 to 5.00 percent. The 2013B Bonds mature February 1, 2049 and are subject to mandatory tender and purchase on August 1, 2018. The 2013B LIBOR Index Bonds will bear interest at a weekly rate based upon an index of 70% of one-month USD-LIBOR-BBA plus 0.70%. The Commission's \$92.5M interest rate swap, effective August 1, 2013, will hedge the exposure to variable interest rates associated with the 2013B Bonds. The swap agreement will provide for the payment of a synthetic fixed

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

rate with respect to the Series 2013B Bonds. Under the terms of the swap agreement, the Commission will pay a fixed rate of 4.525% and the swap counterparty will pay a variable rate of 70% of one-month USD-LIBOR-BBA.

On June 13, 2013, the Parish of East Baton Rouge issued \$11,000,000 Public Improvement Sales Tax Revenue Bonds, Series 2013A for the purpose of providing funds to purchase land and buildings and to prepare a portion of such land and buildings for use as a public safety complex, and paying the costs of issuance. The 2013A Bonds mature February 1, 2028, and will be payable annually on February 1 of each year beginning 2014 through 2028 with interest of 2.09 percent.

As of December 31, 2013, City-Parish bonds were rated by three major rating services as follows:

	Underlying Ratings		
	Moody’s Investors Service	Standard and Poor’s	Fitch Investors
City of Baton Rouge (2%) Sales Tax Revenue Bonds	Aa2	AAA	AA+
Parish of East Baton Rouge Road and Street Improvements (½%) Sales Tax Revenue Bonds	A2	A+	AA-
East Baton Rouge Sewerage Commission Revenue Bonds	Aa3	AA-	AA

In November 2013, Standard and Poor’s upgraded the underlying rating for the City of Baton Rouge (2%) Sales Tax Revenue Bonds from “AA+” to “AAA”, the highest possible rating. This is extremely good news for the taxpayers of Baton Rouge because it will likely translate into direct savings through lower interest rates on future bonds.

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 2014 operating budget assumes a 1.5 percent growth rate for sales and use tax revenues in 2014 over the 2013 anticipated collections.

The proposed budget for the year 2014 for all funds, exclusive of operating transfers between funds, totals \$804.8 million. This is an increase of approximately \$23.6 million or 3.03% over the 2013 budget. The General Fund budget increased by approximately \$7.4 million mainly as a result of new appropriations for public safety equipment, prison-related expenses, and economic development initiatives. There were increases of \$7.0 million in the Special Revenue Funds budgets. These increases were largely the result of increases in appropriations for the Medicaid Supplemental Payment Program in the Emergency Medical Services budget, appropriations to replace the Computer Aided Dispatch System in

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

the East Baton Rouge Parish Communications District budget, and the budget for operation of the East Baton Rouge Parish Library System. There were decreases of \$4.0 million in the Capital Project Funds as a result of the appropriation of one-time funding in 2013 for capital improvements funded through traffic impact fees. Enterprise Fund Budgets increased \$9.5 million due to depreciation of assets in the sewerage system. Debt Service Fund Budgets increased almost \$0.7 million as a result of debt incurred to purchase the Public Safety Complex.

**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 or email address: [finance@brgov.com](mailto:finance@brgov.com).