

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 \$1,581.2 million (*net position*). Unrestricted net position for governmental activities is a deficit of \$180.1 million, while unrestricted net position for business-type activities is approximately \$137.8 million. The deficit in governmental unrestricted net position is the result of the recognition of \$243.5 million in other postemployment benefit liabilities for governmental activities.
- The primary government's total net position increased by \$4.9 million during 2012.
- Governmental activities' net position decreased \$20.4 million during 2012 primarily as a result of increased police and fire expenses (\$5.9 million), other postemployment benefits in excess of contributions (\$43.4 million), expenses related to Hurricane Isaac (\$7.5 million) offset by an increase in sales tax revenue (\$14.7 million), increase in property tax revenue (\$3.5 million) contributions for capital assets from capital grants and donated infrastructure (\$15.8 million), and other miscellaneous increases (\$2.4 million).
- Net Position of business type activities increased \$25.3 million during 2012 primarily as a result of excess of sales tax revenues over debt service expenses on bonded debt in the sewerage fund (\$18.3 million), contributions from the federal and state governments, subdivision developers, and impact fees (\$17.8 million) and other miscellaneous increases (\$1.3 million), offset by increased depreciation expense (\$7.9 million) and other postemployment benefits in excess of contributions (\$4.2 million) resulted in a net increase in net position in business-type activities.
- As of the close of the current fiscal year, the City-Parish's governmental funds reported combined ending fund balances of \$432.8 million, a decrease of \$24.6 million in comparison with the prior year. Approximately 3.6% of the fund balances, \$15.5 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 between the two 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 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 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 2012, with comparative figures from 2011:

City of Baton Rouge, Parish of East Baton Rouge
 Condensed Statement of Net Position
 December 31, 2012 & 2011
 (in millions)

	Governmental		Business-		Total	
	Activities		Type Activities			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:						
Current and Other Assets	\$ 533.2	\$ 557.7	\$ 297.7	\$ 358.2	\$ 830.9	\$ 915.9
Restricted Assets	--	--	392.6	586.5	392.6	586.5
Capital Assets	<u>828.0</u>	<u>766.4</u>	<u>1,442.6</u>	<u>1,167.6</u>	<u>2,270.6</u>	<u>1,934.0</u>
Total Assets	<u>1,361.2</u>	<u>1,324.1</u>	<u>2,132.9</u>	<u>2,112.3</u>	<u>3,494.1</u>	<u>3,436.4</u>
Deferred Outflow of Resources	<u>26.8</u>	<u>21.5</u>	<u>92.0</u>	<u>96.3</u>	<u>118.8</u>	<u>117.8</u>
Liabilities:						
Current Liabilities	84.7	83.8	86.2	80.1	170.9	163.9
Non-current Liabilities	<u>663.3</u>	<u>601.0</u>	<u>1,196.5</u>	<u>1,211.6</u>	<u>1,859.8</u>	<u>1,812.6</u>
Total Liabilities	<u>748.0</u>	<u>684.8</u>	<u>1,282.7</u>	<u>1,291.7</u>	<u>2,030.7</u>	<u>1,976.5</u>
Deferred Inflow of Resources	<u>1.0</u>	<u>1.4</u>	<u>--</u>	<u>--</u>	<u>1.0</u>	<u>1.4</u>
Net Position:						
Net Investment in Capital Assets	601.1	531.1	698.1	635.1	1,299.2	1,166.2
Restricted	218.0	256.9	106.3	80.2	324.3	337.1
Unrestricted	<u>(180.1)</u>	<u>(128.6)</u>	<u>137.8</u>	<u>201.6</u>	<u>(42.3)</u>	<u>73.0</u>
Total Net Position	<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>

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

Approximately 82.2% (\$1,299.2 million) of the City-Parish's net position as of December 31, 2012, 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 \$38.9 million from the previous year for governmental activities, because of the expenditure of dedicated funds as part of the continuation of the road rehabilitation program, ongoing construction projects for library capital improvements and the new EMS headquarters building. Restricted net position increased by \$26.1 million for business-type activities, due to increases in amounts restricted for debt service and an increase in collateral posted for swap agreements. Unrestricted net position decreased by \$51.5 million from the previous year for governmental activities. This decrease was primarily due to an increase in Other Postemployment Benefits liability of \$43.4 million. Unrestricted net position decreased by \$63.8 million for business-type activities. This decrease was primarily due to funding of Sewer Capital improvement projects on a pay-as-you-go basis and an increase in collateral posted for swap agreements.

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

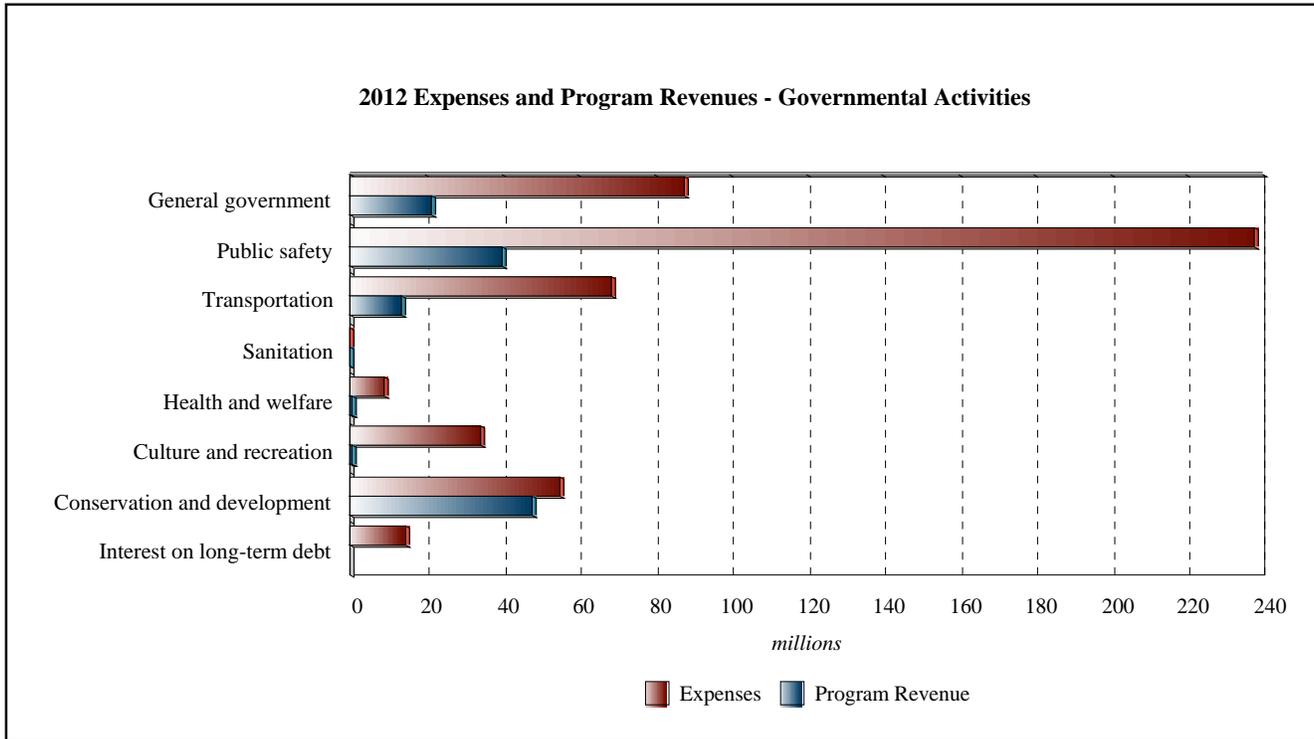
The table below provides a summary of the changes in net position for the year ended December 31, 2012, with comparative figures from 2011:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Changes in Net Position
For the Years Ended December 31, 2012 & 2011
(in millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 52.1	\$ 51.4	\$137.3	\$131.8	\$ 189.4	\$ 183.2
Operating Grants and Contributions	57.8	48.6	7.7	7.6	65.6	56.2
Capital Grants and Contributions	15.8	14.9	17.8	18.6	33.6	33.5
General Revenues:						
Sales Taxes	216.5	201.8	42.1	39.4	258.6	241.2
Other Taxes	138.0	135.1	--	--	138.0	135.1
Grants and Contributions Not Restricted to Specific Programs	5.3	9.4	--	--	5.3	9.4
Other	<u>1.4</u>	<u>0.9</u>	<u>2.3</u>	<u>(3.7)</u>	<u>3.7</u>	<u>(2.8)</u>
Total Revenues	<u>486.9</u>	<u>462.1</u>	<u>207.2</u>	<u>193.7</u>	<u>694.1</u>	<u>655.8</u>
Expenses:						
General Government	88.2	98.5	0.8	0.8	89.0	99.3
Public Safety	238.3	219.9	--	--	238.3	219.9
Transportation	69.2	66.1	26.6	25.8	95.8	91.9
Sanitation	--	--	138.3	136.2	138.3	136.2
Health and Welfare	9.3	9.2	--	--	9.3	9.2
Culture and Recreation	34.7	34.6	13.4	10.9	48.1	45.5
Conservation and Development	55.6	48.3	--	--	55.6	48.3
Interest on Long-Term Debt	<u>14.8</u>	<u>17.7</u>	<u>--</u>	<u>--</u>	<u>14.8</u>	<u>17.7</u>
Total Expenses	<u>510.1</u>	<u>494.3</u>	<u>179.1</u>	<u>173.7</u>	<u>689.2</u>	<u>668.0</u>
Increase in Net Position Before Transfers and Special Item	(23.2)	(32.2)	28.1	20.0	4.9	(12.2)
Transfers	<u>2.8</u>	<u>1.1</u>	<u>(2.8)</u>	<u>(1.1)</u>	<u>--</u>	<u>--</u>
Increase In Net Position	(20.4)	(31.1)	25.3	18.9	4.9	(12.2)
Net Position, January 1 restated	<u>659.4</u>	<u>690.5</u>	<u>916.9</u>	<u>898.0</u>	<u>1,576.3</u>	<u>1,588.5</u>
Net Position, December 31	<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>

Amounts in the 2011 columns in the above schedules have been restated due to implementation of Governmental Accounting Standards Board Statement Number 65, *Items Previously Reported as Assets and Liabilities*.

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

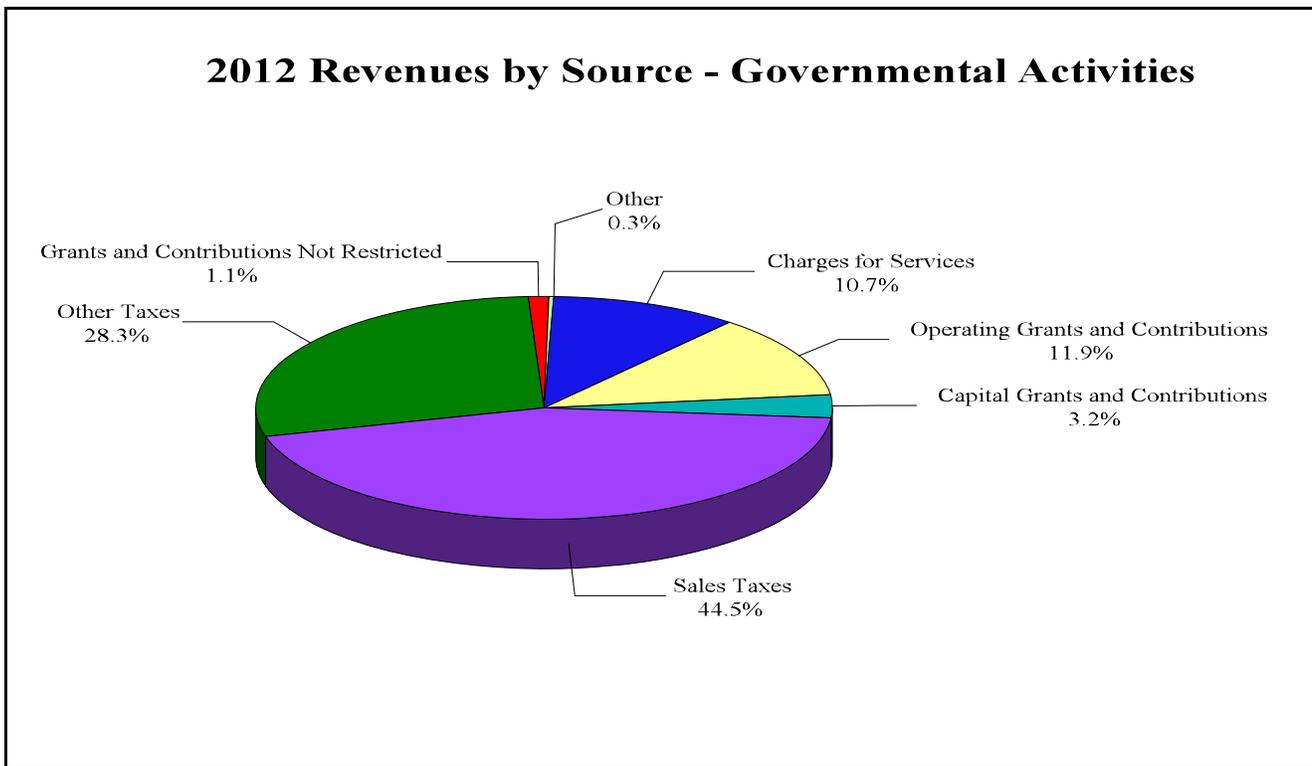


The government's net position increased by \$4.9 million during the current fiscal year.

Governmental Activities' net position decreased \$20.4 million in 2012 primarily due to:

- (1) Increased expenses (\$5.9 million) as a result of increased costs for housing inmates in other parishes, staffing enhancements for police and fire and increased contribution requirements for Municipal Police Employees' Retirement System.
- (2) Continued reduction in net position resulting from Other Post Employment Benefits costs in excess of contributions (\$43.4 million).
- (3) Increases in expenses (\$7.5 million) as a result of Hurricane Isaac response and recovery.
- (4) The decrease in net position from the changes above were offset by:
 - Sales tax revenue increased (\$14.7 million) primarily due to the improving economy.
 - An additional \$3.5 million in property tax revenues primarily due to a reassessment of property values in 2012 and the rolling forward of millages for the Emergency Medical Services Fund and Fire Districts.
 - Capital grants and contributions of \$15.8 million capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$10.8 million), donated infrastructure from developers and private sources (\$2.2 million), and miscellaneous capital grants for public safety, health and welfare, and conservation and development from the federal and state governments (\$2.8 million).
 - Other miscellaneous increases in net position (\$2.4 million).

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

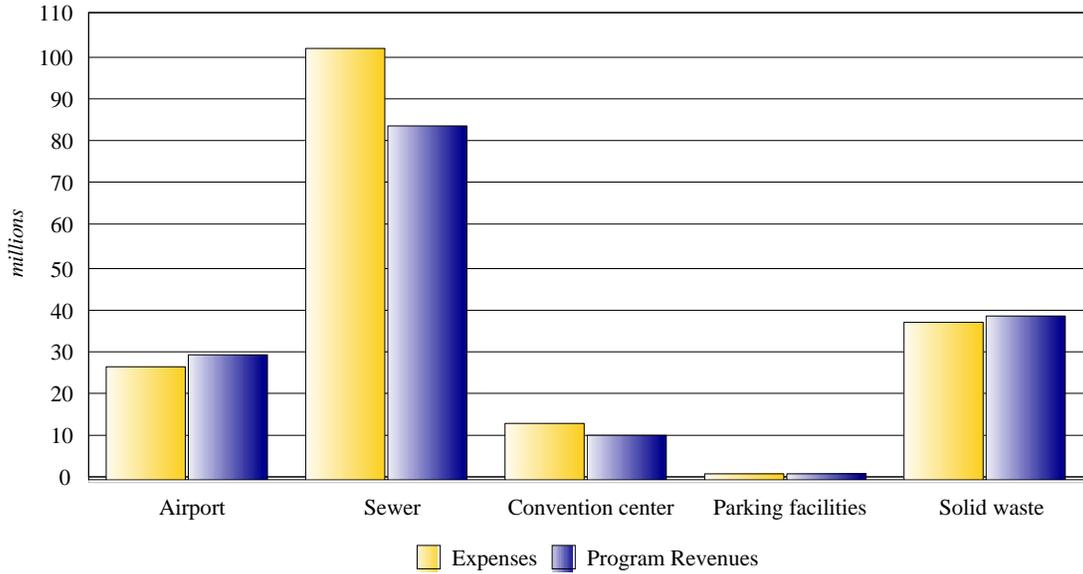


Business-Type Activities' net position increased by \$25.3 million in 2012. The increase in net position is a result of revenues exceeding expenses for the year. An analysis of major revenues and expenses is as follows:

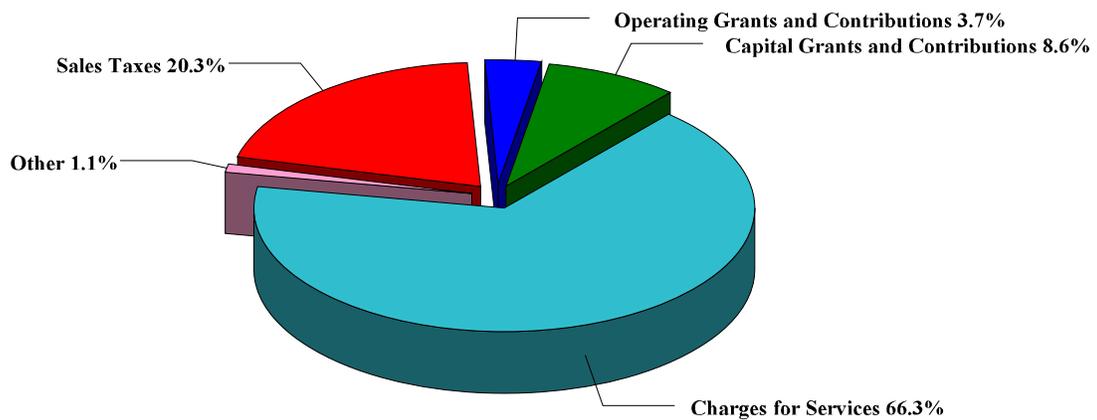
- (1) The Comprehensive Sewerage System Fund reported an excess of revenues over expenses causing an increase in net position. The primary contributor to the positive increase in net position was the sales tax (non-operating) revenues collected in excess of debt service interest on bonded debt in the sewerage capital improvements program in the amount of \$18.3 million.
- (2) Enterprise fund contributions from external parties of \$17.8 million from the following sources: airport grants from federal and state agencies (\$12.6 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 (\$0.8 million), and sewer impact fees (\$1.9 million).
- (3) Other miscellaneous increases in net position (\$1.3 million).
- (4) These increases were offset by:
 - Depreciation expense increased by \$7.9 million primarily as the result of major capital improvement programs for the Comprehensive Sewerage System Fund.
 - Other postemployment benefit costs in excess of contributions (\$4.2 million).

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

2012 Expenses and Program Revenues - Business-Type Activities



2012 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, *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 \$432.8 million, a decrease of \$24.6 million in comparison with the prior year. Approximately 3.6% of total governmental funds fund balance (\$15.5 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, \$305.4 million is *restricted* and has limitations imposed on its use by external parties, \$83.5 million is *committed* for specific purposes imposed by the Metropolitan Council, and \$27.8 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 \$15.5 million, while total fund balance was \$102.9 million. Compared with total fund balance of \$102.8 million at the end of 2011, fund balance had a very slight increase of approximately \$0.1 million during 2012.

The Library Board of Control Fund collected revenues that exceeded expenditures by \$10.3 million in 2012. 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. Property tax millages for the Library Board of Control were not rolled forward when property was reassessed in 2012. As a result, property tax revenue within the fund increased by less than 1%.

Grants Fund expenditures and other financing uses exceeded revenues and other financing sources by \$1.3 million primarily due to Community Development programs spending more program income than was collected during 2012, and capital asset repairs and replacement attributable to Hurricane Gustav.

Fund balance in the Capital Projects Fund decreased \$29.9 million in 2012. This was primarily due to outlays for the acquisition of right-of-way and construction of major street and intersection improvements (\$22.1 million) funded by Road and Street Improvement Bonds. 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 \$1.4 million at December 31, 2012. Most of this major fund's assets are capital assets with a net investment in capital assets of almost \$226.3 million. The fund reported a net loss of \$9.6 million before capital contributions and transfers for the year ended December 31, 2012.

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

Unrestricted net position of the Comprehensive Sewerage System Fund was almost \$117.9 million at December 31, 2012. 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 \$401.9 million, reflecting a heavy investment in capital assets. The fund realized a net income of approximately \$23.4 million before government contributions and transfers for the year ended December 31, 2012. During 2012, sales tax (non-operating) revenues were collected in excess of debt service interest on bonded debt in the amount of \$18.3 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 \$7.4 million.

Unrestricted net position of the Solid Waste Collection and Disposal Fund was \$12.9 million at December 31, 2012. Most of this major fund's assets are capital assets with a net investment in capital assets of \$17.6 million. The fund reported a net loss of \$2.1 million for the year ended December 31, 2012 primarily caused by a transfer to the Grants Fund of local match for Hurricane Isaac.

General Fund Budgetary Highlights

The 2012 general fund original budget of \$301.9 million (inclusive of transfers out) was increased by a net \$10.5 million during 2012 to reflect a final amended budget of approximately \$312.4 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, housing and transportation of inmates	\$ 3.3
Other public safety operational costs	4.1
Risk compromised judgments and claims settlements from fund balance committed to self-insurance purposes	1.4
Community center expenses from fund balance assigned to culture and recreation	0.1
Other general fund operational costs	0.2
Economic development projects	1.4
Cooperative agreements with other governments	0.2
Local match for Hurricane Isaac	<u>1.0</u>
Total additional general fund appropriations	<u>\$11.7</u>

These increases were offset by a net decrease of \$1.2 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 \$7.5 million. The original General Fund budget used a two percent growth rate over 2011 anticipated collections and actual sales tax revenues for the General Fund grew by 7.4 percent during 2012.

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

- The risk management budget was underspent by approximately \$3.0 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.

- Approximately \$23.1 million of the appropriations for departmental budgets were not spent during 2012. 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 \$15.4 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, 2012, amounts to \$2,270.6 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 \$336.6 million, an 8.0% increase for governmental activities and a 23.6% 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-five major street or intersection improvements funded by the one-half percent sales and use tax dedicated for street and road improvements (\$25.3 million).

- Completion of facility improvements for public agencies:
 - EMS Headquarters Building (\$8.7 million)
 - Osage Street Fire Station #2 (\$2.2 million)
 - Sharp Road Fire Station #13 (\$2.7 million)
 - Lobdell Avenue Fire Station #8 (\$2.2 million)
 - Fairwood Branch Library (\$4.8 million)
 - Baton Rouge Junior High Renovations for DPW (\$3.8 million)
 - Progress Road Headstart (\$2.1 million)

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

- Completion and capitalization of several infrastructure projects:
 South Harrell's Ferry Road (Segment 2) (\$23.4 million)
 Stumberg Lane Extension (\$6.9 million)
 South Harrell's Ferry Road (South Sherwood to Millerville) (\$17.5 million)
 Central Thruway (\$61.6 million)
 Millerville Road (I-12 to Harrell's Ferry) (\$2.0 million)

- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$303.3 million).

- Renovations and improvements to Airport buildings, runways, and other Airport improvements (\$19.7 million).

- Depreciation expense of \$38.1 million for governmental activities and \$52.9 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, 2012 & 2011
 (in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land and right-of-way	\$148.2	\$146.8	\$ 77.6	\$ 71.3	\$ 225.8	\$ 218.1
Buildings	102.5	80.6	120.4	125.9	222.9	206.5
Noise Mitigation Costs	--	--	57.9	57.1	57.9	57.1
Improvements (Other Than Buildings) and Infrastructure	477.8	384.9	974.1	694.4	1,451.9	1,079.3
Machinery and Equipment	23.2	20.5	1.0	1.0	24.2	21.5
Construction Work-In-Progress	<u>76.3</u>	<u>133.6</u>	<u>211.6</u>	<u>217.9</u>	<u>287.9</u>	<u>351.5</u>
Total	<u>\$828.0</u>	<u>\$766.4</u>	<u>\$1,442.6</u>	<u>\$1,167.6</u>	<u>\$2,270.6</u>	<u>\$1,934.0</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 \$1,344.1 million. Of this amount, \$105.8 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, 2012 & 2011
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Excess Revenue Contracts, Loans and Notes	\$ 93.7	\$ 59.9	\$ 12.1	\$ 2.3	\$ 105.8	\$ 62.2
Sales Tax Revenue Bonds	<u>231.5</u>	<u>248.7</u>	<u>1,006.8</u>	<u>1,021.0</u>	<u>1,238.3</u>	<u>1,269.7</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$325.2</u>	<u>\$308.6</u>	<u>\$1,018.9</u>	<u>\$1,023.3</u>	<u>\$1,344.1</u>	<u>\$1,331.9</u>

On March 1, 2012, the Louisiana Local Government Environmental Facilities and Community Development Authority (the "Authority"), a political subdivision of the State of Louisiana, issued \$33,585,000 Revenue Bonds (Parish of East Baton Rouge Road Improvements Project), Series 2012. The proceeds of the bonds were loaned by the Authority to the Parish of East Baton Rouge pursuant to a Loan Agreement dated as of March 1, 2012, to be used for the purpose of (1) providing funds to finance the construction of new public roads and streets and/or the widening of existing public roads and streets within the Parish and (2) 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 seventy percent (70%) of the net proceeds of the 1/2% Road and Street Sales Tax. If these pledged revenues are insufficient, payments will be made from lawfully available funds of the City-Parish. The Bonds will mature on August 1 of each year beginning 2012 through 2030 with interest from 2.00 - 5.00 percent.

On April 4, 2012, the City of Baton Rouge issued \$58,075,000 Taxable Refunding Bonds, Series 2012 for the purpose of (1) advance refunding \$18,475,000 of the outstanding principal amount of its \$25,035,000 Taxable Refunding Bonds, Series 2002A, maturing January 15, 2018, January 15, 2023 and January 15, 2029, and \$35,290,000 of the \$47,550,000 Taxable Refunding Bonds, Series 2002B, maturing January 15, 2018, January 15, 2023 and January 15, 2029, and (2) paying the costs of issuance. The Bonds were issued as a combination of serial and term bonds that mature on July 15, 2012, and January 15 of each year beginning 2013 through 2029 with interest from 0.42 - 4.57 percent.

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

As of December 31, 2012, City-Parish bonds were rated by three major rating services as follows:

	<u>Underlying Ratings</u>		
	<u>Moody's Investors Service</u>	<u>Standard and Poor's</u>	<u>Fitch Investors</u>
City of Baton Rouge (2%) Sales Tax Revenue Bonds	Aa2	AA+	AA+
Parish of East Baton Rouge Sewer Improvement (½%) Sales Tax Revenue Bonds	Aa2	AA	No rating
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

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 2013 operating budget assumes a 2.0 percent growth rate for sales and use tax revenues in 2013 over the 2012 anticipated collections adjusted for extraordinary events in the tourism and manufacturing sectors.

The proposed budget for the year 2013 for all funds, exclusive of operating transfers between funds, totals \$780.5 million. This is an increase of almost \$31.6 million or 4.23% over the 2012 budget. The General Fund budget increased by approximately \$10.9 million mainly as a result of police and fire academies and increases in employee benefits. There were increases of \$19.7 million in the Special Revenue and Capital Project Funds budgets. These increases were largely the result of increases in operations for Emergency Medical Services, the East Baton Rouge Parish Communications District and the East Baton Rouge Parish Library and one-time funding for capital improvements. Enterprise Fund Budgets increased \$4.7 million due to an increase in appropriations for the Sanitary Sewer Overflow Capital Improvement Program. Debt Service Fund Budgets decreased almost \$7.0 million as a result of maturing debt related to sewer improvements.

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.