

**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 \$1,588.6 million (*net assets*). Of this amount, \$73.0 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 \$0.1 million during 2011
- Governmental activities' net assets decreased \$29.0 million during 2011 primarily as a result of increased estimates for claims and judgment expenses (\$5.7 million), increased public safety expenses (\$6.7 million), other postemployment benefits in excess of contributions (\$42.6 million), offset by an increase in sales tax revenue (\$8.9 million), contributions for capital assets from capital grants and donated infrastructure (\$14.9 million), and other miscellaneous increases (\$2.2 million).
- Net Assets of business type activities increased \$29.1 million during 2011 primarily as a result of excess of sales tax revenues over debt service expenses on bonded debt in the sewerage fund (\$23.6 million), and contributions from the federal and state governments, subdivision developers, and impact fees (\$18.6 million), offset by an investment loss (\$6.7 million) related to swap agreements, increased depreciation expense (\$5.1 million), and other miscellaneous decreases (\$1.3 million) resulted in a net increase in net assets 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 \$457.4 million, a decrease of \$41.4 million in comparison with the prior year. Approximately 3.6% of the fund balances, \$16.5 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 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 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 weakening.

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 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 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)**

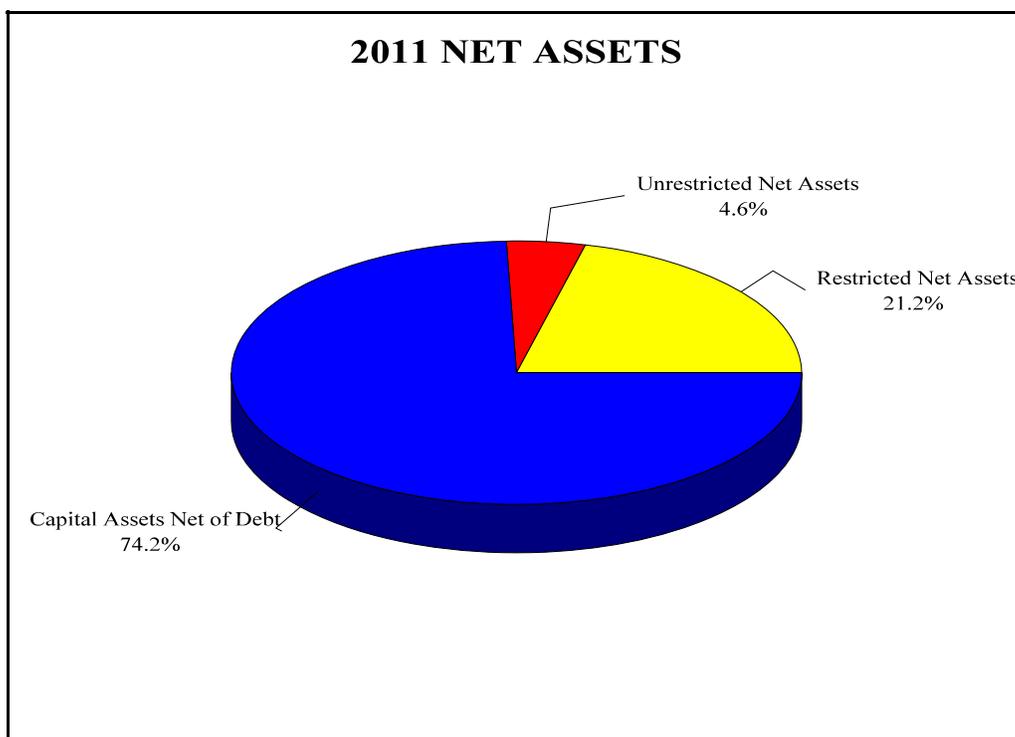
Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Assets for 2011, with comparative figures from 2010:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Net Assets
December 31, 2011 & 2010
(in millions)

	Governmental Activities		Business- Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and Other Assets	\$ 576.9	\$ 612.5	\$ 451.2	\$ 435.4	\$1,028.1	\$1,047.9
Restricted Assets	--	--	586.5	539.2	586.5	539.2
Capital Assets	<u>766.4</u>	<u>721.4</u>	<u>1,167.6</u>	<u>919.2</u>	<u>1,934.0</u>	<u>1,640.6</u>
Total Assets	<u>1,343.3</u>	<u>1,333.9</u>	<u>2,205.3</u>	<u>1,893.8</u>	<u>3,548.6</u>	<u>3,227.7</u>
Liabilities:						
Current Liabilities	85.2	91.9	80.1	64.5	165.3	156.4
Non-current Liabilities	<u>596.6</u>	<u>551.5</u>	<u>1,198.1</u>	<u>931.3</u>	<u>1,794.7</u>	<u>1,482.8</u>
Total Liabilities	<u>681.8</u>	<u>643.4</u>	<u>1,278.2</u>	<u>995.8</u>	<u>1,960.0</u>	<u>1,639.2</u>
Net Assets:						
Invested in Capital Assets Net of Debt	533.2	497.6	645.3	541.1	1,178.5	1,038.7
Restricted	256.9	216.4	80.2	41.8	337.1	258.2
Unrestricted	<u>(128.6)</u>	<u>(23.5)</u>	<u>201.6</u>	<u>315.1</u>	<u>73.0</u>	<u>291.6</u>
Total Net Assets	<u>\$ 661.5</u>	<u>\$ 690.5</u>	<u>\$ 927.1</u>	<u>\$ 898.0</u>	<u>\$1,588.6</u>	<u>\$1,588.5</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 74.2% (\$1,178.5 million) of the City-Parish's net assets as of December 31, 2011, 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. Another 21.2% (\$337.1 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 4.6% of net assets, referred to as *unrestricted* (\$73.0 million), may be used to meet the ongoing obligations of the government to citizens and creditors.

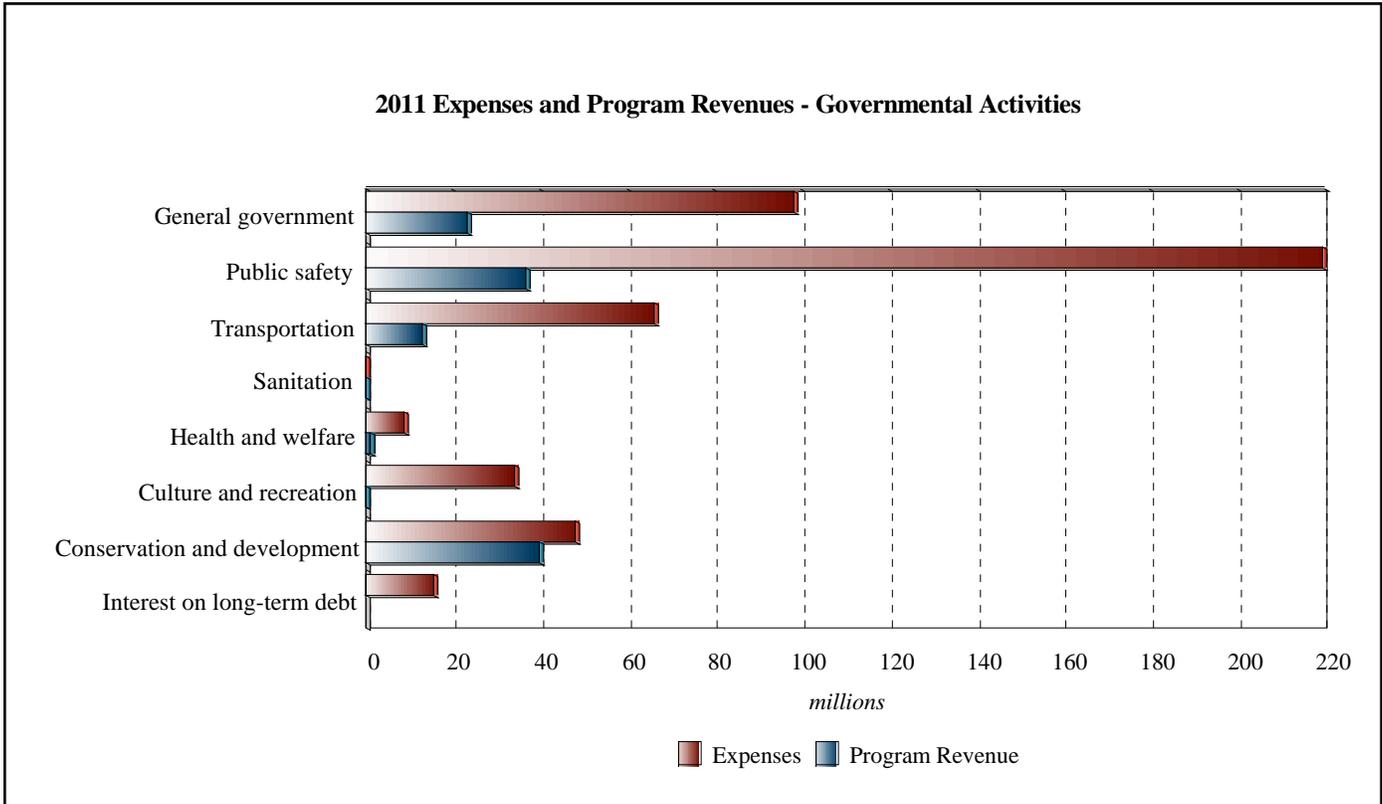
The table below provides a summary of the changes in net assets for the year ended December 31, 2011, with comparative figures from 2010:

City of Baton Rouge, Parish of East Baton Rouge
 Condensed Statement of Changes in Net Assets
 For the Years Ended December 31, 2011 & 2010
 (in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 51.4	\$ 52.6	\$131.8	\$128.4	\$ 183.2	\$ 181.0
Operating Grants and Contributions	48.6	62.6	7.6	4.4	56.2	67.0
Capital Grants and Contributions	14.9	25.2	18.6	23.0	33.5	48.2
General Revenues:						
Sales Taxes	201.8	192.9	39.4	37.4	241.2	230.3
Other Taxes	135.1	134.4	--	--	135.1	134.4
Grants and Contributions Not Restricted to Specific Programs	9.4	5.1	--	--	9.4	5.1
Other	<u>0.9</u>	<u>2.4</u>	<u>(3.7)</u>	<u>(12.4)</u>	<u>(2.8)</u>	<u>(10.0)</u>
Total Revenues	<u>462.1</u>	<u>475.2</u>	<u>193.7</u>	<u>180.8</u>	<u>655.8</u>	<u>656.0</u>
Expenses:						
General Government	98.5	94.4	0.8	0.7	99.3	95.1
Public Safety	219.9	213.2	--	--	219.9	213.2
Transportation	66.1	66.6	25.8	23.1	91.9	89.7
Sanitation	--	0.3	126.0	119.4	126.0	119.7
Health and Welfare	9.2	9.4	--	--	9.2	9.4
Culture and Recreation	34.6	33.4	10.9	10.5	45.5	43.9
Conservation and Development	48.3	58.0	--	--	48.3	58.0
Interest on Long-Term Debt	<u>15.6</u>	<u>15.5</u>	<u>--</u>	<u>--</u>	<u>15.6</u>	<u>15.5</u>
Total Expenses	<u>492.2</u>	<u>490.8</u>	<u>163.5</u>	<u>153.7</u>	<u>655.7</u>	<u>644.5</u>
Increase in Net Assets Before Transfers and Special Item Transfers	<u>(30.1)</u>	<u>(15.6)</u>	<u>30.2</u>	<u>27.1</u>	<u>0.1</u>	<u>11.5</u>
Increase In Net Assets	<u>(29.0)</u>	<u>(17.1)</u>	<u>29.1</u>	<u>28.6</u>	<u>0.1</u>	<u>11.5</u>
Net Assets, January 1 restated	<u>690.5</u>	<u>707.6</u>	<u>898.0</u>	<u>869.4</u>	<u>1,588.5</u>	<u>1,577.0</u>
Net Assets, December 31	<u>\$661.5</u>	<u>\$690.5</u>	<u>\$927.1</u>	<u>\$898.0</u>	<u>\$1,588.6</u>	<u>\$1,588.5</u>

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

Amounts in the 2010 columns in the above schedule have been restated due to implementation of Governmental Accounting Standards Board Statement Number 61, *The Financial Reporting Entity: Omnibus*.



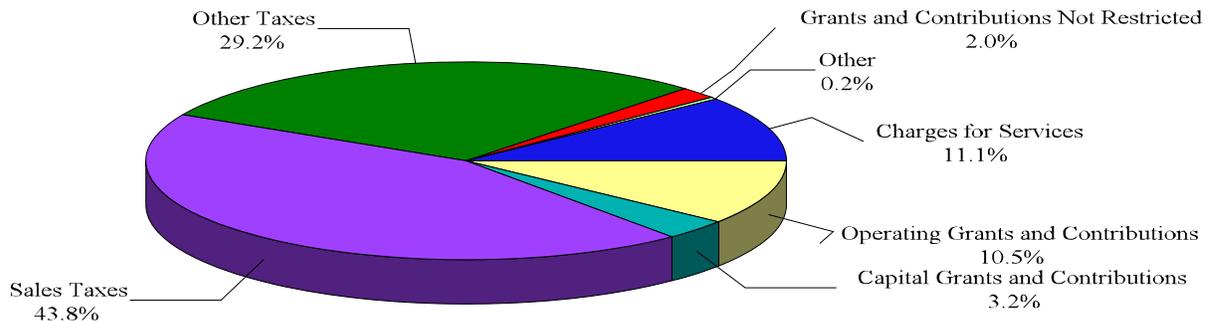
The government's net assets increased by a very slight \$0.1 million during the current fiscal year.

Governmental Activities' net assets decreased \$29.0 million in 2011 primarily due to:

- (1) Increased expenses for claims and judgments (\$5.7 million) resulting from potential settlements on lawsuits as estimated by the Parish Attorney.
- (2) Increased public safety expenses (\$6.7) primarily as a result of increased costs for housing inmates in other parishes, increased contribution requirements for Municipal Police Employees' Retirement System, and increased costs of fuel for police and fire vehicles.
- (3) Continued reduction in net assets resulting from Other Post Employment Benefits costs in excess of contributions (\$42.6 million)
- (4) The decrease in net assets from the changes above were offset by:
 - Sales tax revenue increased (\$8.9 million) primarily due to the improving economy.
 - Capital grants and contributions of \$14.9 million capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$10.0 million), donated infrastructure from developers and private sources (\$2.3 million), and miscellaneous capital grants for public safety, health and welfare, and conservation and development from the federal and state governments (\$2.6 million).
 - Other miscellaneous increases in net assets (\$2.2 million).

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

2011 Revenues by Source - Governmental Activities

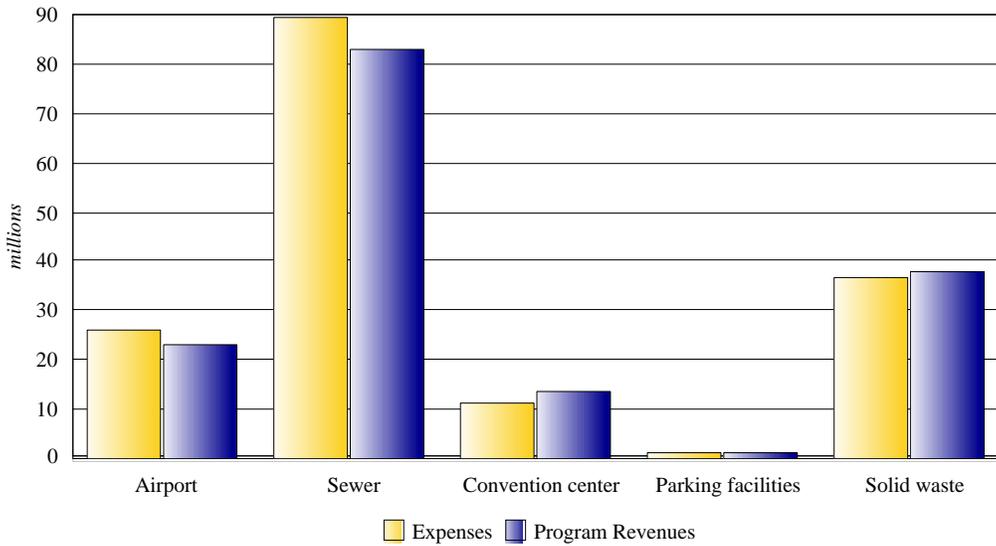


Business-Type Activities' net assets increased by \$29.1 million in 2011. The increase in net assets is a result of revenues exceeding expenses for the year. An analysis of major revenues and expenses is as follows:

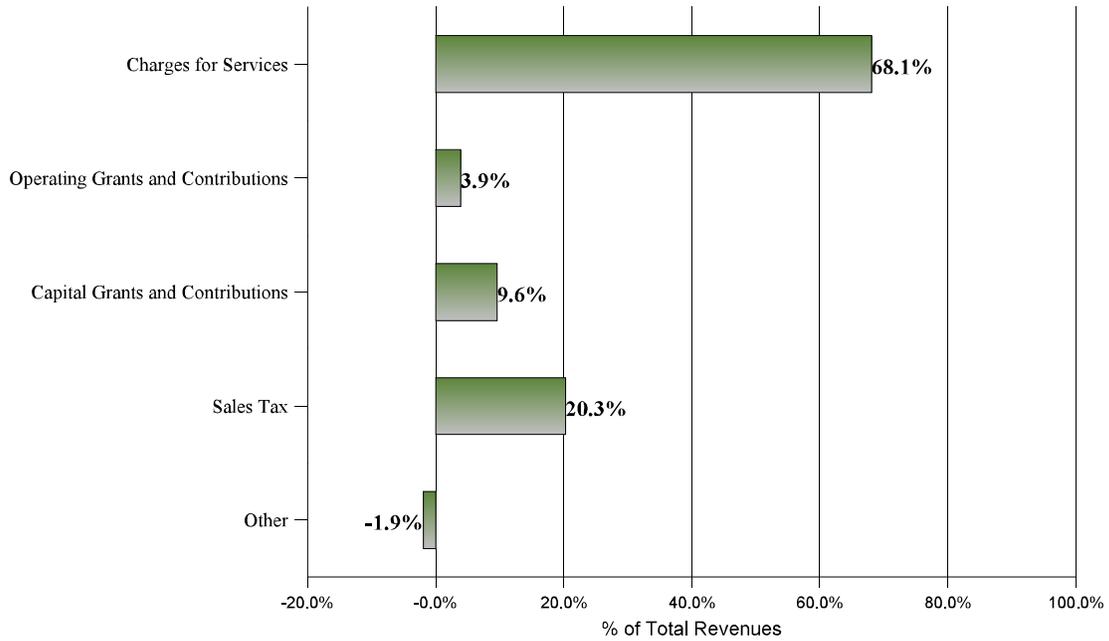
- (1) The Comprehensive Sewerage System Fund reported an excess of revenues over expenses causing an increase in net assets. The primary contributor to the positive increase in net assets was the sales tax (non-operating) revenues collected in excess of debt service interest on bonded debt in the sewerage capital improvements program in the amount of \$23.6 million.
- (2) Enterprise fund contributions from external parties of \$18.6 million from the following sources: airport grants from federal and state agencies (\$7.8 million), capital grants from the State of Louisiana for the Baton Rouge River Center (\$7.3 million), contributions of infrastructure from private developers to the sewerage system (\$1.7 million), and sewer impact fees (\$1.8 million).
- (3) These increases were offset by:
 - The Comprehensive Sewerage System Fund recognized an investment loss of \$6.7 million related to swap agreements (see note 10(a)12).
 - Depreciation expense increased by \$5.1 million primarily as the result of major capital improvement programs to improve infrastructure at the Airport and the Comprehensive Sewerage System Fund.
 - Other miscellaneous decreases in net assets (\$1.3 million).

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

2011 Expenses and Program Revenues - Business-Type Activities



2011 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 \$457.4 million, a decrease of \$41.6 million in comparison with the prior year. Approximately 3.6% of total governmental funds fund balance (\$16.5 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, \$322.6 million is *restricted* and has limitations imposed on its use by external parties, \$85.3 million is *committed* for specific purposes imposed by the Metropolitan Council, and \$32.4 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 \$16.5 million, while total fund balance was \$102.8 million. Compared with total fund balance of \$96.9 million at the end of 2010, fund balance increased approximately \$5.9 million during 2011. The increase in fund balance was primarily due to increased sales tax revenues resulting from an improving economy and reduced debt service requirements on city sales tax revenue bonds.

The Library Board of Control Fund collected revenues that exceeded expenditures by \$10.6 million in 2011. The primary source of revenue for this fund is an 11.1 mill property tax, which provides funding for all operating expenses of the library system and a pay-as-you-go capital improvement program. All revenues remaining after operational expenditures are funded are applied to the capital improvement program. During 2011, the Library Fund transferred \$19.0 million to the Capital Projects Fund for the construction of a new 57,000 square-foot library at the current location of the River Center Branch.

Grants Fund expenditures exceeded revenues and transfers in by \$1.3 million primarily due to Community Development programs spending more program income than was collected during 2011, and the use of local funds to support federal programs.

Fund balance in the Capital Projects Fund decreased \$34.8 million in 2011. This was primarily due to outlays for the acquisition of right-of-way and construction of major street and intersection improvements (\$28.4 million) funded by the 2006 and 2009 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 assets of the Greater Baton Rouge Airport District were \$2.8 million at December 31, 2011. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of almost \$226.8 million. The fund reported a net loss of \$10.7 million before capital contributions and transfers for the year ended December 31, 2011. During 2011, the airport recognized depreciation expense of \$10.1 million, an increase of almost \$1.1 million from the prior year. This increase in depreciation is the result of a major capital improvement program to improve infrastructure at the facility in order to maintain the Airport system's capacity.

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

Unrestricted net assets of the Comprehensive Sewerage System Fund were almost \$179.8 million at December 31, 2011. 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 \$342.2 million, reflecting a heavy investment in capital assets. The fund realized a net income of approximately \$25.3 million before government contributions and transfers for the year ended December 31, 2011. During 2011, sales tax (non-operating) revenues were collected in excess of debt service interest on bonded debt in the amount of \$23.6 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. These increases were offset by an investment loss (\$6.7 million) on derivative instruments (see note 10(a)12).

Unrestricted net assets of the Solid Waste Collection and Disposal Fund were \$13.7 million at December 31, 2011. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of \$18.8 million. The fund reported a net loss of \$0.8 million for the year ended December 31, 2011. Operating expenses increased during 2011 by approximately \$1.5 million primarily due to the annual adjustment in rates included in the contract with our provider for collection of solid waste.

General Fund Budgetary Highlights

The 2011 general fund original budget of \$298.0 million (inclusive of transfers out) was increased by a net \$2.6 million during 2011 to reflect a final amended budget of approximately \$300.7 million. Approximately half of the additional appropriations were funded by increases in sales taxes, charges for services and other revenues over budgeted amounts. 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	\$2.1
Risk compromised judgments and claims settlements from fund balance committed to self-insurance purposes	0.9
Community center expenses from fund balance assigned to culture and recreation	0.1
Local match for Mississippi River flood disaster	0.1
Total additional general fund appropriations	<u>\$3.2</u>

These increases were offset by a net decrease of \$0.6 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 \$3.6 million. The original General Fund budget used a one percent growth rate over 2010 anticipated collections and actual sales tax revenues for the General Fund grew by 4.5 percent during 2011.

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

- The risk management budget was underspent by approximately \$1.8 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 \$24.5 million of the appropriations for departmental budgets were not spent during 2011. 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 \$19.0 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, 2011, amounts to \$1,934.0 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 \$293.4 million, a 6.2% increase for governmental activities and a 27.0% 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-four major street or intersection improvements funded by the one-half percent sales and use tax dedicated for street and road improvements (\$28.4 million).

- Completion of facility improvements for public agencies:
Gus Young Avenue Fire Station (\$1.6 million)
Police Evidence Building (\$1.3 million)

- Completion and capitalization of several infrastructure projects:
North Boulevard Town Square (\$4.3 million)
Comite Drive (Plank Road to Comite River) (\$14.3 million)
Ford Street (\$8.2 million)
Highland Road (\$19.5 million)
Siegen Lane (\$14.9 million)
Jones Creek Road (Segment 3) (\$15.7 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 (\$264.9 million).
- Renovations and improvements to Airport buildings, runways, and other Airport improvements (\$14.6 million).
- Depreciation expense of \$36.0 million for governmental activities and \$45.0 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, 2011 & 2010
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land and right-of-way	\$146.8	\$139.9	\$ 71.3	\$ 64.6	\$ 218.1	\$ 204.5
Buildings	80.6	83.2	125.9	109.4	206.5	192.6
Noise Mitigation Costs	--	--	57.1	55.5	57.1	55.5
Improvements (Other Than Buildings) and Infrastructure	384.9	319.4	694.4	532.3	1,079.3	851.7
Machinery and Equipment	20.5	26.1	1.0	1.2	21.5	27.3
Construction Work-In-Progress	<u>133.6</u>	<u>152.8</u>	<u>217.9</u>	<u>156.2</u>	<u>351.5</u>	<u>309.0</u>
Total	<u>\$766.4</u>	<u>\$721.4</u>	<u>\$1,167.6</u>	<u>\$919.2</u>	<u>\$1,934.0</u>	<u>\$1,640.6</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 \$1,331.9 million. Of this amount, \$62.2 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, 2011 & 2010
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Excess Revenue Contracts, Loans and Notes	\$ 59.9	\$ 60.5	\$ 2.3	\$ 2.7	\$ 62.2	\$ 63.2
Sales Tax Revenue Bonds	<u>248.7</u>	<u>260.8</u>	<u>1,021.0</u>	<u>840.5</u>	<u>1,269.7</u>	<u>1,101.3</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$308.6</u>	<u>\$321.3</u>	<u>\$1,023.3</u>	<u>\$843.2</u>	<u>\$1,331.9</u>	<u>\$1,164.5</u>

On April 29, 2010, the East Baton Rouge Sewerage Commission authorized the issuance of \$8,300,000 Revenue Bonds (Department of Environmental Quality Project), Series 2010. 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 sewage 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 2012, through 2031. During 2011, \$6,968,654 was drawn from DEQ.

On July 28, 2011, the East Baton Rouge Sewerage Commission issued \$202,500,000 Revenue Bonds, Series 2011A (LIBOR Index), for the purpose of (1) providing funds to finance the costs of upgrading, rehabilitating, improving and extending the sewerage disposal system and (2) paying the costs of issuance of the Series 2011A Bonds.

As of December 31, 2011, City-Parish bonds were rated by three of the major rating services as follows:

	<u>Underlying Ratings</u>		
	<u>Moody's</u>	<u>Standard</u>	<u>Fitch</u>
	<u>Investors</u>	<u>and Poor's</u>	<u>Investors</u>
	<u>Service</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	A1	AA	No rating
Parish of East Baton Rouge Road and Street Improvements (½%) Sales Tax Revenue Bonds	Aa3	A+	AA-
East Baton Rouge Sewerage Commission Revenue Bonds	Aa3	AA-	AA

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

In February 2012, Moody's Investors Service upgraded the underlying rating for the Sewer Improvement Sales Tax Revenue Bonds from "A1" to "Aa2" and downgraded the Road and Street Improvements Sales Tax Revenue Bonds from "Aa3" to "A2".

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 2012 operating budget assumes a 1.0 percent growth rate for sales and use tax revenues in 2012 over the 2011 anticipated collections.

The proposed budget for the year 2012 for all funds, exclusive of operating transfers between funds, totals \$745.6 million. This is an increase of almost \$3.4 million or .45% over the 2011 budget. Although the General Fund budget increased by approximately \$4.6 million mainly as a result of increases in employee benefits, there were decreases of \$40.0 million in the Special Revenue and Capital Project Funds budgets. These decreases were largely the result of one-time funding for Library capital improvements funded on a pay-as-you-go basis in the 2011 budget. Enterprise Fund Budgets increased \$12.7 million due to debt service requirements for the Sanitary Sewer Overflow Capital Improvement Program.

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.