

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 \$1,586.4 million (*net assets*). Of this amount, \$290.4 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 \$11.5 million during 2010.
- Governmental activities' net assets decreased \$17.1 million during 2010, primarily as a result of the decrease in sales tax revenue (\$7.0 million) and gaming admissions tax revenue (\$1.8 million), other postemployment benefits (\$35.2 million), and increased risk management expenses (\$1.9 million), offset by contributions for capital assets from capital grants and donated infrastructure (\$24.9 million), an increase in gross receipts business tax revenue (\$2.3 million), and other miscellaneous increases (\$1.6 million).
- Net Assets of business type activities increased \$28.6 million during 2010, primarily as a result of excess of sales tax revenues over debt service expenses on bonded debt in the sewerage fund (\$20.1 million), contributions from the federal and state governments, subdivision developers, and impact fees (\$23.0 million), and nonoperating revenue from a cash federal subsidy (\$4.4 million), offset by an investment loss (\$15.0 million) and increased interest expense (\$1.5 million) as a result of implementation of GASB Statement No. 53, and other miscellaneous decreases (\$2.4 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 \$497.5 million, a decrease of \$70.7 million in comparison with the prior year. Approximately 20% of the fund balances, \$99.4 million, is *available for spending* at the City-Parish's discretion (*unreserved, undesignated fund balance*).
- At December 31, 2010, unreserved fund balance for the General Fund was \$66.7 million, or 25% of total 2010 General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-Wide Financial Statements

The government-wide financial statements (see Exhibits A-1 and A-2) are designed to be similar to those of private sector businesses in that all governmental and business-type activities are consolidated into columns which add to a total for the primary government. The statements combine all governmental funds and internal service funds current financial resources with capital assets and long-term obligations. Also presented in the government-wide financial statements is a total column for the business-type activities of the primary government. Component units are separate legal governmental entities to which the City-Parish Metropolitan Council may be obligated to provide financial assistance and are presented as a separate column in the government-wide statements and as individual activities within the basic financial statements. All City-Parish component unit agencies except for five fire protection districts and two crime prevention districts (see Exhibits E-1 through E-12) issue separate independently audited financial statements.

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

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

Certain supplementary financial information can be found in Exhibits F-1 through G-2 of this report. These schedules and the statistical section (Exhibits H-1 through H-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)**

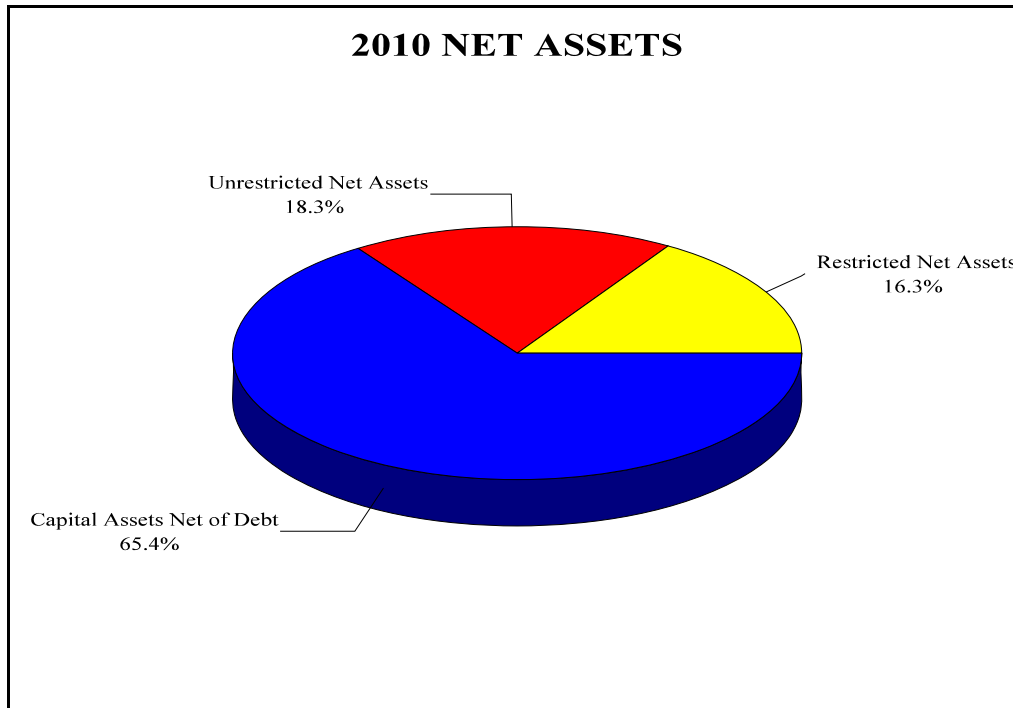
Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Assets for 2010, with comparative figures from 2009:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Net Assets
December 31, 2010 & 2009
(in millions)

	Governmental Activities		Business- Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and Other Assets	\$ 610.7	\$ 669.2	\$ 435.4	\$ 443.8	\$1,046.1	\$1,113.0
Restricted Assets	--	--	539.2	220.8	539.2	220.8
Capital Assets	<u>720.5</u>	<u>632.4</u>	<u>919.2</u>	<u>770.0</u>	<u>1,639.7</u>	<u>1,402.4</u>
Total Assets	<u>1,331.2</u>	<u>1,301.6</u>	<u>1,893.8</u>	<u>1,434.6</u>	<u>3,225.0</u>	<u>2,736.2</u>
Liabilities:						
Current Liabilities	91.5	75.6	64.5	38.1	156.0	113.7
Non-current Liabilities	<u>551.3</u>	<u>520.5</u>	<u>931.3</u>	<u>527.1</u>	<u>1,482.6</u>	<u>1,047.6</u>
Total Liabilities	<u>642.8</u>	<u>596.1</u>	<u>995.8</u>	<u>565.2</u>	<u>1,638.6</u>	<u>1,161.3</u>
Net Assets:						
Invested in Capital Assets Net of Debt	496.7	454.3	541.1	464.2	1,037.8	918.5
Restricted	216.4	225.9	41.8	33.6	258.2	259.5
Unrestricted	<u>(24.7)</u>	<u>25.3</u>	<u>315.1</u>	<u>371.6</u>	<u>290.4</u>	<u>396.9</u>
Total Net Assets	<u>\$ 688.4</u>	<u>\$ 705.5</u>	<u>\$ 898.0</u>	<u>\$ 869.4</u>	<u>\$1,586.4</u>	<u>\$1,574.9</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 65.4% (\$1,037.8 million) of the City-Parish's net assets as of December 31, 2010, 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 16.3% (\$258.2 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 18.3% of net assets, referred to as *unrestricted* (\$290.4 million), may be used to meet the ongoing obligations of the government to citizens and creditors.

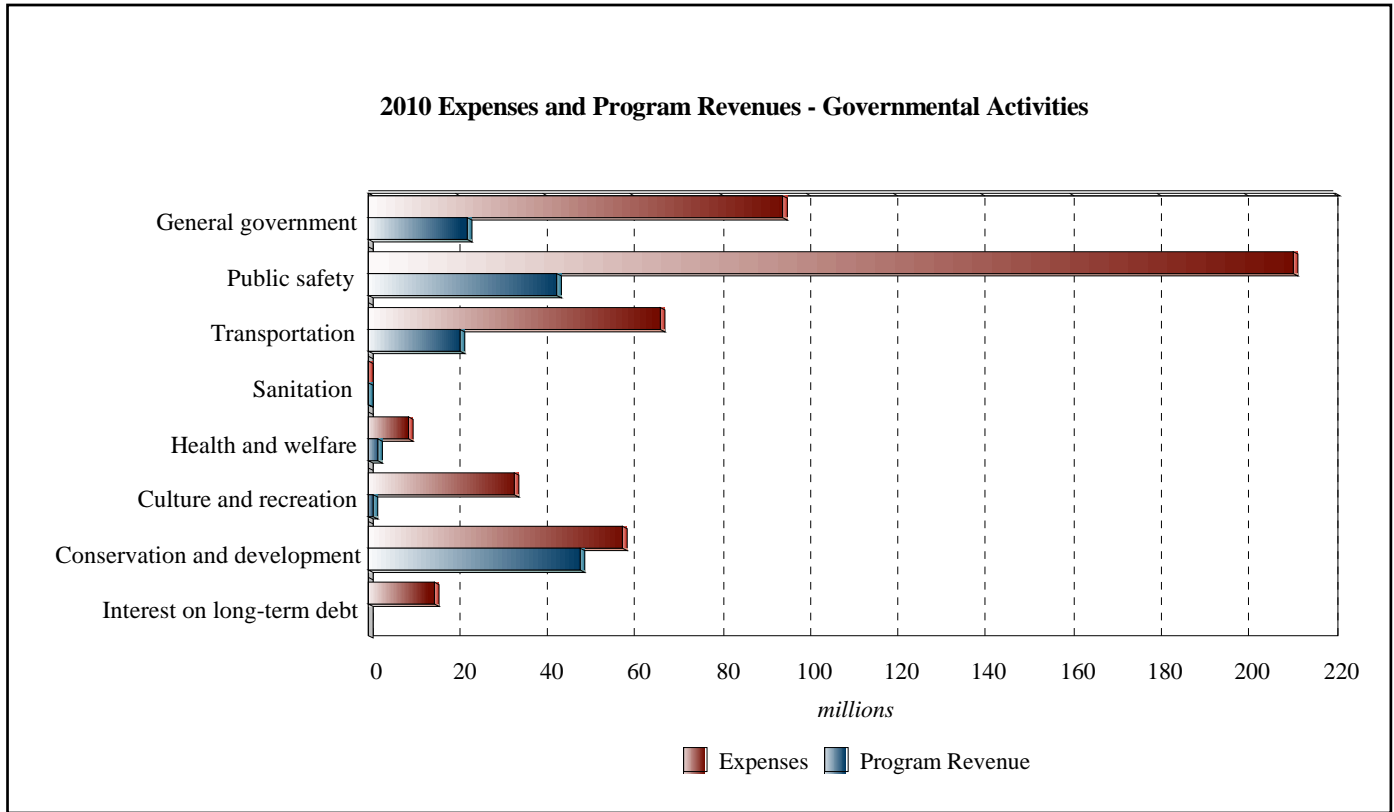
The table below provides a summary of the changes in net assets for the year ended December 31, 2010, with comparative figures from 2009:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Changes in Net Assets
For the Years Ended December 31, 2010 & 2009
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 52.4	\$ 55.9	\$128.4	\$125.5	\$ 180.8	\$ 181.4
Operating Grants and Contributions	62.4	50.3	4.4	0.6	66.8	50.9
Capital Grants and Contributions	24.9	16.3	23.0	28.3	47.9	44.6
General Revenues:						
Sales Taxes	192.9	199.9	37.4	39.4	230.3	239.3
Other Taxes	133.4	132.9	--	--	133.4	132.9
Grants and Contributions Not						
Restricted to Specific Programs	4.9	4.9	--	--	4.9	4.9
Other	<u>2.5</u>	<u>5.0</u>	<u>(12.4)</u>	<u>(23.6)</u>	<u>(9.9)</u>	<u>(18.6)</u>
Total Revenues	<u>473.4</u>	<u>465.2</u>	<u>180.8</u>	<u>170.2</u>	<u>654.2</u>	<u>635.4</u>
Expenses:						
General Government	94.4	98.5	0.7	0.7	95.1	99.2
Public Safety	211.4	211.1	--	--	211.4	211.1
Transportation	66.6	67.3	23.1	20.0	89.7	87.3
Sanitation	0.3	1.6	119.4	113.5	119.7	115.1
Health and Welfare	9.4	9.5	--	--	9.4	9.5
Culture and Recreation	33.4	28.5	10.5	10.7	43.9	39.2
Conservation and Development	58.0	45.6	--	--	58.0	45.6
Interest on Long-Term Debt	<u>15.5</u>	<u>14.6</u>	<u>--</u>	<u>--</u>	<u>15.5</u>	<u>14.6</u>
Total Expenses	<u>489.0</u>	<u>476.7</u>	<u>153.7</u>	<u>144.9</u>	<u>642.7</u>	<u>621.6</u>
Increase in Net Assets Before						
Transfers and Special Item	(15.6)	(11.5)	27.1	25.3	11.5	13.8
Transfers	<u>(1.5)</u>	<u>(2.9)</u>	<u>1.5</u>	<u>2.9</u>	<u>--</u>	<u>--</u>
Increase In Net Assets	(17.1)	(14.4)	28.6	28.2	11.5	13.8
Net Assets, January 1 restated	<u>705.5</u>	<u>719.9</u>	<u>869.4</u>	<u>841.2</u>	<u>1,574.9</u>	<u>1,561.1</u>
Net Assets, December 31	<u>\$688.4</u>	<u>\$705.5</u>	<u>\$898.0</u>	<u>\$869.4</u>	<u>\$1,586.4</u>	<u>\$1,574.9</u>

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

Amounts in the 2009 columns in the above schedule have been restated due to implementation of Governmental Accounting Standards Board Statement Number 51, *Accounting and Financial Reporting for Intangible Assets*, and Statement Number 53, *Accounting and Financial Reporting for Derivative Instruments*.



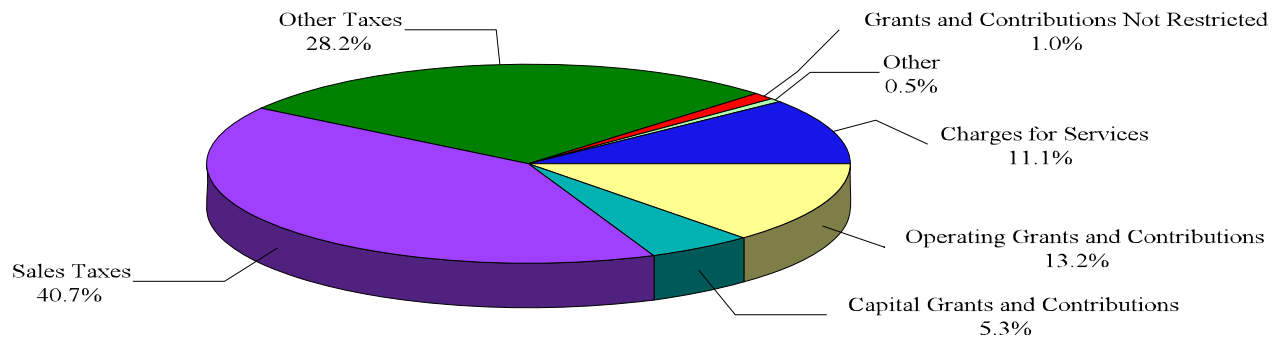
The government's net assets increased \$11.5 million during the current fiscal year.

Governmental Activities' net assets decreased \$17.1 million in 2010, primarily due to:

- (1) Decrease in sales tax revenues (\$7.0 million) and gaming admission tax revenues (\$1.8 million) primarily due to the nation-wide sluggish economy.
- (2) Continued reduction in net assets resulting from Other Post Employment Benefits (\$35.2 million)
- (3) Increased net self-insured health care claims (\$1.9 million).
- (4) These decreases were offset by:
 - Capital grants and contributions of \$24.9 million capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$18.6 million), donated infrastructure from developers and private sources (\$1.5 million), and miscellaneous capital grants for public safety and conservation and development from the federal and state governments (\$4.8 million).
 - Gross receipts business tax revenues increased \$2.3 million as a result of increases in the cost of electricity and gas.
 - Other miscellaneous increases in net assets (\$1.6 million).

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

2010 Revenues by Source - Governmental Activities

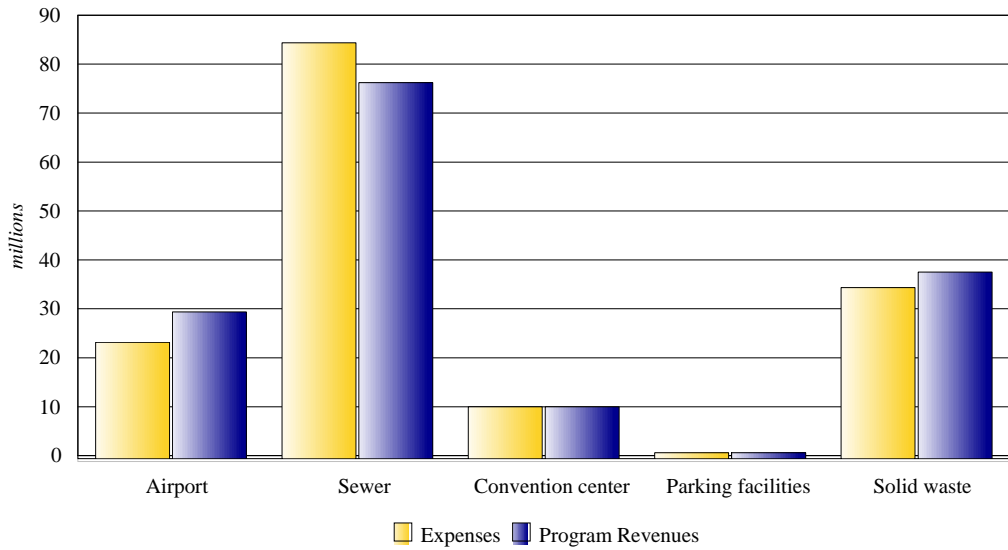


Business-Type Activities' net assets increased by \$28.6 million in 2010. The increase in net assets is a result of revenues exceeding expenses for the year. An analysis of major revenues and expenses is as follows:

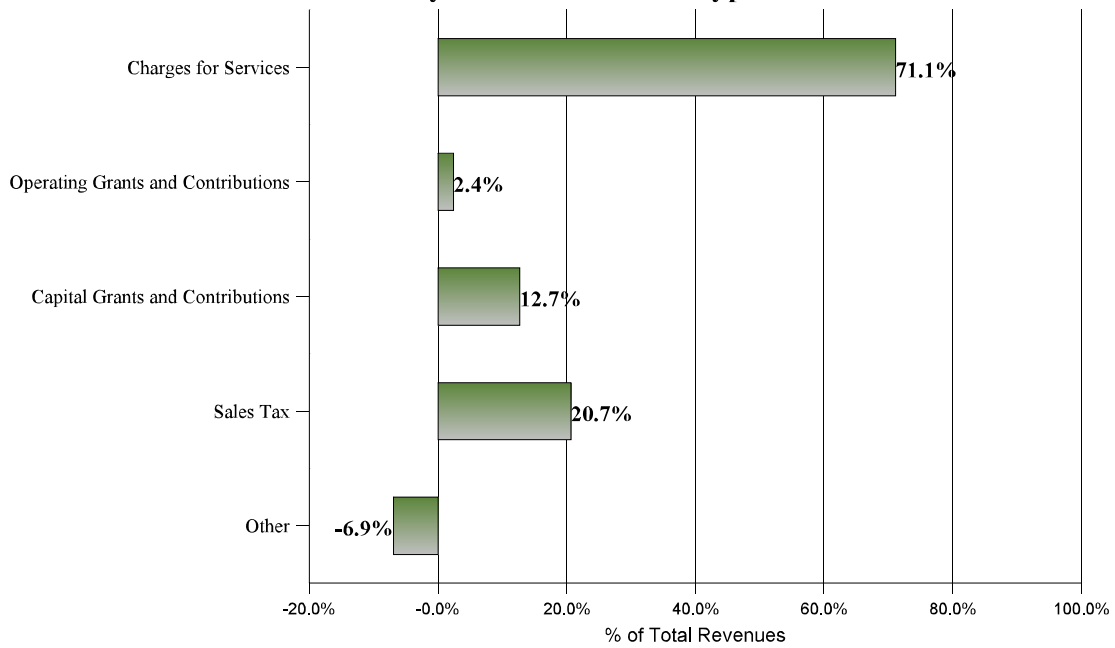
- (1) The Comprehensive Sewerage System Fund reported an excess of revenues over expenses causing an increase in net assets. The primary contributor to the positive increase in net assets was the sales tax (non-operating) revenues collected in excess of debt service interest on bonded debt in the sewerage capital improvements program in the amount of \$20.1 million.
- (2) Enterprise fund contributions from external parties of \$23.0 million from the following sources: airport grants from federal and state agencies (\$16.3 million), capital grants from the State of Louisiana for the Baton Rouge River Center (\$4.3 million), contributions of infrastructure from private developers to the sewerage system (\$0.9 million), and sewer impact fees (\$1.5 million).
- (3) The Comprehensive Sewerage System Fund reported a nonoperating revenue of \$4.4 million from the cash federal subsidy on their 2010B "Build America Bonds".
- (4) These increases were offset by:
 - As a result of implementation of GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, the Comprehensive Sewerage System Fund recognized an investment loss of \$15.0 million related to swap agreements and an additional interest expense on swap obligations of \$1.5 million (see note 10(a)12).
 - Other miscellaneous decreases in net assets (\$2.4 million).

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

2010 Expenses and Program Revenues - Business-Type Activities



2010 Revenues by Source - Business Type Activities



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

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the primary government's governmental funds reported combined ending fund balances of \$497.5 million, a decrease of \$70.7 million in comparison with the prior year. Approximately 31% of total governmental funds fund balance (\$153.3 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to: (1) liquidation of contracts and purchase orders of the prior period (\$103.0 million), (2) payment of debt service (\$22.1 million), (3) loans to low-income recipients (\$4.0 million), (4) legal appropriations in the 2011 operating budget (\$25.7 million), (5) continuing projects carried forward to the next fiscal year (\$188.8 million), or (6) investment of inventories at December 31, 2010 (\$0.6 million).

The General Fund is the chief operating fund of the Consolidated Government of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana. At the end of the current fiscal year, unreserved and undesignated fund balance of the General Fund was approximately \$14.1 million, while total fund balance was \$96.7 million. Compared with total fund balance of \$103.4 million at the end of 2009, fund balance decreased approximately \$6.7 million during 2010. Employee benefit expenditures increased approximately \$6.4 million primarily due to an increase in the retirement contribution rate for regular employees of 3.67%, an increase in the retirement contribution rate for municipal police of 14.0%, and an increase in employer premiums for health insurance of 10%.

The Library Board of Control Fund collected revenues that exceeded expenditures by \$10.8 million in 2010. 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. Expenditures in this fund increased approximately \$4.6 million in 2010 primarily due to a 3.49% increase in retirement contribution rate and the purchase of additional books, periodicals, and other reference material for new library branches.

At December 31, 2010, the Grants Fund reflected a minimal excess of expenditures over revenues in the amount of (\$0.2) million. Grant program revenues and expenditures in 2010 included approximately \$14.3 million of funding received through the American Recovery and Reinvestment Act.

Fund balance in the Capital Projects Fund decreased \$69.7 million in 2010. This was primarily due to outlays for the acquisition of right-of-way and construction of major street and intersection improvements (\$63.6 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 \$7.4 million at December 31, 2010. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of almost \$224.2 million. The fund reported a net loss of \$9.1 million before capital contributions and transfers for the year ended December 31, 2010. During 2010, the airport recognized depreciation expense of \$9.0 million, an increase of \$1.8 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 \$288.6 million at December 31, 2010. 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 \$249.4 million, reflecting a heavy investment in capital assets. The fund realized a net income of approximately \$14.0 million before government contributions and transfers for the year ended December 31, 2010. During 2010, sales tax (non-operating) revenues were collected in excess of debt service interest on bonded debt in the amount of \$20.1 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 issued "Build America Bonds" during 2010, and recognized revenue for a federal subsidy from the U.S. Department of the Treasury in the amount of almost \$4.4 million. These increases were offset by the implementation of GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. As a result of this statement, which requires derivative instruments to be reported at fair value in the financial statements, the fund recognized an investment loss of \$15.0 million (see note 10(a)12).

Unrestricted net assets of the Solid Waste Collection and Disposal Fund were \$13.4 million at December 31, 2010. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of \$20.0 million. The fund reported a change in net assets of \$0.8 million for the year ended December 31, 2010. Operating expenses decreased during 2010 by approximately \$0.7 million primarily due to reduced storm debris cleanup costs.

General Fund Budgetary Highlights

The 2010 general fund original budget of \$309.6 million (inclusive of transfers out) was reduced by a net \$8.4 million during 2010 to reflect a final amended budget of approximately \$301.2 million. On September 1, 2010, a general fund budget cut totaling approximately \$9.5 million was implemented by the Mayor-President and later ratified by the Metropolitan Council with a corresponding reduction of estimated revenues or transfer of other appropriations. Most general fund operating departments shared in the reduction through delayed hiring of replacement positions.

The budget reduction was offset by \$1.1 million of budget supplements approved by the Metropolitan Council during 2010 as follows:

	<u>(in millions)</u>
Risk compromised judgements and claims settlements from insurance reserve designation	\$ 0.5
Community center expenses from designated fund balance	0.1
Blight elimination program	0.1
Re-establish appropriation for a portion of department of Public works salary budget	<u>0.4</u>
Total increase in general fund budget	<u><u>\$ 1.1</u></u>

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

- Gaming admissions taxes were collected in excess of budget by approximately \$1.7 million. In the 2010 budget, only a portion of gaming admissions taxes were used to support general operations, resulting in an overcollection of revenues which was closed to fund balance.

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

- Sales and use tax collections were \$2.9 million less than budget, gross receipts business tax collections were \$0.9 million less than budget and interest and penalties on delinquent taxes collected were approximately \$0.6 million under budget for 2010, primarily as a result of the changes in the slow economy. Estimated revenues for sales and use tax in the general fund were reduced by \$6.5 million in the budget cut noted in the section above.

- Actual investment earnings for the general fund were approximately \$0.3 million compared to an amount of \$0.6 million included in the final budget. This under collection was a result of the fall in the average effective interest rate earned in consolidated cash from 0.53 percent in 2009 to 0.25 percent in 2010.

- Approximately \$22.0 million of the appropriations for departmental budgets were not spent during 2010. The Plan of Government allows for the carry-forward of funds that are allocated to one-time projects to subsequent years. These appropriations carried forward, in the amount of \$20.2 million, are listed on the General Fund balance sheet as "reserved for continuing projects." The majority of these funds are appropriated for needed police and fire 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, traffic calming and repairs to City-Parish buildings.

Capital Asset and Debt Administration

Capital Assets: The City of Baton Rouge, Parish of East Baton Rouge Consolidated Government's investment in capital assets for its governmental and business-type activities as of December 31, 2010, amounts to \$1,639.7 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 \$237.3 million, a 13.9% increase for governmental activities and a 19.4% 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-eight major street or intersection improvements funded by the one-half percent sales and use tax dedicated for street and road improvements (\$75.5 million).

- Completion of facility improvements for public agencies:
 - Laurel Street Fire Station (\$2.2 million)
 - North Foster Fire Station (\$2.9 million)
 - New Horizon and La Belle Aire Headstart Center Renovations (\$1.3 million)

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

- Completion and capitalization of several infrastructure projects:
Pecue Lane Realignment (\$2.7 million)
Staring Lane Extension (\$16.9 million)
Brightside Lane (\$8.5 million)
Perkins at Stanford/Acadian (\$2.6 million)
South Choctaw Drive (Flannery to Central Thruway) (\$2.7 million)
- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$154.6 million).
- Renovations and improvements to Airport buildings, runways, and other Airport improvements (\$27.4 million).
- Depreciation expense of \$37.3 million for governmental activities and \$39.9 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, 2010 & 2009
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land and right-of-way	\$139.8	\$127.1	\$ 64.6	\$ 63.0	\$ 204.4	\$ 190.1
Buildings	82.7	80.1	109.4	103.6	192.1	183.7
Noise Mitigation Costs	--	--	55.5	54.9	55.5	54.9
Improvements (Other Than Buildings) and Infrastructure	319.4	304.8	532.3	446.4	851.7	751.2
Machinery and Equipment	25.8	31.3	1.2	1.5	27.0	32.8
Construction Work-In-Progress	<u>152.8</u>	<u>89.1</u>	<u>156.2</u>	<u>100.6</u>	<u>309.0</u>	<u>189.7</u>
Total	<u>\$720.5</u>	<u>\$632.4</u>	<u>\$919.2</u>	<u>\$770.0</u>	<u>\$1,639.7</u>	<u>\$1,402.4</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 \$1,164.5 million. Of this amount, \$63.2 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
Summary of Excess Revenue and Revenue Bonds
December 31, 2010 & 2009

(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Excess Revenue Contracts, Loans and Notes	\$ 60.5	\$ 62.4	\$ 2.7	\$ 3.6	\$ 63.2	\$ 66.0
Sales Tax Revenue Bonds	<u>260.8</u>	<u>269.8</u>	<u>840.5</u>	<u>475.5</u>	<u>1,101.3</u>	<u>745.3</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$321.3</u>	<u>\$332.2</u>	<u>\$843.2</u>	<u>\$479.1</u>	<u>\$1,164.5</u>	<u>\$811.3</u>

On January 28, 2010, the City of Baton Rouge issued \$6,000,000 Public Improvement Sales Tax Revenue Bonds, Series 2010A (GO Zone) for the purpose of loaning the proceeds to the Greater Baton Rouge Airport District to enable the District to (1) construct and equip an aircraft hangar facility to be located at the Baton Rouge Metropolitan Airport to be leased by the District to Dow Chemical Company pursuant to a Lease Agreement; (2) pay the costs of issuance; (3) pay capitalized interest on the Series 2010A Bonds for a period of twelve months; and (4) provide a reserve fund. The 2010A Bonds were issued as a combination of serial and term bonds that mature on August 1 of each year beginning 2012 through 2039 with interest from 2.50 - 4.50 percent.

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.

On May 27, 2010, the East Baton Rouge Sewerage Commission issued \$374,980,000 Revenue Bonds in two sub-series. The 2010A (Tax-Exempt) Bonds in the amount of \$17,140,000 will mature serially on February 1 of each year through 2014 with interest from 3.00 - 5.00 percent. The Series 2010B (Taxable Direct Pay Build America) Bonds in the amount of \$357,840,000 were issued as a combination of serial and term bonds that mature on February 1 of each year beginning 2015, through 2045, with interest from 2.973 - 6.087 percent. The Commission has elected to treat the Series 2010B

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

Bonds as "Build America Bonds" and has further elected to receive cash subsidy payments from the United States Department of the Treasury. The Commission expects to receive cash subsidy payments directly from the U.S. Department of the Treasury in an amount equal to thirty-five percent (35%) of the interest paid on the Series 2010B Bonds.

The City of Baton Rouge issued \$19,045,000 Public Improvement Sales Tax Revenue Refunding Bonds, Series 2010B, on September 28, 2010, for the purpose of (1) providing sufficient funds to advance refund the outstanding principal amount of the Public Improvement Sales Tax Revenue Bonds, Series 2001A in the original principal amount of \$23,625,000, of which \$18,540,000 was refunded; and (2) paying the costs of issuance thereof. Details of the effects of the refunding on the entity-wide financial statements are included in Note 10(a)16.

As of December 31, 2010, City-Parish bonds were rated by three of the major rating services as follows:

	<u>Underlying Ratings</u>		
	<u>Moody's</u> <u>Investors</u> <u>Service</u>	<u>Standard</u> <u>and Poor's</u>	<u>Fitch</u> <u>Investors</u>
City of Baton Rouge (2%) Sales Tax Revenue Bonds	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	Aa2	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 2011 operating budget assumes a 1.0 percent growth rate for sales and use tax revenues in 2011 over the 2010 anticipated collections.

The proposed budget for the year 2011 for all funds, exclusive of operating transfers between funds, totals \$740.9 million. This is an increase of \$37.1 million or 5.28% over the 2010 budget. Although the General Fund budget decreased by over \$7.1 million, there were increases of \$44.2 million in the special funds budgets. These increases were

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

largely the result of new capital projects funded on a pay-as-you-go basis, and the debt service requirements associated with 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.

