

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 \$1,606.8 million (*net assets*). Of this amount, \$396.9 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 \$40.6 million during 2009. Governmental activities' net assets decreased \$14.6 million during 2009, primarily as a result of the decrease in sales tax revenue (\$6.8 million) and gross receipts business tax revenue (\$5.9 million), a reduction in investment earnings (\$11.5 million), an increase in interest and fiscal charges on long-term debt (\$3.4 million), and other miscellaneous decreases (\$3.3 million), offset by contributions of capital assets from capital grants and donated infrastructure (\$16.3 million). An excess of revenues over expenses in the sewerage fund (\$27.4 million), contributions from the federal and state governments, subdivision developers, and impact fees (\$28.3 million), investment earnings on construction funds (\$3.9 million), and increased sewer user fees (\$3.6 million), offset by increased operating expenses resulting from other postemployment benefits (\$3.9 million), a decrease in airport revenues (\$2.8 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 \$568.2 million, an increase of \$60.7 million in comparison with the prior year. Approximately 18% of the fund balances, \$99.4 million, is *available for spending* at the City-Parish's discretion (*unreserved, undesignated fund balance*).
- At December 31, 2009, unreserved fund balance for the General Fund was \$65.3 million, or 25% of total 2009 General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-Wide Financial Statements

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

The Statement of Net Assets (Exhibit A-1) presents information on all the government's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the City-Parish is improving or 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, easements, buildings, vehicles, machinery and equipment, infrastructure, and all other tangible assets that are used in operations and that have initial useful lives greater than two years and exceed the government's capitalization threshold (see Note 6, Exhibit A-17). The City-Parish has capitalized all purchased general capital assets. Donated infrastructure assets accepted into City-Parish maintenance since year 1980 have been capitalized.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are a required part of the basic financial statements and can be found in Exhibit A-17 of this report.

Other Information

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

Certain supplementary financial information can be found in Exhibits F-1 through G-3 of this report. These schedules and the statistical section (Exhibits H-1 through H-22) are included for additional information and analysis and do not constitute a part of the basic financial statements.

Also included in the report is the Office of Management and Budget A-133 Single Audit auditor reports, findings, and schedules. This information can be found under the Single Audit section.

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

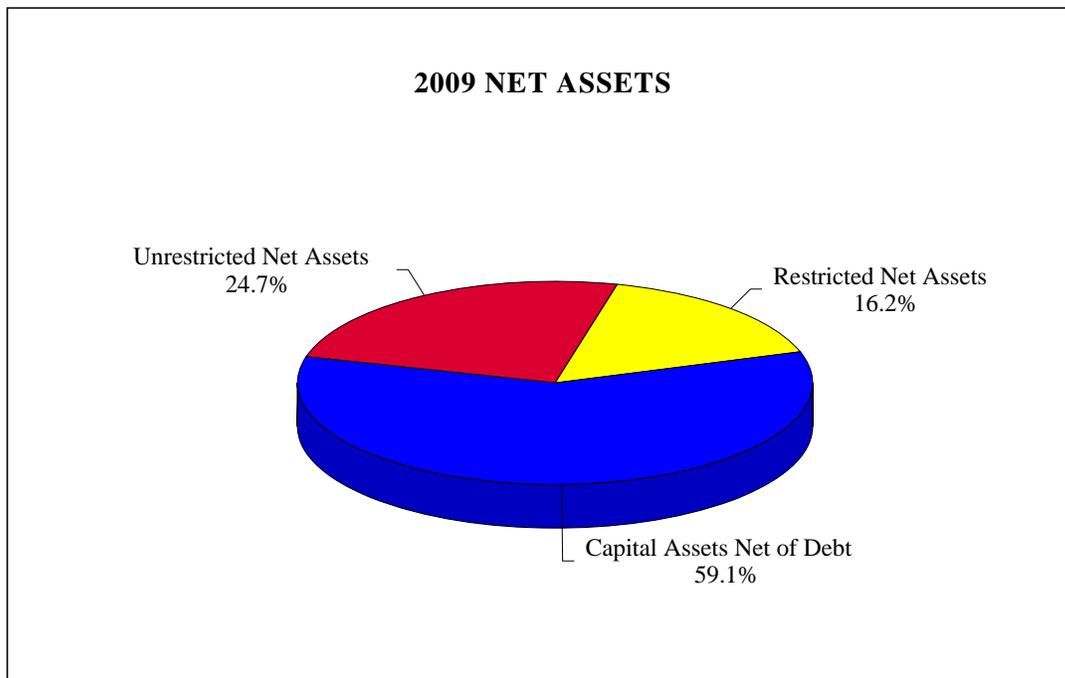
Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Assets for 2009, with comparative figures from 2008:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Net Assets
December 31, 2009 & 2008
(in millions)

| | Governmental Activities | | Business- Type Activities | | Total | |
|--|----------------------------|-----------------|---------------------------------|-----------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Assets: | | | | | | |
| Current and Other Assets | \$ 669.2 | \$ 620.3 | \$ 443.8 | \$ 381.3 | \$1,113.0 | \$1,001.6 |
| Restricted Assets | -- | -- | 220.8 | 153.8 | 220.8 | 153.8 |
| Capital Assets | <u>632.4</u> | <u>558.5</u> | <u>766.1</u> | <u>672.6</u> | <u>1,398.5</u> | <u>1,231.1</u> |
| Total Assets | <u>1,301.6</u> | <u>1,178.8</u> | <u>1,430.7</u> | <u>1,207.7</u> | <u>2,732.3</u> | <u>2,386.5</u> |
| Liabilities: | | | | | | |
| Current Liabilities | 75.6 | 82.4 | 38.1 | 23.8 | 113.7 | 106.2 |
| Non-current Liabilities | <u>511.8</u> | <u>367.6</u> | <u>500.0</u> | <u>346.5</u> | <u>1,011.8</u> | <u>714.1</u> |
| Total Liabilities | <u>587.4</u> | <u>450.0</u> | <u>538.1</u> | <u>370.3</u> | <u>1,125.5</u> | <u>820.3</u> |
| Net Assets: | | | | | | |
| Invested in Capital Assets Net of Debt | 463.0 | 450.6 | 487.4 | 416.0 | 950.4 | 866.6 |
| Restricted | 225.9 | 232.4 | 33.6 | 90.0 | 259.5 | 322.4 |
| Unrestricted | <u>25.3</u> | <u>45.8</u> | <u>371.6</u> | <u>331.4</u> | <u>396.9</u> | <u>377.2</u> |
| Total Net Assets | <u>\$ 714.2</u> | <u>\$ 728.8</u> | <u>\$ 892.6</u> | <u>\$ 837.4</u> | <u>\$1,606.8</u> | <u>\$1,566.2</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)

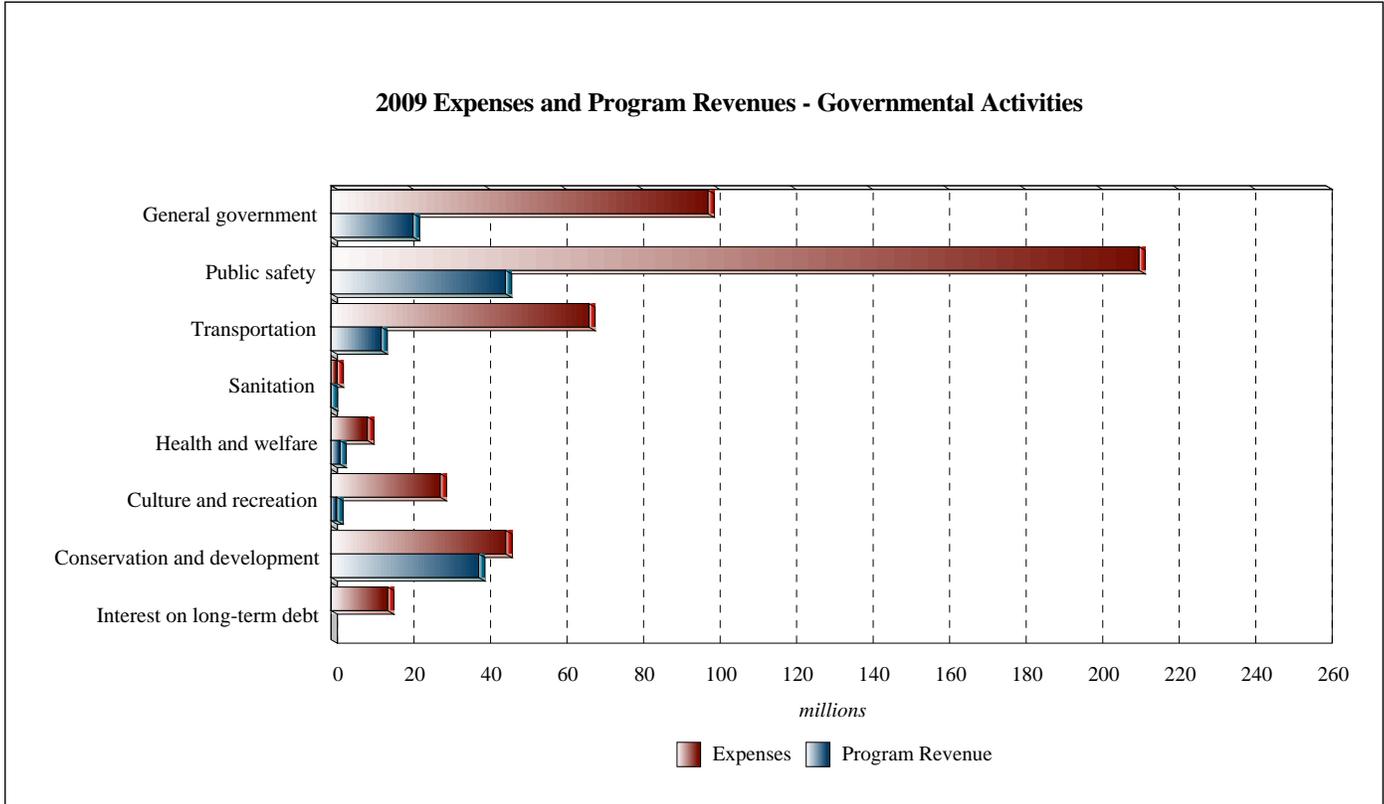
Approximately 59.1% (\$950.4 million) of the City-Parish's net assets as of December 31, 2009, reflect the government's investment in capital assets (land, buildings, infrastructure, machinery and equipment) less any related outstanding debt used to acquire those assets. The City-Parish government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Another 16.2% (\$259.5 million) of the government's net assets is subject to external restrictions on how those assets may be used, such as a property tax approved by the electorate for specific purposes. The remaining 24.7% of net assets, referred to as *unrestricted* (\$396.9 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, 2009, with comparative figures from 2008:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Changes in Net Assets
For the Years Ended December 31, 2009 & 2008
(in millions)

| | <u>Governmental</u> <u>Activities</u> | | <u>Business-Type</u> <u>Activities</u> | | <u>Total</u> | |
|--|--|----------------|---|----------------|------------------|------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 55.9 | \$ 44.3 | \$130.2 | \$130.3 | \$ 186.1 | \$ 174.6 |
| Operating Grants and Contributions | 50.3 | 87.9 | 0.6 | 0.3 | 50.9 | 88.2 |
| Capital Grants and Contributions | 16.3 | 9.1 | 28.3 | 23.4 | 44.6 | 32.5 |
| General Revenues: | | | | | | |
| Sales Taxes | 199.9 | 206.7 | 39.4 | 42.4 | 239.3 | 249.1 |
| Other Taxes | 132.9 | 135.8 | -- | -- | 132.9 | 135.8 |
| Grants and Contributions Not Restricted to Specific Programs | 4.9 | 5.3 | -- | -- | 4.9 | 5.3 |
| Other | <u>5.0</u> | <u>16.9</u> | <u>3.3</u> | <u>12.8</u> | <u>8.3</u> | <u>29.7</u> |
| Total Revenues | <u>465.2</u> | <u>506.0</u> | <u>201.8</u> | <u>209.2</u> | <u>667.0</u> | <u>715.2</u> |
| Expenses: | | | | | | |
| General Government | 98.5 | 100.5 | 0.7 | 0.7 | 99.2 | 101.2 |
| Public Safety | 211.1 | 247.6 | -- | -- | 211.1 | 247.6 |
| Transportation | 67.3 | 62.3 | 20.0 | 23.1 | 87.3 | 85.4 |
| Sanitation | 1.6 | 0.5 | 118.1 | 119.7 | 119.7 | 120.2 |
| Health and Welfare | 9.5 | 9.3 | -- | -- | 9.5 | 9.3 |
| Culture and Recreation | 28.5 | 27.9 | 10.7 | 10.5 | 39.2 | 38.4 |
| Conservation and Development | 45.6 | 44.0 | -- | -- | 45.6 | 44.0 |
| Interest on Long-Term Debt | <u>14.8</u> | <u>11.4</u> | <u>--</u> | <u>--</u> | <u>14.8</u> | <u>11.4</u> |
| Total Expenses | <u>476.9</u> | <u>503.5</u> | <u>149.5</u> | <u>154.0</u> | <u>626.4</u> | <u>657.5</u> |
| Increase in Net Assets Before Transfers and Special Item Transfers | (11.7) | 2.5 | 52.3 | 55.2 | 40.6 | 57.7 |
| Increase In Net Assets | <u>(2.9)</u> | <u>(0.2)</u> | <u>2.9</u> | <u>0.2</u> | <u>--</u> | <u>--</u> |
| Increase In Net Assets | <u>(14.6)</u> | <u>2.3</u> | <u>55.2</u> | <u>55.4</u> | <u>40.6</u> | <u>57.7</u> |
| Net Assets, January 1 restated | <u>728.8</u> | <u>726.5</u> | <u>837.4</u> | <u>782.0</u> | <u>1,566.2</u> | <u>1,508.5</u> |
| Net Assets, December 31 | <u>\$714.2</u> | <u>\$728.8</u> | <u>\$892.6</u> | <u>\$837.4</u> | <u>\$1,606.8</u> | <u>\$1,566.2</u> |

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



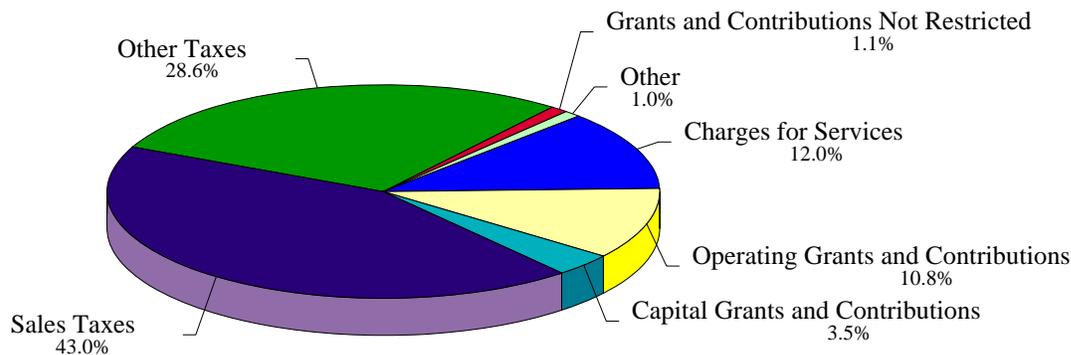
The government's net assets increased \$40.6 million during the current fiscal year.

Governmental Activities' net assets decreased \$14.6 million in 2009, primarily due to:

- (1) Sales tax revenues decreased \$6.8 million. This decrease in comparison to 2008 was primarily due to the effect of the spike in sales tax collections subsequent to the 2008 hurricanes.
- (2) Gross receipts business tax revenues decreased \$5.9 million as a result of a decrease in the cost of electricity and gas.
- (3) Investment earnings decreased \$11.5 million as a result of the decline in the effective rate of interest received on investments.
- (4) Interest and fiscal charges on long-term debt increased primarily due to the issuance of bonds during 2009 for the road and street improvement program (\$3.4 million).
- (5) Other miscellaneous decreases in net assets (\$3.3 million).
- (6) These decreases were offset by an increase in net assets due to capital grants and contributions of \$16.3 million capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$6.5 million), donated infrastructure from developers and private sources (\$5.5 million), and miscellaneous capital grants for public safety and conservation and development from the federal and state governments (\$4.3 million).

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

2009 Revenues by Source - Governmental Activities

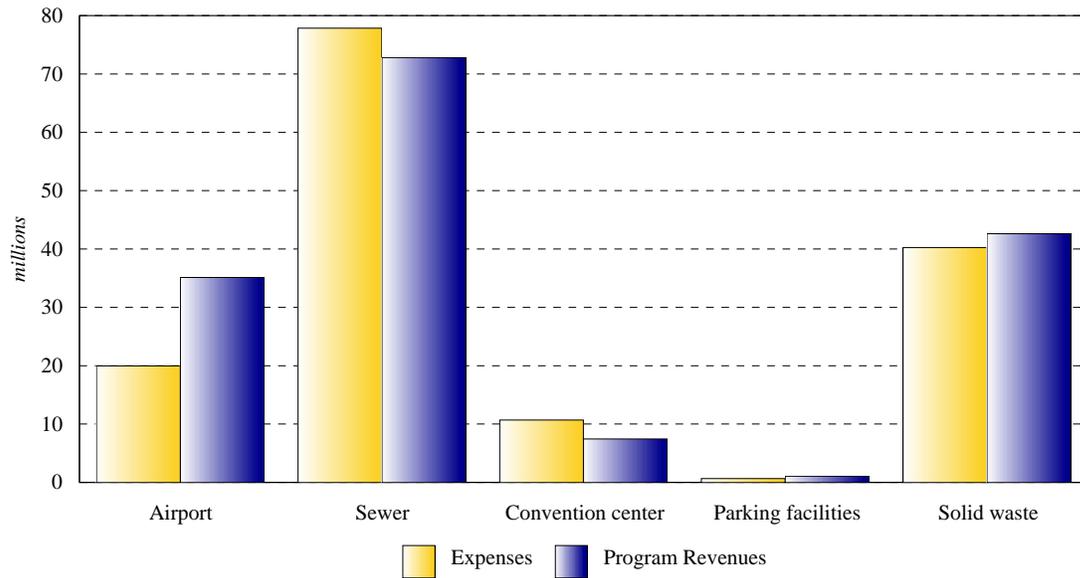


Business-Type Activities' net assets increased by \$55.2 million in 2009. The increase in net assets is a result of revenues exceeding expenses for the year. An analysis of major revenues and expenses is as follows:

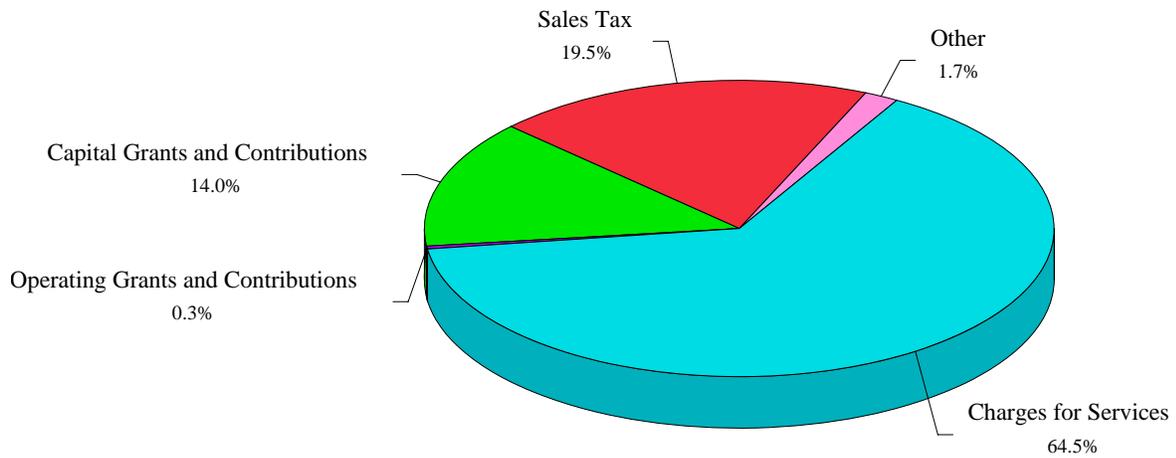
- (1) The Comprehensive Sewerage System Fund reported an excess of revenues over expenses causing an increase in net assets. The primary contributor to the positive increase in net assets was the sales tax (non-operating) revenues collected in excess of debt service interest and operating expenses in the sewerage capital improvements program in the amount of \$27.4 million.
- (2) Enterprise fund contributions from external parties of \$28.3 million from the following sources: airport grants from federal and state agencies (\$22.5 million), sewer capital grants from the U.S. Environmental Protection Agency (\$0.6 million), capital grants from the State of Louisiana for the Baton Rouge River Center (\$1.4 million), contributions of infrastructure from private developers to the sewerage system (\$1.8 million), and sewer impact fees (\$2.0 million).
- (3) Investment earnings of \$3.9 million as a result of large cash balances invested from pay-as-you-go funds for the sewer construction program and the issuance of bonds.
- (4) Sewer user fees increased \$3.6 million primarily as a result of the 4% annual increase recommended by the comprehensive financing model developed to manage the finances of the Sanitary Sewer Overflow Capital Improvements Program.
- (5) These increases were offset by:
 - An increase in operating expenses as a result of Other Post Employment Benefits (\$3.9 million). (See Note 8).
 - A decrease in operating revenues, customer facility charges and passenger facility charges for the Greater Baton Rouge Airport District (\$2.8 million) as a result of the reduction in enplanements.
 - 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)**

2009 Expenses and Program Revenues - Business-Type Activities



2009 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 \$568.2 million, an increase of \$60.7 million in comparison with the prior year. Approximately 28% of total governmental funds fund balance (\$156.3 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 (\$153.8 million), (2) payment of debt service (\$24.2 million), (3) loans to low-income recipients (\$4.8 million), (4) legal appropriations in the 2010 operating budget (\$12.9 million), (5) continuing projects carried forward to the next fiscal year (\$215.6 million), or (6) investment of inventories at December 31, 2009 (\$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 \$10.1 million, while total fund balance was \$103.4 million. Compared with total fund balance of \$117.7 million at the end of 2008, fund balance decreased approximately \$14.3 million during 2009. Public safety expenditures increased approximately \$6.2 million primarily due to a full years funding of 31 new police positions that were added in 2008, an eight percent increase in health benefits, a six percent increase in dental benefits and a 1.08 percent increase in post-employment benefits.

The Library Board of Control Fund collected revenues that exceeded expenditures by \$14.0 million in 2009. 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. Total fund balance for the Library Board of Control Fund fell approximately \$4.9 million as a result of the fund sending \$19.0 million to the capital projects fund for appropriations for the new main library and the addition of branches in the southern and eastern portions of the Parish.

At December 31, 2009, the Grants Fund reflected an excess of revenues over expenditures in the amount of almost \$14.4 million primarily related to the 2008 hurricanes. The Governor's Office of Homeland Security and Emergency Preparedness reimbursed the government \$17.0 million during 2009 for the allowable costs of Hurricane Gustav, which had caused a fund deficit in 2008. In addition, approximately \$2.9 million of insurance settlement revenue and \$3.7 million of expenses related to the hurricane were recognized in 2009.

Fund balance in the Capital Projects Fund increased \$61.5 million in 2009. This was primarily due to the sale of \$110.0 million of Series 2009A Road and Street Public Improvement Sales Tax Revenue Bonds. In addition, funds were transferred from the General Fund and Special Revenue Funds for improvements to fire stations, libraries, public buildings and infrastructure projects (\$30.1 million). Fund balance in the Capital Projects Fund will fluctuate year-to-year based on the status of projects and the progression of financing to fund those projects.

Proprietary Funds: The City-Parish's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

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

Unrestricted net assets of the Greater Baton Rouge Airport District were \$8.9 million at December 31, 2009. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of almost \$210.7 million. The fund reported a net loss of \$7.8 million before capital contributions and transfers for the year ended December 31, 2009. During 2009, the airport continued to experience a decrease in enplanements primarily due to the downturn in the economy resulting in a decrease of operating revenues, customer facility charges, and passenger facility charges of approximately \$2.8 million.

Unrestricted net assets of the Comprehensive Sewerage System Fund were \$345.9 million at December 31, 2009. 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 \$211.8 million, reflecting a heavy investment in capital assets. The fund realized a net income of approximately \$33.5 million before government contributions and transfers for the year ended December 31, 2009. During 2009, sales tax (non-operating) revenues were collected in excess of debt service interest in the amount of \$27.4 million. These revenues have been pledged as security on outstanding sewer sales tax revenue bonds and East Baton Rouge Sewerage Commission revenue bonds. Also, investment earnings increased net assets approximately \$3.5 million due to large cash balances invested from pay-as-you-go funds and the prior year issuance of Sewer Bonds. Other postemployment benefits costs decreased net assets for this fund by \$2.8 million.

Unrestricted net assets of the Solid Waste Collection and Disposal Fund were \$11.4 million at December 31, 2009. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of \$21.2 million. The fund reported an insignificant change in total net assets for the year ended December 31, 2009.

General Fund Budgetary Highlights

The net change from the original General Fund budget and the final amended budget (inclusive of transfers out) was a net increase in the final budget of \$2.2 million. Total budget supplements approved by the governing authority during the year were \$6.6 million offset by a net reduction in estimated revenues and appropriations late in the year of \$4.4 million. The majority of the additional appropriations were funded from 2008 excess funds in fund balance-undesignated. Designated fund balances generally were used as a source for the risk management appropriations. Changes in the General Fund budget were made in the following areas:

| | <u>(in millions)</u> |
|--|----------------------|
| Replacement of two fire stations | \$ 4.7 |
| Community and economic development projects | 1.2 |
| Risk compromised judgements and claims settlements | 0.4 |
| Net reductions in departmental budgets for operational costs | <u>(4.1)</u> |
| Total increase in general fund budget | <u><u>\$ 2.2</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 \$4.5 million. Beginning in 2009, there was a change in the fee structure paid by the riverboat gaming establishments from a \$2.50 per passenger admission fee to a percentage of monthly net gaming revenues as allowed for in State law. This change resulted in an increase in gaming admissions revenues collected during 2009.

**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, and general property tax collections were approximately \$0.2 under budget for 2009, primarily as a result of the changes in the local economy.
- Gross receipts business taxes were \$2.0 million less than budget primarily as a result of decreases in electricity and gas costs.
- Approximately \$27.8 million of the appropriations for departmental budgets were not spent during 2009. 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 \$23.3 million, are listed on the balance sheet as “reserved for continuing projects.” The majority of these funds are appropriated to purchase needed police and fire vehicles and other public safety equipment, 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, 2009, amounts to \$1,398.5 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 \$167.4 million, a 13.2% increase for governmental activities and a 13.9% increase for business-type activities.

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

- Began planning, design, right-of-way acquisition, and construction on approximately thirty-six major street or intersection improvements funded by the one-half percent sales and use tax dedicated for street and road improvements (\$58.3 million).
- Completion of facility improvements for public safety:
 - Rosenwald Road Fire Station (\$1.7 million)
 - 1st District Police Station (\$1.1 million)
 - 4th District Police Station (\$2.1 million)
 - Police K-9 and Special Response Team Facility (\$1.0 million)

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

- Completion and capitalization of several infrastructure projects:
Downtown Signal Synchronization (\$11.6 million)
Picardy Avenue (\$2.9 million)
North Harrell's Ferry Road (\$2.2 million)
Lobdell Improvements (\$4.7 million)
Foster at Government Street Intersection Improvements (\$5.0 million)
Coursey Blvd. at Sherwood Forest Blvd. Intersection Improvements (\$7.0 million)
- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$92.8 million).
- Renovations and improvements to the Airport terminal building, runways, and other Airport improvements (\$34.3 million).
- Depreciation expense of \$36.4 million for governmental activities and \$37.2 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, 2009 & 2008
(in millions)

| | <u>Governmental</u> | | <u>Business-Type</u> | | <u>Total</u> | |
|---|---------------------|----------------|----------------------|----------------|------------------|------------------|
| | <u>Activities</u> | | <u>Activities</u> | | | |
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Land | \$127.1 | \$104.3 | \$ 63.0 | \$ 80.0 | \$ 190.1 | \$ 184.3 |
| Buildings | 80.1 | 78.5 | 104.0 | 97.0 | 184.1 | 175.5 |
| Noise Mitigation Costs | -- | -- | 50.9 | 24.2 | 50.9 | 24.2 |
| Improvements (Other Than Buildings) and Infrastructure | 304.8 | 281.3 | 446.1 | 420.8 | 750.9 | 702.1 |
| Machinery and Equipment | 31.3 | 29.3 | 1.5 | 1.3 | 32.8 | 30.6 |
| Construction Work-In-Progress | <u>89.1</u> | <u>65.1</u> | <u>100.6</u> | <u>49.3</u> | <u>189.7</u> | <u>114.4</u> |
| Total | <u>\$632.4</u> | <u>\$558.5</u> | <u>\$766.1</u> | <u>\$672.6</u> | <u>\$1,398.5</u> | <u>\$1,231.1</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 \$811.3 million. Of this amount, \$66.0 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, 2009 & 2008
(in millions)

| | <u>Governmental</u> | | <u>Business-Type</u> | | <u>Total</u> | |
|---|---------------------|----------------|----------------------|----------------|----------------|----------------|
| | <u>Activities</u> | | <u>Activities</u> | | | |
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Excess Revenue Contracts, Loans and Notes | \$ 62.4 | \$ 64.5 | \$ 3.6 | \$ 3.7 | \$ 66.0 | \$ 68.2 |
| Sales Tax Revenue Bonds | <u>269.8</u> | <u>165.9</u> | <u>475.5</u> | <u>325.7</u> | <u>745.3</u> | <u>491.6</u> |
| Total All Bonds, Contracts, Loans and Notes | <u>\$332.2</u> | <u>\$230.4</u> | <u>\$479.1</u> | <u>\$329.4</u> | <u>\$811.3</u> | <u>\$559.8</u> |

On February 12, 2009, the Parish of East Baton Rouge issued \$110,000,000 Road and Street Public Improvement Sales Tax Revenue Bonds, Series 2009A for the purpose of (1) providing funds to pay the costs of widening existing public roads and streets, and/or the construction of new public roads and streets within the parish, (2) paying the costs of issuance and (3) purchasing a reserve fund surety bond. The 2009A bonds were issued as serial bonds that mature on August 1 of each year through 2030 with interest from 3.00 - 5.625 percent.

On May 14, 2009, the East Baton Rouge Sewerage Commission issued \$164,965,000 Revenue Bonds, Series 2009A, for the purpose of (1) paying the cost of acquiring and constructing sewers and sewerage disposal work within and for the Parish, (2) paying the costs of issuance and (3) funding a portion (20 percent) of the reserve fund. The 2009A bonds were issued as a combination of serial and term bonds that mature on February 1 of each year beginning 2016, through 2039, with interest from 3.50 - 5.25 percent.

In 2009, the City-Parish borrowed additional funds from the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) program for airport improvements (\$226,845). Details of the loan agreements and outstanding amounts at December 31, 2009 are detailed in Note 10(a)14(a) and (b).

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

As of December 31, 2009, City-Parish bonds were rated by three of the 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 | Aa3 | AA | AA |
| Parish of East Baton Rouge Sewer Improvement (½%) Sales Tax Revenue Bonds | A3 | AA | No rating |
| Parish of East Baton Rouge Road and Street Improvements (½%) Sales Tax Revenue Bonds | A2 | A+ | A+ |
| East Baton Rouge Sewerage Commission Revenue Bonds | A1 | AA- | AA- |

In May 2010, Moody's Investors Service and Fitch Investors recalibrated the underlying ratings for municipal debt to a global rating scale. The ratings resulting from the recalibration are as follows:

| | <u>Recalibrated Underlying Ratings May 2010</u> | |
|--|---|----------------------------|
| | <u>Moody's Investors Service</u> | <u>Fitch Investors</u> |
| City of Baton Rouge (2%) Sales Tax Revenue Bonds | Aa2 | AA+ |
| Parish of East Baton Rouge Sewer Improvement (½%) Sales Tax Revenue Bonds | A1 | No rating |
| Parish of East Baton Rouge Road and Street Improvements (½%) Sales Tax Revenue Bonds | Aa3 | AA- |
| East Baton Rouge Sewerage Commission Revenue Bonds | Aa2 | 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.

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

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 2010 operating budget assumes a 1.0 percent growth rate for sales and use tax revenues in 2010 over the 2009 anticipated collections.

The proposed budget for the year 2010 for all funds, exclusive of operating transfers between funds, totals \$701.1 million. The increase of \$6.2 million or 0.90% over the 2009 budget is the result of increases in employee benefits. The public safety function represents nearly 52.3% of the 2010 budget. Major changes in proposed public safety funding in the 2010 budget are primarily capital related: the installation of Wi-Fi modems in all police cars, continued funding for construction of six fire stations and two EMS stations, design of a new EMS Headquarters building, and the purchase of various other public safety equipment and tools necessary to maintain professional accreditations.

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.