

## 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 \$1,385.6 million (*net assets*). Of this amount, \$353.3 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 \$151.6 million during 2006. Governmental activities' net assets increased \$90.5 million during 2006, primarily as a result of the increase in capital assets from capital grants and donated infrastructure (\$15.8 million), additional tax revenues collected in excess of budget in the governmental activities (\$41.5 million), investment earnings (\$18.1 million), an increase in enhanced 911 service charges, various court costs and fees (\$3.3 million), a net increase resulting from the consolidation of solid waste collection and disposal activities (\$5.8 million), additional reimbursements for expenditures related to Hurricanes Katrina and Rita (\$3.5 million), and other miscellaneous increases in net assets (\$2.5 million). Sales tax revenues collected in excess of debt service interest and operating expenses in the sewerage fund (\$26.8 million), contributions from the federal and state governments, subdivision developers, and impact fees (\$24.3 million), contributions from the government's governmental activities for major capital purchases (\$5.4 million), a net decrease resulting from the consolidation of solid waste collection and disposal activities (\$5.8 million), increased sewer user fees (\$5.2 million), increased investment earnings (\$13.7 million), a special item decrease of sewer capital assets (\$10.3 million); an increase resulting from the receipt of the settlement of a construction contract dispute (\$2.7 million) and other miscellaneous decreases (\$0.9 million) accounted for the rise in net assets in business-type activities.
- As of the close of the current fiscal year, the primary government's governmental funds reported combined ending fund balances of \$494.4 million, an increase of \$199.7 million in comparison with the prior year. Approximately 33% of the fund balances, \$161.7 million, is *available for spending* at the City-Parish's discretion (*unreserved fund balance*).
- At December 31, 2006, unreserved fund balance for the General Fund was \$96.5 million, or 44% of total 2006 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.

#### **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' current financial resources with capital assets and

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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 four fire protection districts and two crime prevention districts (see Exhibits H-1 through H-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 deteriorating.

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, civic center, solid waste collection and disposal) where the fee for service typically covers all or most of the cost of operations, including depreciation.

### **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.

**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

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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.

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.

**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 (those placed into the government's maintenance through contributions from private development) 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 combining statements referred to earlier in connection with the nonmajor governmental and proprietary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules include Exhibits C-1 through H-12 of the report.

Certain supplementary financial information can be found in Exhibits I-1 through I-3 of this report. These schedules and the statistical section (Exhibits J-1 through J-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.

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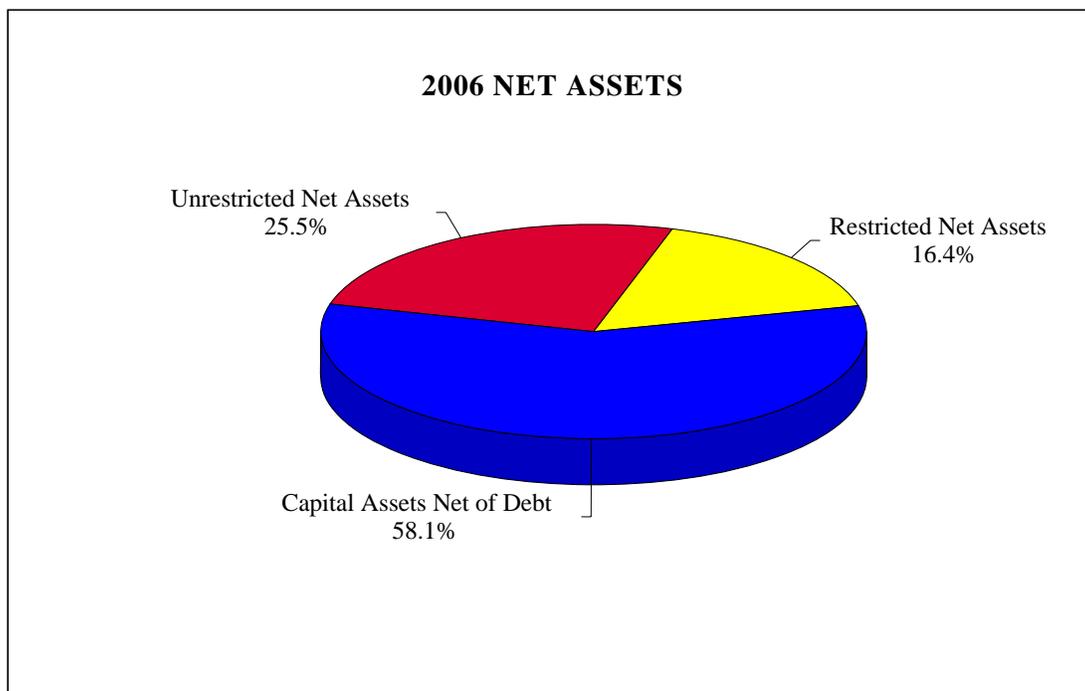
**Government-Wide Financial Analysis**

The following table reflects the condensed Statement of Net Assets for 2006, with comparative figures from 2005:

City of Baton Rouge, Parish of East Baton Rouge  
Condensed Statement of Net Assets  
December 31, 2006 & 2005  
(in millions)

	Governmental Activities		Business- Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets:</b>						
Current and Other Assets	\$ 559.0	\$363.5	\$ 313.4	\$261.4	\$ 872.4	\$ 624.9
Restricted Assets	--	--	90.2	49.0	90.2	49.0
Capital Assets	<u>462.4</u>	<u>450.8</u>	<u>648.8</u>	<u>657.0</u>	<u>1,111.2</u>	<u>1,107.8</u>
Total Assets	<u>1,021.4</u>	<u>814.3</u>	<u>1,052.4</u>	<u>967.4</u>	<u>2,073.8</u>	<u>1,781.7</u>
<b>Liabilities:</b>						
Current Liabilities	51.1	52.8	16.4	16.7	67.5	69.5
Non-current Liabilities	<u>302.7</u>	<u>184.4</u>	<u>318.0</u>	<u>293.8</u>	<u>620.7</u>	<u>478.2</u>
Total Liabilities	<u>353.8</u>	<u>237.2</u>	<u>334.4</u>	<u>310.5</u>	<u>688.2</u>	<u>547.7</u>
<b>Net Assets:</b>						
Invested in Capital Assets Net of Debt	402.1	388.6	402.4	394.1	804.5	782.7
Restricted	187.2	137.8	40.6	33.4	227.8	171.2
Unrestricted	<u>78.3</u>	<u>50.7</u>	<u>275.0</u>	<u>229.4</u>	<u>353.3</u>	<u>280.1</u>
Total Net Assets	<u>\$ 667.6</u>	<u>\$577.1</u>	<u>\$ 718.0</u>	<u>\$656.9</u>	<u>\$1,385.6</u>	<u>\$1,234.0</u>

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



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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

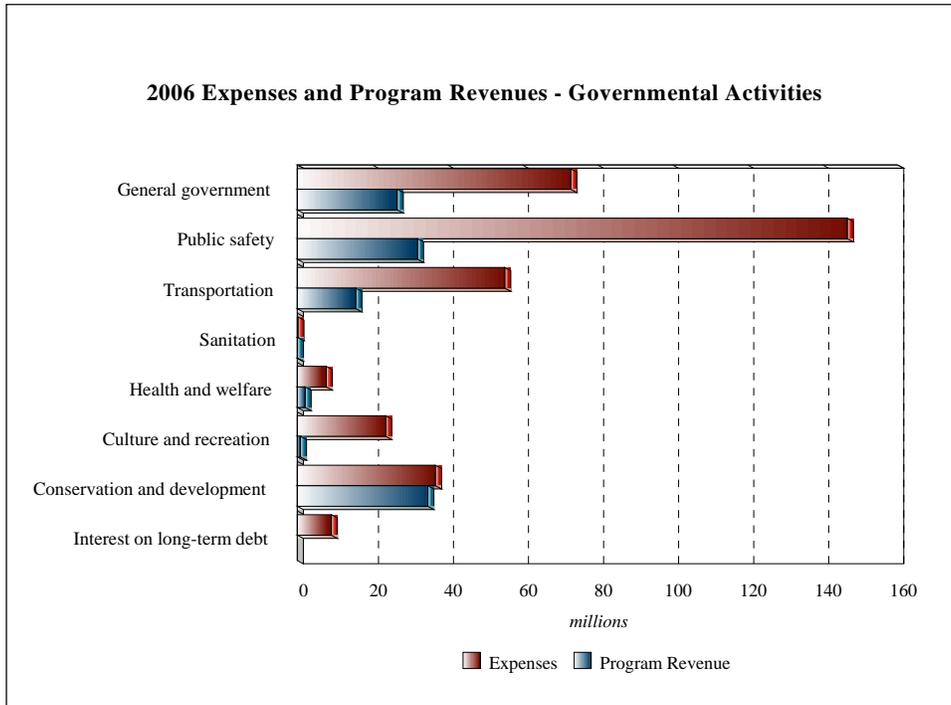
Approximately 58.1% (\$804.5 million) of the City-Parish's net assets as of December 31, 2006, reflect the government's investment in capital assets (land, buildings, infrastructure, machinery and equipment) less any related outstanding debt used to acquire those assets. The City-Parish government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Another 16.4% (\$227.8 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 25.5% of net assets, referred to as *unrestricted* (\$353.3 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, 2006, with comparative figures from 2005:

City of Baton Rouge, Parish of East Baton Rouge  
Condensed Statement of Changes in Net Assets  
For the Years Ended December 31, 2006 & 2005  
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 50.5	\$ 53.6	\$121.6	\$ 85.0	\$ 172.1	\$ 138.6
Operating Grants and Contributions	45.6	62.1	2.2	0.4	47.8	62.5
Capital Grants and Contributions	15.8	15.2	24.3	28.7	40.1	43.9
General Revenues:						
Sales Taxes	205.9	185.6	40.0	36.0	245.9	221.6
Other Taxes	122.0	113.5	--	--	122.0	113.5
Grants and Contributions Not						
Restricted to Specific Programs	4.7	4.4	--	--	4.7	4.4
Other	<u>18.7</u>	<u>9.1</u>	<u>16.3</u>	<u>7.8</u>	<u>35.0</u>	<u>16.9</u>
Total Revenues	<u>463.2</u>	<u>443.5</u>	<u>204.4</u>	<u>157.9</u>	<u>667.6</u>	<u>601.4</u>
Expenses:						
General Government	72.8	66.4	0.6	0.9	73.4	67.3
Public Safety	146.5	160.4	--	--	146.5	160.4
Transportation	55.3	52.8	19.3	16.4	74.6	69.2
Sanitation	0.2	30.2	118.1	82.9	118.3	113.1
Health and Welfare	7.7	8.2	--	--	7.7	8.2
Culture and Recreation	23.5	21.9	15.8	7.4	39.3	29.3
Conservation and Development	36.8	34.6	--	--	36.8	34.6
Interest on Long-Term Debt	<u>9.1</u>	<u>6.0</u>	<u>--</u>	<u>--</u>	<u>9.1</u>	<u>6.0</u>
Total Expenses	<u>351.9</u>	<u>380.5</u>	<u>153.8</u>	<u>107.6</u>	<u>505.7</u>	<u>488.1</u>
Increase in Net Assets Before						
Transfers and Special Item	111.3	63.0	50.6	50.3	161.9	113.3
Special Item	--	--	(10.3)	--	(10.3)	--
Transfers	<u>(20.8)</u>	<u>(10.8)</u>	<u>20.8</u>	<u>10.8</u>	<u>--</u>	<u>--</u>
Increase In Net Assets	90.5	52.2	61.1	61.1	151.6	113.3
Net Assets, January 1, restated	<u>577.1</u>	<u>524.9</u>	<u>656.9</u>	<u>595.8</u>	<u>1,234.0</u>	<u>1,120.7</u>
Net Assets, December 31	<u>\$667.6</u>	<u>\$577.1</u>	<u>\$718.0</u>	<u>\$656.9</u>	<u>\$1,385.6</u>	<u>\$1,234.0</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**



The government's net assets increased \$151.6 million during the current fiscal year.

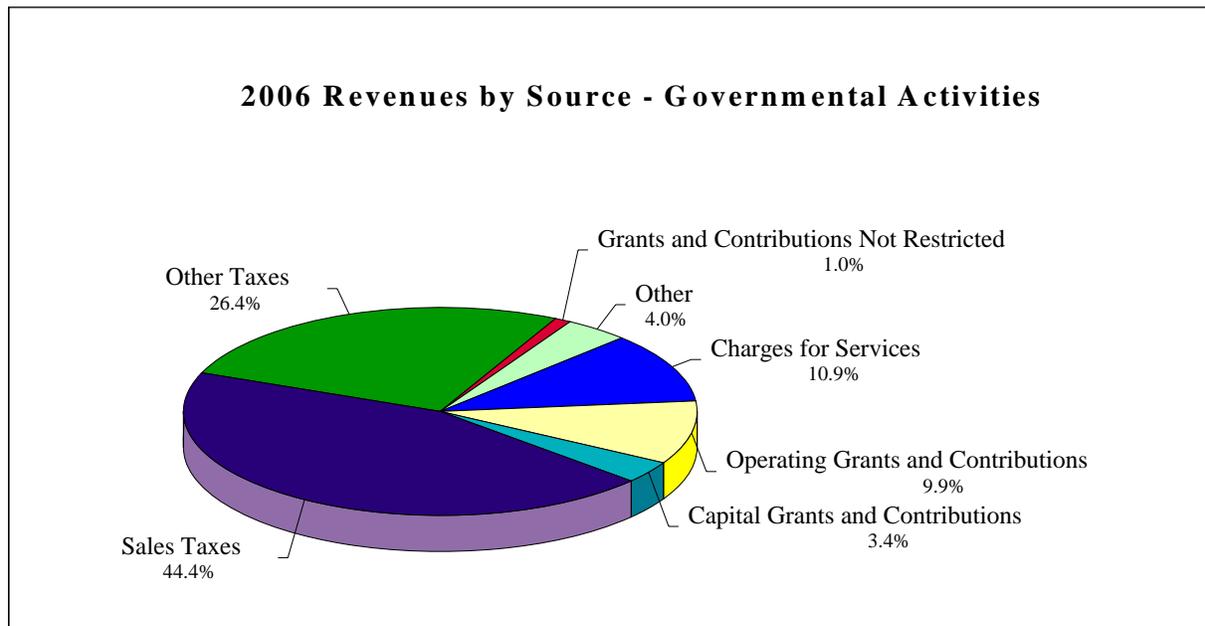
*Governmental Activities'* net assets increased \$90.5 million in 2006, primarily due to:

- (1) An increase of approximately \$15.8 million of expenditures capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$8.8 million), donated infrastructure from developers (\$4.0 million), and miscellaneous capital grants for public safety and conservation and development from the federal and state governments (\$3.0 million).
- (2) An additional \$36.5 million in tax revenues were collected in excess of budgeted projections due to growth in the economy, growth of property tax rolls, and population growth following Hurricanes Katrina and Rita including: sales tax revenues (\$27.5 million), property tax revenues (\$5.4 million), and gross receipts business tax revenues (\$3.6 million).
- (3) Collection of gaming admission tax revenues in the amount of \$7.0 million. Historically, the administration's policy on these taxes has been to appropriate gaming revenues primarily for non-recurring expenditures. However, estimated revenue of \$2 million was included in the 2006 budget as a source of funds for recurring operations.
- (4) Investment earnings of \$18.1 million as a result of both the rise in interest rates and from larger cash balances due to the issuance of the Road and Street Improvement Sales Tax bonds.
- (5) An increase of approximately \$3.3 million from the following sources: Enhanced 911 service charges increased \$1.8 million due to a rate increase that went into effect January 2006, and various court costs and fees increased by \$1.5 million due to an increase in the number of criminal and traffic filings.
- (6) A net increase of \$5.8 million resulting from the consolidation of all activity associated with the collection of solid waste into the Solid Waste Collection and Disposal Fund. Charges for services and expenditures for sanitation in governmental funds decreased \$13.3 million and \$26.0 million,

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respectively, offset by an increase in subsidies to the Solid Waste Collection and Disposal Fund of \$6.9 million.

- (7) An additional \$3.5 million reimbursement in 2006 for allowable 2005 expenditures related to Hurricanes Katrina and Rita.
- (8) Other miscellaneous increases in net assets (\$2.5 million).

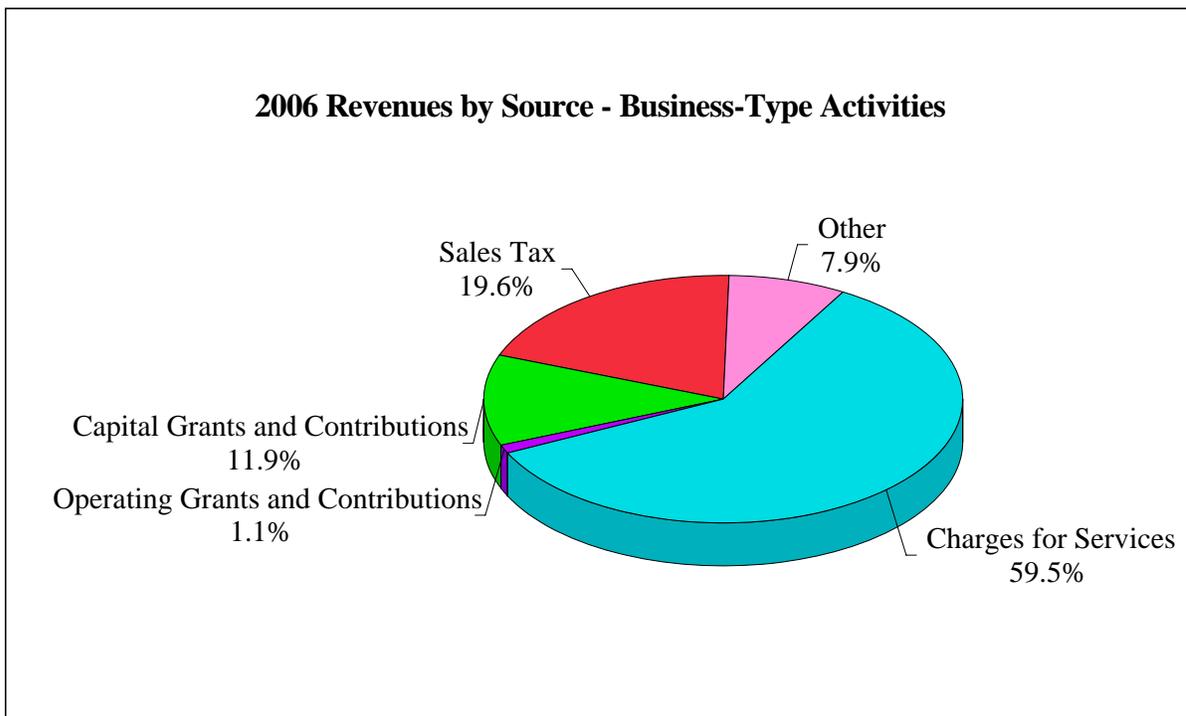
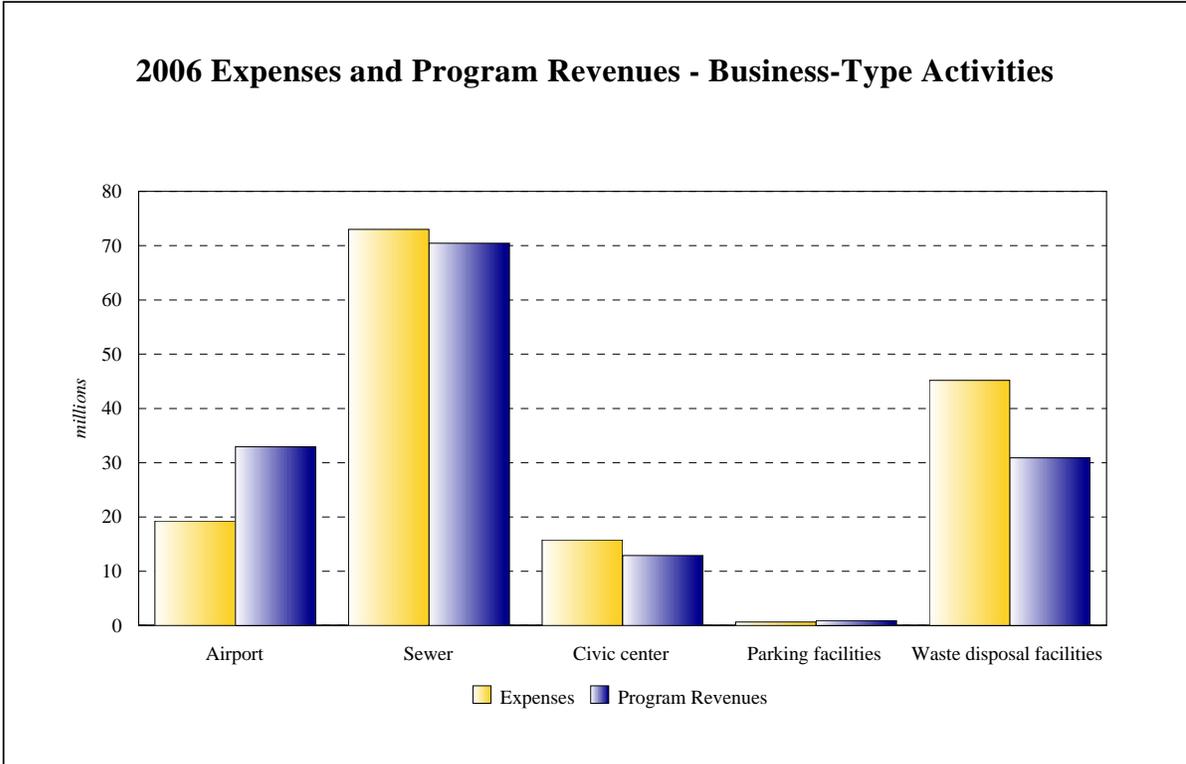


*Business-Type Activities'* net assets increased by \$61.1 million in 2006, primarily due to:

- (1) 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 \$26.8 million.
- (2) Enterprise fund contributions from external parties of \$24.3 million from the following sources: airport grants from federal and state agencies (\$14.1 million), capital grants from the State of Louisiana for the Baton Rouge River Center (\$1.7 million), contributions of infrastructure from private developers to the sewerage system (\$1.7 million), and sewer impact fees (\$6.8 million).
- (3) Contributions from governmental fund types for improvements and expansion of the Baton Rouge River Center (\$5.4 million).
- (4) A net decrease of \$5.8 million resulting from the consolidation of all activity associated with the collection of solid waste into the Solid Waste Collection and Disposal Fund. Charges for services and expenditures for sanitation in business-type activities increased \$13.3 million and \$26.0 million, respectively, offset by an increase in subsidies from the General Fund and the Consolidated Garbage Service District No. 1 Special Revenue Fund of \$6.9 million.
- (5) Sewer user fees increased (\$5.2 million) in 2006, primarily as a result of the annual increase of 4% recommended by the comprehensive financing model developed to manage the finances of the Sanitary Sewer Improvement Program.
- (6) Investment earnings of \$13.7 million as a result of the rise in interest rates, larger cash balances from sales tax and user fee increases, and the issuance of Sewer Revenue Bonds.
- (7) A net decrease of \$10.3 million for a special item reducing construction work-in-progress on sewer capital assets due to a change in an engineering method on the sanitary sewer program.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

- (8) An increase of almost \$2.7 million from a construction contract claim settlement by the Greater Baton Rouge Airport District.
- (9) Other miscellaneous decreases in net assets (\$0.9 million).



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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 \$494.4 million, an increase of \$199.7 million in comparison with the prior year. The increase in total fund balances is primarily attributable to the issuance of Road and Street Improvement Sales Tax Bonds and significant increases in tax revenues collected in 2006. Approximately 33% of total governmental funds fund balance (\$161.7 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 (\$31.7 million), (2) payment of debt service (\$25.1 million), (3) loans to low-income recipients (\$3.5 million), (4) legal appropriations in the 2007 operating budget (\$11.7 million), (5) continuing projects carried forward to the next fiscal year (\$260.0 million), or (6) investment of inventories at December 31, 2006 (\$0.7 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 \$41.1 million, while total fund balance was \$118.2 million. Compared with total fund balance of \$89.9 million at the end of 2005, fund balance increased approximately \$28.3 million during 2006. The increase in fund balance was primarily the result of increases in revenues over budgeted projections for sales taxes, property taxes, gross receipts business taxes and investment earnings.

The Library Board of Control Fund collected revenues that exceeded expenditures by \$11.3 million in 2006. 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 as well as a pay-as-you-go capital improvement program. The library's long-range capital plan includes the replacement of the main library and the addition of a branch in the eastern district of the Parish.

The Grants Fund collected revenues that exceeded expenditures by \$5.0 million in 2006 primarily due to reimbursements related to Hurricanes Katrina and Rita. These reimbursements of prior-year expenditures were reported as deferred revenue in 2005.

Fund balance in the Capital Projects Fund increased (\$146.6 million) in 2006 as compared to the ending fund balance in 2005 primarily due to the issuance of debt (\$125.0 million), investment earnings (approximately \$8.6 million) and approximately \$13.0 million of excess collections of the ½ cent road and street tax over current year expenditures.

*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 \$8.4 million at December 31, 2006. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of over \$180.8 million. The fund reported a net income of \$2.7 million before capital contributions and transfers for the year ended December 31, 2006.

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Unrestricted net assets of the Comprehensive Sewerage System Fund were \$251.1 million at December 31, 2006. 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. Restricted assets total approximately \$175.4 million, reflecting a heavy investment in capital assets. The fund realized a net income of \$41.0 million before government contributions and transfers for the year ended December 31, 2006.

Unrestricted net assets of the Solid Waste Collection and Disposal Fund were \$12.4 million at December 31, 2006. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of \$23.9 million. The fund reported a net loss of \$13.4 million before capital contributions and transfers for the year ended December 31, 2006. The primary sources of revenue for this fund are user fees, and subsidies from the Consolidated Garbage Service District, and the General Fund.

**General Fund Budgetary Highlights**

The total difference between the original General Fund budget and the final amended budget was an increase in appropriations of \$22.2 million. Supplemental appropriations totaling \$20.0 million were approved during the year by the Metropolitan Council for various programs summarized as follows: (1) drainage, road and building projects (\$9.0 million), (2) assistance with operational expenses for Capital Area Transit System (\$0.5 million), (3) settlement of general, auto, and workers' compensation and contractual claims and judgments (\$1.0 million), (4) supplementary departmental operating expenditures (\$5.7 million), (5) miscellaneous departmental equipment and other improvement projects (\$3.1 million) and cooperative agreements with outside agencies and organizations for special events (\$0.7 million).

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

- Sales and use taxes were collected in excess of budget by approximately \$25.5 million. The original General Fund budget used a three and one-half percent growth rate and actual sales tax revenues for the General Fund grew by 10.8 percent during 2006.
- Gaming admissions taxes were collected in excess of budget by approximately \$5.0 million. Historically, the administration's policy on these taxes has been to appropriate gaming revenues primarily for non-recurring expenditures. However, estimated revenue of \$2 million was included in the 2006 budget as a source of funds for recurring operations.
- Gross receipts business taxes were collected in excess of budget by approximately \$3.6 million. These taxes are based on the consumption of utilities and are very cyclical in nature. Conservative estimates are used for this revenue in the General Fund budget.
- Charges for services provided to the Central Transition District were collected in excess of budget by approximately \$1.1 million. During 2005, the citizens of Central voted to become a municipal government. The City-Parish has contracted with the Central Transition District through an intergovernmental agreement to provide services at substantially the same level as provided prior to their incorporation. The City-Parish is compensated for these services under the agreement by continuing to receive 90% of the 2% general sales and use tax that is levied in the City of Central. This arrangement will continue until the new city is able to organize its management and acquire these services through other providers.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

- Approximately \$11.6 million of appropriations for departmental budgets were not spent during 2006. 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 \$10.5 million, are listed on the balance sheet as "reserved for continuing projects". The majority of these funds are appropriated to upgrade information services network systems and computers, purchase police vehicles and safety equipment, provide for replacement of departmental office equipment, and provide funds for public works projects such as drainage, street improvements 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, 2006, amounts to \$1,111.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, airport facilities, parking facilities, 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 \$3.3 million, a 2.5% increase for governmental activities and a 1.3% decrease for business-type activities due to a change in engineering method on sewer projects. (See Note 6)

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

- Capitalization of donated infrastructure in governmental activities from private subdivision developers (\$4.0 million) brought into City-Parish maintenance during the year.
- Capitalization of Eden Park Library (\$3.9 million).
- Purchased right-of-way land and began construction on several infrastructure road projects:
  - Central Thruway (\$4.0 million)
  - Groom Road Improvements (\$3.3 million)
  - Millerville Road (I-12 to Old Hammond) (\$2.8 million)
- Completion and capitalization of several infrastructure projects:
  - North Boulevard (\$13.1 million)
  - I-10 Frontage Road (Bluebonnet to Siegen) (\$18.6 million)
  - Comite Drive Bridge (\$3.6 million)
  - Pride Port Hudson Road Bridge (\$0.5 million)
- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$16.3 million).
- Renovations and improvements to the Airport terminal building, runways, and other Airport improvements (\$20.5 million).
- Capitalization of improvements made to the Baton Rouge River Center (\$1.4 million).

**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  
Capital Assets  
(Net of Depreciation)  
December 31, 2006 & 2005  
(in millions)

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 83.0	\$ 81.7	\$ 75.0	\$ 71.5	\$ 158.0	\$ 153.2
Buildings	88.6	90.2	102.4	103.0	191.0	193.2
Noise Mitigation Costs	-	-	26.3	20.8	26.3	20.8
Improvements (Other Than Buildings) and Infrastructure	239.9	213.0	433.5	440.0	673.4	653.0
Machinery and Equipment	18.3	14.6	2.4	2.1	20.7	16.7
Construction Work-In-Progress	<u>32.6</u>	<u>51.3</u>	<u>9.2</u>	<u>19.6</u>	<u>41.8</u>	<u>70.9</u>
Total	<u>\$462.4</u>	<u>\$450.8</u>	<u>\$648.8</u>	<u>\$657.0</u>	<u>\$1,111.2</u>	<u>\$1,107.8</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 \$565.6 million. Of this amount, \$92.5 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, 2006 & 2005  
(in millions)

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Excess Revenue Contracts, Loans and Notes	\$ 67.8	\$ 69.8	\$ 24.7	\$ 18.2	\$ 92.5	\$ 88.0
Sales Tax Revenue Bonds	<u>181.6</u>	<u>62.2</u>	<u>291.5</u>	<u>271.8</u>	<u>473.1</u>	<u>334.0</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$249.4</u>	<u>\$132.0</u>	<u>\$316.2</u>	<u>\$290.0</u>	<u>\$565.6</u>	<u>\$422.0</u>

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

On May 3, 2006, the Parish of East Baton Rouge issued \$125,000,000 of Road and Street Improvement Sales Tax Revenue Bonds, Series 2006A (Fixed Rate) and Series 2006B (Variable Rate). In order to hedge its exposure to variable interest rates, the Parish entered into two Swap Agreements relating to the Series 2006B Bonds.

On July 26, 2006, the Parish of East Baton Rouge entered into two forward Swap Agreements relating to Parish Road and Street Improvement Sales Tax Revenue Bonds with a combined initial notional amount of \$110,000,000 expected to be issued on or about August 1, 2008. The Parish entered into the hedge agreements for the purpose of hedging against certain interest rate fluctuations arising from the execution and delivery of the bonds as variable rate obligations and to lock in a fixed cost of borrowing for the bonds.

On July 26, 2006, the East Baton Rouge Sewerage Commission entered into two forward Swap Agreements relating to East Baton Rouge Sewerage Commission Revenue Bonds with a combined initial notional amount of \$185,000,000 expected to be issued on or about July 1, 2011, and July 1, 2012. The Commission entered into the hedge agreements for the purpose of hedging against certain interest rate fluctuations arising from the execution and delivery of each Series of bonds as variable rate obligations and to lock in a fixed cost of borrowing for the bonds.

On August 17, 2006, the East Baton Rouge Sewerage Commission issued \$196,930,000 of Revenue and Refunding Bonds \$154,915,000 to refund certain previously issued Public Improvement Sales Tax Bonds and \$42,015,000 to finance a portion of the cost of upgrading, rehabilitating, extending and improving the sewer system. In order to reduce the costs of borrowing funds, these bonds are secured by a combined credit of the 1/2% Sewer Sales Tax revenues and Sewer User Fee revenues. The refunding portion was used to advance refund the Parish's \$16.8 million Series ST-1998B Public Improvement (Sewer) Sales Tax Revenue and Refunding Bonds (original true interest cost 4.66%; principal refunded - \$12,650,000) the Parish's \$20 million Series ST-2001 Public Improvement (Sewer) Sales Tax Revenue Bonds (original true interest cost 5.02%; principal refunded - \$19,585,000), the Parish's \$112.7 million Series ST-2003 Public Improvement (Sewer) Sales Tax Revenue and Refunding Bonds (original true interest cost 4.04%; principal refunded - \$99,245,000) and the Parish's \$24.8 million Series ST-2004 Public Improvement (Sewer) Sales Tax Revenue Refunding Bonds (original true interest cost 4.35%; principal refunded \$24,840,000). Gross cash costs of principal and interest on the refunding will be realized by the Comprehensive Sewerage System Fund in the amount of \$44,627,352, and the net economic loss was \$52,097, as detailed in Note 10(a)16 of the Notes to Financial Statements.

In 2006, the City-Parish borrowed additional funds from the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDCA) program for airport improvements (\$4,935,921), and to purchase garbage carts for residents to transition to automated garbage collection for East Baton Rouge Parish (\$2,629,375). Details of the loan agreements and outstanding amounts at December 31, 2006, 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, 2006, City-Parish bonds were rated by three of the major rating services as follows:

	<u>Underlying Ratings</u>			<u>Insured Ratings</u>		
	Moody's Investors <u>Service</u>	Standard and Poor's	Fitch Investors	Moody's Investors <u>Service</u>	Standard and Poor's	Fitch Investors
City of Baton Rouge (2%) Sales Tax Revenue Bonds	A1	AA	AA-	Aaa	AAA	AAA
Parish of East Baton Rouge (2%) Sales Tax Revenue Bonds	A1	AA	AA-	Aaa	AAA	AAA
Parish of East Baton Rouge Sewer Improvement (½%) Sales Tax Revenue Bonds	A3	AA	A+	Aaa	AAA	AAA
Parish of East Baton Rouge Road and Street Improvements (½%) Sales Tax Revenue Bonds	A2	A+	A+	Aaa	AAA	AAA
East Baton Rouge Sewerage Commission Revenue Bonds	A1	A+	AA-	Aaa	AAA	AAA

In March 2007, Fitch Investor Services upgraded the underlying rating for the City of Baton Rouge (2%) Sales Tax Revenue Bonds and the Parish of East Baton Rouge (2%) Sales Tax Revenue Bonds from "AA-" to "AA", and Moody's Investors Service upgraded the underlying rating for the City of Baton Rouge (2%) Sales Tax Revenue Bonds from "A1" to "Aa3"

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. East Baton Rouge Parish experienced sales tax growth of over 18 percent for the first seven months of 2006. Dr. James A. Richardson and Dr. Loren C. Scott, expert economists from Louisiana State University, advise that the substantial growth in sales taxes for the last four months of 2005 (27.5%) and the first seven months of 2006 (18%) suggests a sales tax base that is probably not sustainable. Their advice was for the City-Parish to use a range of growth rates from 3.0 percent to 4.0 percent relative to the revised sales tax base for 2006. Based upon the advice of these experts, the 2007 operating budget assumes a 4.0 percent growth rate for sales and use tax revenues.

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

**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.

