

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 \$1,224.3 million (*net assets*). Of this amount, \$270.4 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 \$112.5 million during 2005. Governmental activities' net assets increased \$52.2 million during 2005, primarily as a result of the increase in capital assets from outside contributions (\$15.2 million), additional tax revenues in the governmental activities (\$28.0 million), the reduction of prior-year long-term debt (\$4.1 million), an increase in investment earnings (\$4.2 million), an increase in charges for services due to the inception of an intergovernmental agreement with the Central Transition District (\$1.9 million), an increase in Emergency Medical Services transport charges due to an increase in fees (\$1.0 million), and other miscellaneous decreases in net assets (\$2.2 million). Sales tax revenues collected in excess of debt service and operating expenses in the sewerage fund (\$22.7 million), contributions from the federal and state governments, subdivision developers, and impact fees (\$25.1 million), contributions from the government's governmental activities for major capital purchases (\$1.5 million), increased airport passenger facility charges and customer facility charges (\$1.6 million), increased sewer user fees (\$3.1 million), increased investment earnings (\$4.1 million), and other miscellaneous increases (\$2.2 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 \$294.7 million, an increase of \$23.4 million in comparison with the prior year. Approximately 42% of the fund balances, \$123.8 million, is *available for spending* at the City-Parish's discretion (*unreserved fund balance*).
- At December 31, 2005, unreserved fund balance for the General Fund was \$74.5 million, or 35% of total 2005 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 long-term obligations. Also presented in the government-wide financial statements is a total column for the business-type

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 in the fund financial statements. All City-Parish component unit agencies except for four fire protection districts (see Exhibits G-1 through G-8) 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 (garbage and trash collection), transportation (street and road maintenance), culture and recreation (library), conservation and development (social programs), and intergovernmental. 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 disposal facility) 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. Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds, rather than generic fund types.

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

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

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.

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 between year 1980 through 2005 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 B-1 through G-8 of the report.

Certain supplementary financial information can be found in Exhibits H-1 through H-3 of this report. These schedules and the statistical section (Exhibits I-1 through I-22) are included for additional information and analysis and do not constitute a part of the audited 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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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

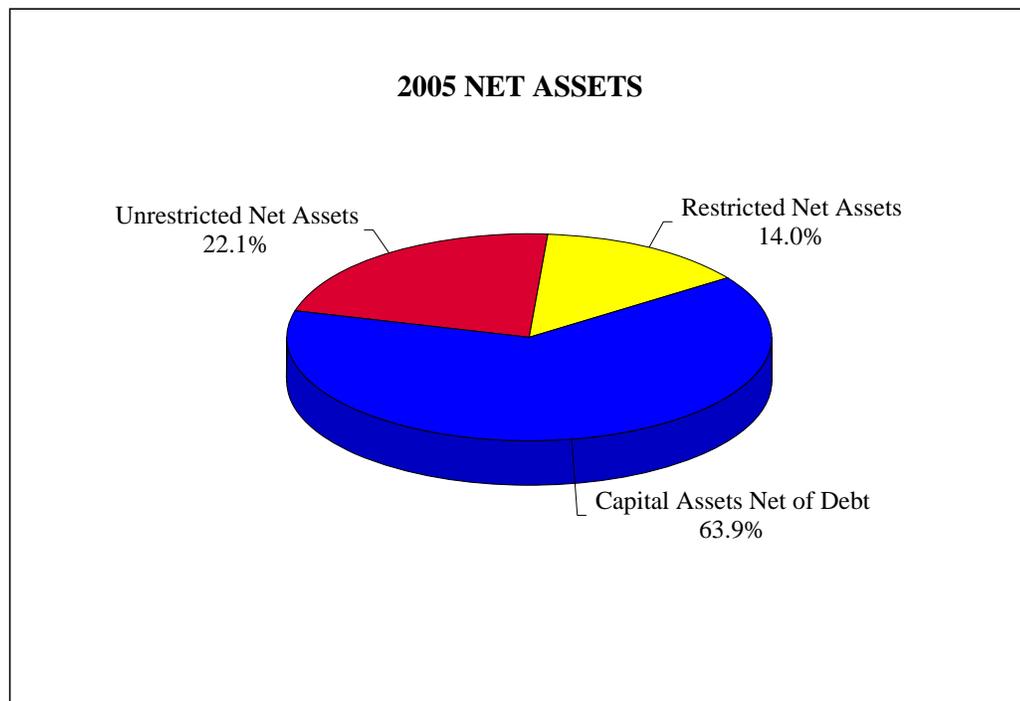
Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Assets for 2005, with comparative figures from 2004:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Net Assets
December 31, 2005 & 2004
(in millions)

	Governmental Activities		Business- Type Activities		Total	
	2005	2004	2005	2004	2005	2004
	Assets:					
Current and Other Assets	\$363.5	\$327.3	\$261.4	\$217.9	\$ 624.9	\$ 545.2
Restricted Assets	--	--	49.0	58.9	49.0	58.9
Capital Assets	<u>450.8</u>	<u>431.6</u>	<u>657.0</u>	<u>642.5</u>	<u>1,107.8</u>	<u>1,074.1</u>
Total Assets	<u>814.3</u>	<u>758.9</u>	<u>967.4</u>	<u>919.3</u>	<u>1,781.7</u>	<u>1,678.2</u>
Liabilities:						
Current Liabilities	52.8	45.5	16.7	30.1	69.5	75.6
Non-current Liabilities	<u>184.4</u>	<u>188.5</u>	<u>303.5</u>	<u>302.3</u>	<u>487.9</u>	<u>490.8</u>
Total Liabilities	<u>237.2</u>	<u>234.0</u>	<u>320.2</u>	<u>332.4</u>	<u>557.4</u>	<u>566.4</u>
Net Assets:						
Invested in Capital Assets Net of Debt	388.6	365.6	394.1	386.2	782.7	751.8
Restricted	137.8	145.5	33.4	31.8	171.2	177.3
Unrestricted	<u>50.7</u>	<u>13.8</u>	<u>219.7</u>	<u>168.9</u>	<u>270.4</u>	<u>182.7</u>
Total Net Assets	<u>\$577.1</u>	<u>\$524.9</u>	<u>\$647.2</u>	<u>\$586.9</u>	<u>\$1,224.3</u>	<u>\$1,111.8</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 63.9% (\$782.7 million) of the City-Parish's net assets as of December 31, 2005, 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 14.0% (\$171.2 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 22.1% of net assets, referred to as *unrestricted* (\$270.4 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, 2005, with comparative figures from 2004:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Changes in Net Assets
For the Years Ended December 31, 2005 & 2004
(in millions)

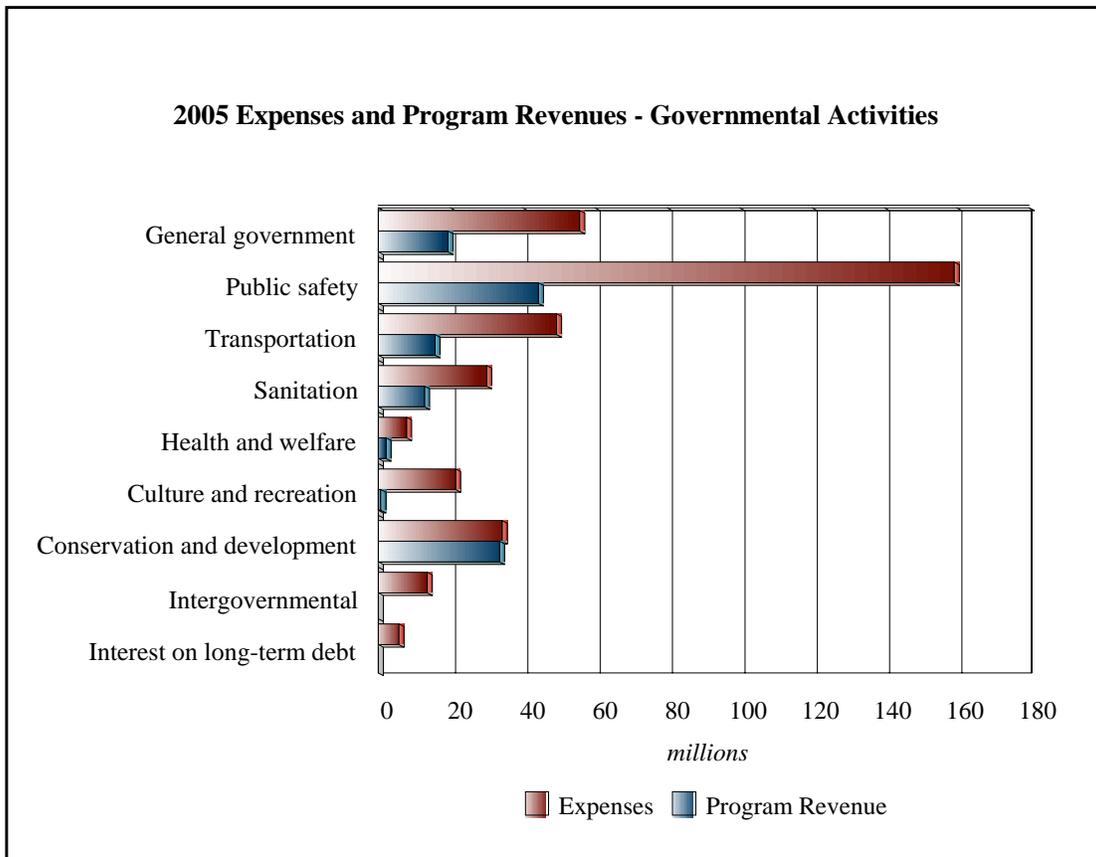
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 53.6	\$ 48.7	\$ 85.0	\$ 74.0	\$ 138.6	\$ 122.7
Operating Grants and Contributions	62.1	42.3	0.4	--	62.5	42.3
Capital Grants and Contributions	15.2	13.5	28.7	52.1	43.9	65.6
General Revenues:						
Sales Taxes	185.6	164.8	36.0	31.2	221.6	196.0
Other Taxes	113.5	105.3	--	--	113.5	105.3
Grants and Contributions Not Restricted to Specific Programs	4.4	4.2	--	--	4.4	4.2
Other	<u>9.1</u>	<u>5.1</u>	<u>7.8</u>	<u>3.7</u>	<u>16.9</u>	<u>8.8</u>
Total Revenues	<u>443.5</u>	<u>383.9</u>	<u>157.9</u>	<u>161.0</u>	<u>601.4</u>	<u>544.9</u>
Expenses:						
General Government	56.3	56.3	0.9	0.9	57.2	57.2
Public Safety	159.3	136.3	--	--	159.3	136.3
Transportation	49.7	51.0	16.4	13.6	66.1	64.6
Sanitation	30.2	25.4	83.7	86.1	113.9	111.5
Health and Welfare	8.2	7.0	--	--	8.2	7.0
Culture and Recreation	21.9	19.9	7.4	3.5	29.3	23.4
Conservation and Development	34.6	35.7	--	--	34.6	35.7
Intergovernmental	14.3	13.6	--	--	14.3	13.6
Interest on Long-Term Debt	<u>6.0</u>	<u>6.1</u>	<u>--</u>	<u>--</u>	<u>6.0</u>	<u>6.1</u>
Total Expenses	<u>380.5</u>	<u>351.3</u>	<u>108.4</u>	<u>104.1</u>	<u>488.9</u>	<u>455.4</u>
Increase in Net Assets Before						
Transfers	63.0	32.6	49.5	56.9	112.5	89.5
Transfers	<u>(10.8)</u>	<u>(15.8)</u>	<u>10.8</u>	<u>15.8</u>	<u>--</u>	<u>--</u>
Increase In Net Assets	52.2	16.8	60.3	72.7	112.5	89.5
Net Assets, January 1, restated	<u>524.9</u>	<u>508.1</u>	<u>586.9</u>	<u>514.2</u>	<u>1,111.8</u>	<u>1,022.3</u>
Net Assets, December 31	<u>\$577.1</u>	<u>\$524.9</u>	<u>\$647.2</u>	<u>\$586.9</u>	<u>\$1,224.3</u>	<u>\$1,111.8</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

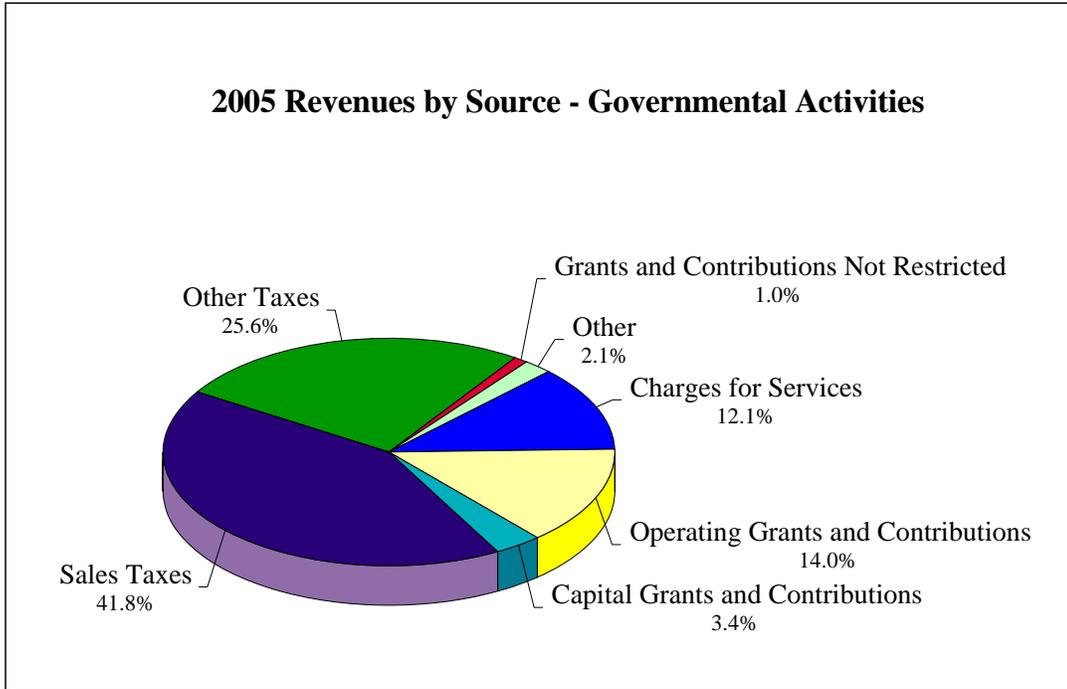
The government's net assets increased \$112.5 million during the current fiscal year.

Governmental Activities' net assets increased \$52.2 million in 2005, primarily due to:

- (1) An increase of approximately \$15.2 million of expenditures capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$4.4 million), donated infrastructure from developers (\$9.5 million), and miscellaneous capital grants for public safety and conservation and development from the federal and state governments (\$1.3 million).
- (2) An additional \$28.0 million in tax revenues due to growth in the economy, growth of property tax rolls, and population growth following Hurricanes Katrina and Rita including: sales tax revenues (\$20.8 million), property tax revenues (\$4.0 million), franchise tax revenues (\$2.1 million), and gaming admission tax revenues (\$1.1 million).
- (3) A net decrease of approximately \$4.1 million in long-term debt primarily due to the retirement of governmental activities bonded debt.
- (4) Growth in investment earnings in governmental activities of \$4.2 million
- (5) Collection of charges for services provided to the Central Transition District in the amount of \$1.9 million.
- (6) An increase in Emergency Medical Services transport charges due to an increase in both emergency transfer fees and mileage fees (\$1.0 million).
- (7) Other miscellaneous decreases in net assets (\$2.2 million).



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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

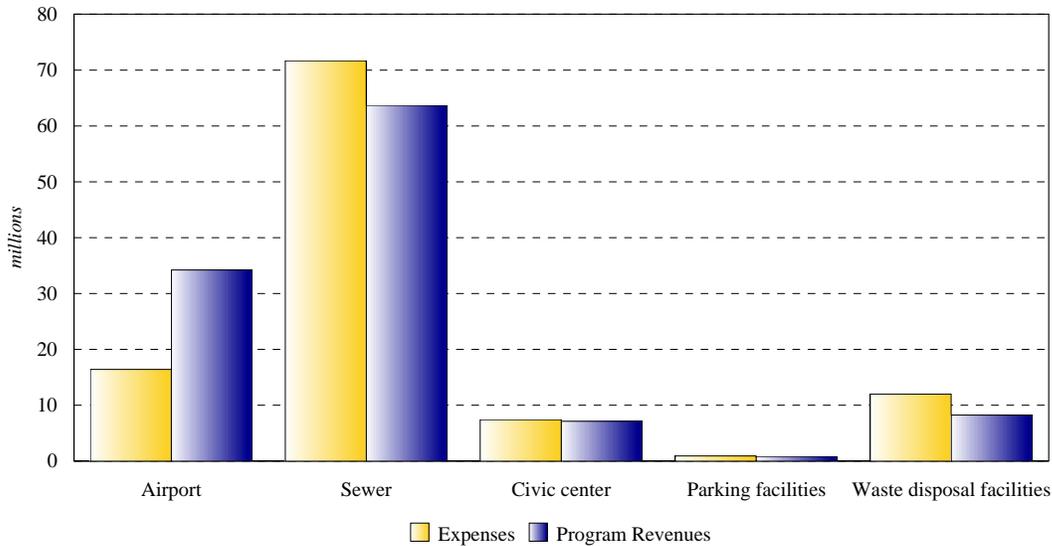


Business-Type Activities' net assets increased by \$60.3 million in 2005, primarily due to:

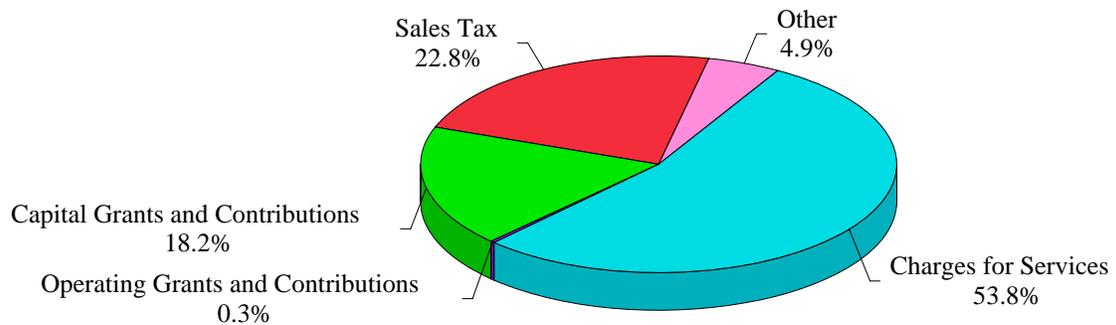
- (1) Sales tax (non-operating) revenues collected in excess of debt service and operating expenses that will be used for the sewerage capital improvements program in the amount of \$22.7 million.
- (2) Enterprise fund contributions from external parties of \$25.1 million from the following sources: airport grants from federal and state agencies (\$17.5 million), contributions of infrastructure from private developers to the sewerage system (\$2.4 million), and sewer impact fees (\$5.2 million).
- (3) Contributions from governmental fund types for improvements and expansion of the Baton Rouge River Center (\$1.5 million).
- (4) Additional passenger facility charges (\$0.6 million) and customer facility charges on rental cars (\$1.0 million) collected by the Greater Baton Rouge Airport District due to increased enplanements in the aftermath of Hurricanes Katrina and Rita.
- (5) Sewer user fees increased (\$3.1 million) in 2005, 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 increased \$4.1 million as a result of both the rise in interest rates and from larger cash balances from sales tax and user fee increases.
- (7) Other miscellaneous increases in net assets (\$2.2 million).

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

2005 Expenses and Program Revenues - Business-Type Activities



2005 Revenues by Source - Business-Type Activities



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.

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

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 \$294.7 million, an increase of \$23.4 million in comparison with the prior year. The increase in total fund balances is primarily attributable to the significant increases in tax revenues collected in 2005. Approximately 42% of total governmental funds fund balance (\$123.8 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 (\$15.8 million), (2) payment of debt service (\$22.7 million), (3) loans to low-income recipients (\$3.8 million), (4) legal appropriations in the 2006 operating budget (\$7.8 million), (5) continuing projects carried forward to the next fiscal year (\$120.1 million), or (6) investment of inventories at December 31, 2005 (\$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 \$21.4 million, while total fund balance was \$89.9 million. Compared with total fund balance of \$67.5 million at the end of 2004, fund balance increased approximately \$22.4 million during 2005. The increase in fund balance was primarily the result of increases in revenues for sales taxes, franchise taxes, and gaming admissions taxes.

The Library Board of Control Fund collected revenues that exceeded expenditures by \$6.6 million in 2005. 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. During 2005, the Library Fund transferred \$15.3 million to the Capital Projects Fund for library capital improvements.

During 2005, the City-Parish primary government incurred \$19.9 million of expenditures related to Hurricanes Katrina and Rita, including costs for staff overtime, usage of City-Parish vehicles and equipment, and housing of evacuees. The government recognized revenues in the Grants Fund in the amount of \$15.9 million relating to these costs. At December 31, 2005, a receivable (Due From Other Governments) and a deferred revenue remains in the Grants Fund in the amount of \$4.0 million.

Fund balance in the Capital Projects Fund increased (\$15.6 million) in 2005 as compared to the ending fund balance in 2004 due to the appropriation of additional funds for library facilities, primarily for the replacement of the main library. Approximately \$114.8 million of Capital Projects Fund fund balance remains at December 31, 2005, for planned 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 \$4.8 million at December 31, 2005. Most of this major fund's assets are capital assets with an investment in capital assets net of related debt of over \$171.5 million. The fund reported a net income of \$0.2 million before capital contributions and transfers for the year ended December 31, 2005. The District is negotiating a new airport/airline lease agreement, which will be finalized in 2006.

Unrestricted net assets of the Comprehensive Sewerage System Fund were \$205.7 million at December 31, 2005. 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 \$177.6 million, reflecting a heavy investment in capital assets. The fund realized a net income of \$27.6 million before government contributions and transfers for the year ended December 31, 2005.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

General Fund Budgetary Highlights

The total difference between the original General Fund budget and the final amended budget was an increase in appropriations of \$9.7 million. Supplemental appropriations totaling \$9.7 million were approved during the year by the Metropolitan Council for various programs summarized as follows: (1) drainage, road and building projects (\$3.9 million), (2) return of debt service reserve requirement on outstanding City Sales Tax Revenue Bonds (\$1.2 million), (3) assistance with operational expenses for Capital Area Transit System (\$1.0 million), (4) settlement of general, auto, and workers' compensation claims and judgments (\$0.8 million), (5) miscellaneous improvement projects and supplementary departmental operating expenditures (\$2.8 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 \$16.3 million. The original General Fund budget used a one percent growth rate and actual sales tax revenues for the General Fund grew by 11.9 percent during 2005.
- Gaming admissions taxes were collected in excess of budget by approximately \$1.8 million. Historically, the administration's policy on these taxes has been to appropriate gaming revenues primarily for non-recurring expenditures.
- Gross receipts business taxes were collected in excess of budget by approximately \$2.1 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 the amount of \$1.9 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. This arrangement will continue until the new city is able to organize its management and acquire these services through other providers.
- The risk management budget was underspent by approximately \$1.0 million when actual claims for general, auto, and compromised claims were lower than projected in the operating budget. Excess appropriations were credited to the insurance designation to offset increases in future years (see Note 9(f) in the Notes to Financial Statements).
- Approximately \$10.3 million of appropriations for departmental budgets were not spent during 2005. 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 \$8.6 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, 2005, amounts to \$1,107.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements,

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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 \$33.7 million, a 4.4% increase for governmental activities and an 2.2% increase for business-type activities.

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

- Continued construction on North Boulevard (\$8.8 million).
- Continued construction on Eden Park Library (\$1.8 million).
- Purchased right-of-way land and began construction on several infrastructure road projects:
 - Central Thruway (\$2.5 million)
 - Comite Drive (1.7 million)
- Completion and capitalization of several infrastructure projects:
 - Blount Road Improvement (\$11.0 million)
 - Lobdell (Jefferson to Goodwood) (\$2.4 million)
 - George O'Neal Road (\$5.7 million)
 - Mississippi River Levee Bike Path (\$1.9 million)
- Completion and capitalization of two new buildings:
 - Pride Branch Library (\$2.6 million)
 - Evangeline Street Fire Station (\$1.0 million)
- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$27.8 million).
- Renovations and improvements to the Airport terminal building and other Airport improvements (\$18.0 million).
- Capitalization of improvements made to the Baton Rouge River Center (\$3.9 million).

City of Baton Rouge, Parish of East Baton Rouge
Capital Assets
(Net of Depreciation)
December 31, 2005 & 2004
(in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 81.7	\$ 80.4	\$ 71.5	\$ 71.4	\$ 153.2	\$ 151.8
Buildings	90.2	90.9	103.0	101.7	193.2	192.6
Noise Mitigation Costs	-	-	20.8	13.6	20.8	13.6
Improvements (Other Than Buildings) and Infrastructure	213.0	192.5	440.0	429.5	653.0	622.0
Machinery and Equipment	14.6	17.5	2.1	2.6	16.7	20.1
Construction Work-In-Progress	<u>51.3</u>	<u>50.3</u>	<u>19.6</u>	<u>23.7</u>	<u>70.9</u>	<u>74.0</u>
Total	<u>\$450.8</u>	<u>\$431.6</u>	<u>\$657.0</u>	<u>\$642.5</u>	<u>\$1,107.8</u>	<u>\$1,074.1</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 \$422.0 million. Of this amount, \$88.0 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 the general sales tax of the General Fund. 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, 2005 & 2004
 (in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Excess Revenue Contracts, Loans and Notes	\$ 69.8	\$ 71.6	\$ 18.2	\$ 11.7	\$ 88.0	\$ 83.3
Sales Tax Revenue Bonds	<u>62.2</u>	<u>67.1</u>	<u>271.8</u>	<u>278.6</u>	<u>334.0</u>	<u>345.7</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$132.0</u>	<u>\$138.7</u>	<u>\$290.0</u>	<u>\$290.3</u>	<u>\$422.0</u>	<u>\$429.0</u>

On April 19, 2005, the City issued \$2,100,000 of Public Improvement Sales Tax Revenue Bonds, Series 2005B (Taxable) for the purpose of providing funds to make a loan to the Greater Baton Rouge Airport District in order to enable the district to reimburse itself for certain prior expenditures made by the district with respect to the terminal facility located at the Baton Rouge Airport.

On May 5, 2005, the Parish issued \$33,255,000 of Public Improvement (Sewer) Sales Tax Revenue Bonds to advance refund the callable portion of the \$43.0 million Series ST - 1999 Public Improvement (Sewer) Sales Tax Revenue Bonds (original net interest cost 5.69%; principal refunded - \$32,110,000). Gross cash savings of principal and interest on the refunding were realized by the Comprehensive Sewerage System Fund in the amount of \$1,626,090, and the net economic gain was \$1,157,956, as detailed in Note 10(a)14 of the Notes to Financial Statements.

On November 3, 2005, the Parish issued \$25,855,000 of Public Improvement (Sewer) Sales Tax Revenue Bonds to current refund a portion of the \$65.0 million Series ST - 1996 Public Improvement (Sewer) Sales Tax Revenue Bonds (original net interest cost 5.66%). The entire principal amount refunded of \$26,100,000 was called on February 1, 2006. Gross cash savings of principal and interest on the refunding were realized by the Comprehensive Sewerage System Fund in the amount of \$1,369,055, and the net economic gain was \$1,153,019, as detailed in Note 10(a)14 of the Notes to Financial Statements.

In 2005, the Parish borrowed additional funds from the 1999 Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA) program to aide in the construction of a new downtown parking facility. The total loan authorization of \$2,500,000 has been loaned to the Parish as of December 31, 2005. The loan is expected to be repaid over a fourteen year term.

The City borrowed additional funds in 2005 from the 2000A LCDA program for the Greater Baton Rouge Airport District to provide funds for airport improvements. Although total loan authorization for this loan is \$11,000,000, only \$7,419,147 has been loaned to the City as of December 31, 2005. Funds are drawn on this loan as costs are incurred on airport projects. The loan is expected to be repaid over a twenty-five year term.

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

As of December 31, 2005, City-Parish bonds were rated by three of the major rating services as follows:

	<u>Underlying Ratings</u>			<u>Insured Ratings</u>		
	<u>Moody's Investors Service</u>	<u>Standard and Poor's</u>	<u>Fitch Investors</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	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	A	A	Aaa	AAA	AAA

In April 2006, Fitch Investors upgraded the underlying bond rating for the Parish of East Baton Rouge Sewer Improvement (½%) Sales Tax Revenue Bonds from “A” to “A+”.

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 approximately 50 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 almost 6 percent for the first seven months of 2005, and a growth rate of about 4.5 percent if the impact of the American Bowling Congress Tournament is discounted. Dr. James A. Richardson and Dr. Loren C. Scott, expert economists from Louisiana State University, advise that, while revenue projections may be subject to a wide margin of error, baseline growth for sales tax collections of between 2.5 and 3.5 percent can be expected. Based upon the advice of these experts, the 2006 operating budget assumes a 3.5 percent growth rate for sales and use tax revenues.

Following Hurricane Katrina, Baton Rouge experienced growth in both employment and sales tax collections as a result of unprecedented population growth. Although this additional population should lead to continued growth in sales tax collections in 2006, when compared to 2005, it is not clear that these persons will remain in Baton Rouge permanently. Until the level of sustained sales tax growth is determined, excess collections will be used on one-time expenditures such as capital improvement projects.

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.

