



## Department of Finance

### Accounting Division

City of Baton Rouge  
Parish of East Baton Rouge

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May 25, 2004

The Honorable Mayor-President  
and Members of the Metropolitan Council  
City of Baton Rouge  
Parish of East Baton Rouge  
Baton Rouge, Louisiana 70802

Dear Mayor-President and Council Members:

Pursuant to Louisiana State Statutes and The Plan of Government, I hereby issue the Comprehensive Annual Financial Report (CAFR) for the consolidated government of the City of Baton Rouge and Parish of East Baton Rouge (City-Parish) for the fiscal year ended December 31, 2003. The Accounting Division of the City-Parish Finance Department prepared this report in accordance with Generally Accepted Accounting Principles (GAAP). We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operations of the City-Parish as measured by the financial activities of its various funds and the entity-wide presentation; and that disclosures necessary to enable readers to gain an understanding of City-Parish financial affairs have been included. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the local government.

The City-Parish financial statements have been audited by Postlethwaite & Netterville, APAC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Consolidated Government of the City of Baton Rouge, Parish of East Baton Rouge, Louisiana, financial statements for the fiscal year ended December 31, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first document of the financial section of this report.

The City-Parish is required to undergo an annual single audit in conformance with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, Standard Form SF-SAC, findings and recommendations, and the auditors' reports on the internal control structure and compliance with applicable laws and regulations, is presented immediately following the Statistical Section of this publication.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of *Management's Discussion and Analysis (MD&A)*. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City-Parish's MD&A can be found immediately following the report of the independent auditors.

## Profile of the Government



The Parish of East Baton Rouge was established as a division of government of the *West Florida Republic* in 1810. The Parish later became a local governmental unit of the State of Louisiana and the United States when Louisiana was admitted to the Union in 1812. The City of Baton Rouge was incorporated as a municipality on July 6, 1817. These two government entities operated as separate local government units until January 1, 1949. At an election on August 12, 1947, the voters of both the parish and the city adopted the current Plan of Government (as amended) which consolidated the administration of most local government services for the city and the parish. Baton Rouge was one of the first consolidated forms of local government established in the United States. The elected Mayor-President serves as the leader of the executive branch of City-Parish government.

The legislative branch is the elected Metropolitan Council, which is composed of 12 district representatives.

The City-Parish provides a full range of services to the general public, including police and fire protection, emergency medical services, public works, public health and social services, public transportation, planning and zoning, economic development, an airport, construction and maintenance of streets and infrastructure, libraries, general administrative services, sewage treatment, and solid waste disposal.



A determination of the financial reporting entity to be included in this CAFR is made through the application of criteria established by the Governmental Accounting Standards Board (GASB), Statement 14. A complete explanation of the financial reporting entity is included in the Summary of Significant Accounting Policies in the Notes to the Financial Statements.

The City-Parish financial reporting entity consists of the following:

- The Primary Government - This is the City-Parish (all funds under the auspices of the Mayor-President and the Metropolitan Council).
- Legally separate component units - These units of government are legally separate from the City-Parish government but have a sufficiently close relationship with the government to warrant inclusion in the consolidated financial report.

The financial statements included in this CAFR are as follows:

<u>Name of Organization</u>	<u>Type of Unit</u>
▶ The City-Parish	Primary Government
▶ City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System	Blended Component Unit
▶ District Attorney of the Nineteenth Judicial District	Discrete Component Unit
▶ Nineteenth Judicial District Court	Discrete Component Unit
▶ East Baton Rouge Parish Family Court	Discrete Component Unit
▶ East Baton Rouge Parish Juvenile Court	Discrete Component Unit
▶ Nineteenth Judicial District Indigent Defender Board	Discrete Component Unit
▶ East Baton Rouge Parish Clerk of Court	Discrete Component Unit
▶ Capital Region Planning Commission	Discrete Component Unit
▶ East Baton Rouge Parish Coroner	Discrete Component Unit
▶ Parish Fire Protection Districts	Discrete Component Units
▶ Capital Transportation Corporation	Discrete Component Unit

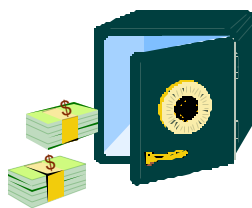
An explanation of the accounting policies of the City-Parish is contained in the Notes to the Financial Statements. The basis of accounting, fund structure, and other significant information on financial policy are explained in detail in the Notes to the Financial Statements.

Budgetary control is maintained by the encumbrance of appropriations with purchase orders prior to their release to vendors. Purchase orders that exceed appropriation balances are not released unless additional appropriations are made available. The annual operating budget, or financial plan, is proposed by the Mayor-President and enacted by the Metropolitan Council. Management control for the operating budget is maintained at the fund and department level. Additional details on the budget process are explained in the Notes to the Financial Statements.

Budget-to-actual comparisons are provided in this report for each individual governmental fund. For the General Fund, this comparison is presented in Exhibit A-7. The Capital Projects Fund budget statement is presented on a project length basis as legally adopted by the Metropolitan Council on Exhibit C-3. For other governmental funds, the annual budget comparison is presented in the Combining and Individual Fund Statements and Schedules, Exhibits C-4 through C-23.

Under the Plan of Government, the Finance Department is entrusted with maintaining accounting systems for the City, Parish, and districts over which the Metropolitan Council is the governing body, in accordance with the best-recognized practices in governmental accounting. It keeps the records for, and exercises financial and budgetary control over, each City-Parish department, office, and agency.

In developing and evaluating the accounting system of the City-Parish, the Finance Department considers the adequacy



of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and regarding the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of control should not exceed benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and state financial assistance, the City-Parish government is responsible for ensuring that adequate internal controls are in effect. All internal control evaluations occur within the framework described. The Finance Department believes that the internal controls of the City-Parish adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

## FACTORS AFFECTING FINANCIAL CONDITION

### Economic Condition and Outlook

The City of Baton Rouge is the state capital and the second largest city in Louisiana. It is located on the Mississippi River in the southeast region of the state and is a major center for commerce, industry, tourism, and many diverse cultural activities. The City is the principal home of two major state universities: Louisiana State University and Southern University. The North American Free Trade Agreement (NAFTA), approved by Congress in 1993, enables Baton Rouge, because of its location, to take economic advantage of one of the world's largest free trade zones.



A number of Fortune 500 companies engaged in oil refining, petrochemical processing, and wood products are found in the industrial corridor along the Mississippi River near Baton Rouge. These industries are major employers of Baton Rouge's labor force. Other important industries include government, construction, banking and financial services, insurance, real estate, and wholesale and retail trade.

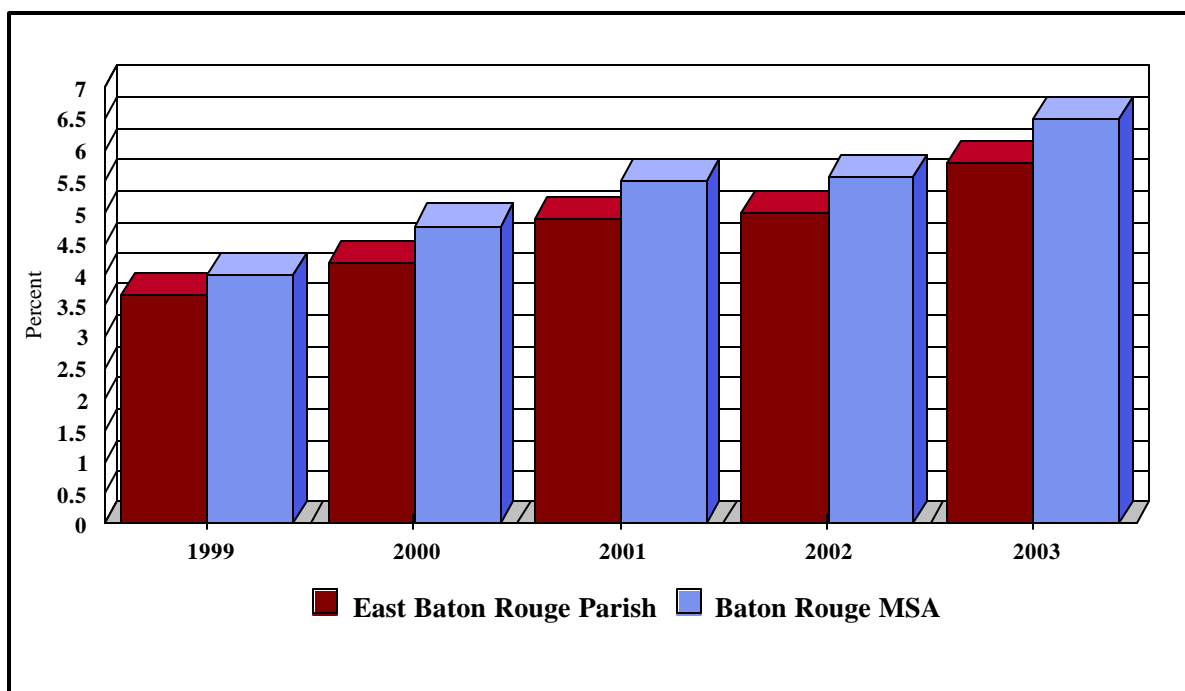
According to the Louisiana Department of Labor, the annual average rate of local unemployment rose in 2003, as reflected in the following chart:

	<u>East Baton Rouge Parish</u>	<u>Baton Rouge MSA</u> <sup>(1)</sup>
1999	3.7	4.0
2000	4.2	4.8
2001	4.9	5.5
2002	5.0	5.6
2003 <sup>(2)</sup>	5.8	6.5

<sup>(1)</sup> Metropolitan Statistical Area (includes East Baton Rouge, West Baton Rouge, Livingston, and Ascension Parishes)

<sup>(2)</sup> Preliminary Figures

### AVERAGE UNEMPLOYMENT RATE LAST FIVE YEARS



According to leading economists, the Baton Rouge Metropolitan Statistical Area (MSA) will see very little job growth within the next two years. The petrochemical industry is a huge factor in the MSA's economy. When the chemical and refining industries expand so does industrial construction. The national recession hit chemical sales in this sector very hard and weakened the price of chemical products. The projected national recovery should offset these lower prices in the next two years. However, high natural gas prices in the area have raised operating costs in a declining demand market and caused several chemical firms in the MSA to announce layoffs or to close either temporarily, partially, or completely. Not only has direct chemical employment suffered, but many planned plant expansion projects have been postponed.

However, several large construction projects are scheduled to begin or continue over the next two years in the area which is expected to offset the above-mentioned reduction in jobs. Some of these projects include:

- The \$30 million **D'Iberville Building** to house the Department of Natural Resources;
- Another \$30 million to construct the **Bienville Building** for the Department of Education;
- The \$50 million **Shaw Performing Arts Center** is underway and will be in construction through 2005;
- **LSU** will spend \$29.1 million to build a new residential college and another \$18.5 million to remake its music and dramatic arts building;
- A private firm is very close to final arrangements to spend \$40 million on a large condominium project on the site of the old Travelodge Hotel in downtown Baton Rouge.

The Baton Rouge economy grew in 2003 as reflected by the growth in sales and use tax collections. General sales and use tax (2 percent) for the operations of the City and Parish were \$5,509,586 more than 2002 revenues, representing a 4.41 percent increase. Sales tax collections for the ½ percent sewerage tax were \$ 806,246 more than last year and the collections of the ½ percent road and street improvement tax increased from 2002 by \$351,006. The general sales and use tax plays a significant role in financing the operations of the general fund.

As part of the City-Parish revenue estimating process, Dr. James A. Richardson, John Rhea Alumni Professor of Economics at Louisiana State University, and Dr. Loren C. Scott, Professor Emeritus in the Department of Economics at Louisiana State University, were asked to comment on their prediction of sales and use tax revenue growth in East Baton Rouge Parish for 2004. The economists indicated the following:

*“The Baton Rouge economy is undergoing a pause in its long-term growth environment. During the 1990s, the Baton Rouge economy was the fastest growing metropolitan region in the state, a 36.5 percent growth in employment compared to a statewide growth rate of 17.2 percent. From 2000 to the estimated employment for 2003, Baton Rouge has lost 6,000 jobs, a 1.9 percent reduction in employment compared to a statewide average of 0.9 percent reduction in employment. Despite these employment losses during the last three years, Baton Rouge’s sales tax collections declined only in 2001 relative to the previous year. In 2002, City-Parish sales tax collections grew by 3.53 percent and, for the first six months of 2003, sales tax collections have grown by about 3.55 percent. The question is how do we expect the Baton Rouge economy to perform for calendar 2004 and how do we project sales tax collections to relate to the economic activity.*

*The Baton Rouge economy will benefit from a growing national economy, an improving exchange rate for US exports, a stable oil and gas market, and ongoing activities in developing downtown Baton Rouge with construction on two new state buildings, the expansion of the Riverside Centroplex, the development of the Shaw Performing Arts Center, other projects in downtown Baton Rouge, and construction projects at the major universities and research centers. However, there are several question marks about the Baton Rouge economy as well; namely, the downturn in the petrochemical industry and the significance of that industry in the Baton Rouge metropolitan area. The petrochemical industry is especially significant because of the large multiplier effects associated with this activity. In addition, it is estimated that state government will have about a \$650 million budget gap to solve next spring. Any major reduction in state programs will have an impact on the Baton Rouge economy. Based on these inputs, we are projecting a modest recovery in Baton Rouge over the next two years. Specifically, we are projecting employment to grow by 700 jobs in 2004 and 1,200 jobs in 2005. These are very modest growth projections, especially compared to the job growth in the 1990s of over 7,000 new jobs per year.*

*Sales tax collections grew by more than 5 percent a year from 1993 through 1999. Sales tax collections have grown by about 1.75 percent a year from the year 2000 through mid 2003.*

*Based on the modest employment projections and the history of the sales tax collections, we believe it would be prudent to incorporate a sales tax projection of 1.5 to 2.5 percent in the 2004 budget for the City-Parish.*

*The Baton Rouge economy has long been a leader in economic growth around the State. The local economy is now in transition. The petrochemical industry will continue to be a major contributor to the economic vitality of Baton Rouge, but we have to put additional emphasis on other engines of economic development. Thankfully, the Baton Rouge metropolitan area has an array of assets that should allow it to once more become the fastest growing metropolitan area in the state.”*

### **Major Initiatives in 2003**



On April 1, 2003, the Parish issued \$112,720,000 of Public Improvement (Sewer) Sales Tax Bonds to refund: (1) \$30.2M 1993 Public Improvement (Sewer) Sales Tax Bonds (net interest cost 5.49%; principal refunded - \$23,405,000); (2) the \$70M 1993(A) Public Improvement (Sewer) Sales Tax Revenue Bonds (net interest cost 5.13%; principal refunded - \$53,160,000); and (3) the callable portion of the \$36M 1995 Public Improvement (Sewer) Sales Tax Revenue Bonds (net interest cost 5.97%; principal refunded - \$33,070,000). Gross cash savings of principal and interest on the refunding were realized by the Comprehensive Sewerage System Fund in the amount of \$4.7 million, and the net economic gain was \$4.5 million, as detailed in Note 10(a)13 of the Notes to Financial Statements.

On November 15, 2003, taxpayers renewed a 3.13 mill parish-wide property tax for operation and maintenance costs and expenses of providing emergency medical services within the Parish of East Baton Rouge for the years 2005 through 2014. The department of Emergency Medical Services (EMS) strives to maintain a state-of-the-art response capability throughout the parish. They have established a number of programs that reduce costs and effectively use resources to provide faster responses, better treatment techniques, and quality trained paramedics. In addition, EMS continuously provides high quality educational and preventive programs which are key to protecting the public. Taxpayers strongly endorsed the operations of this department by approving the tax with over 72 percent of the vote supporting the referendum.



### **Long-Term Financial Planning**

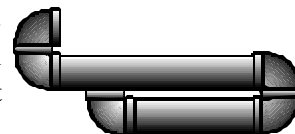
The Riverside Centroplex expansion is being financed by the parish’s portion of a state sales tax on hotel and motel rooms, Louisiana state capital outlay appropriations, and City-Parish local funds. A portion of the cost was originally financed through a bond sale in 2001. The expansion will add 70,000 square feet of exhibition space and 15,000 square feet of meeting space. The added space and numerous private and public development projects adjacent to the facility are expected to allow the Centroplex to compete as a second-tier convention center. The total project authorization is currently \$44.4 million. The expansion project is scheduled to be completed by December of 2004.

A special taxing district was established and created by the Louisiana Legislature in 2002. It is called the Capitol House Taxing District which is comprised of a hotel located in downtown Baton Rouge. The Board of Commissioners of the new taxing district authorized the levy and collection of a 12.97% sales tax upon the occupancy of hotel rooms within the District. The sales tax will be used by the District to pay debt service on approximately \$12.5 million of the District’s bonds, the proceeds of which will be used to finance the acquisition and improvement of the Capitol House Hotel. The balance of the costs of acquiring and improving the hotel, in the approximate amount of \$37.5 million, will be financed with tax credits and private equity funding.

In August of 2001, the Parish of East Baton Rouge entered into a Consent Decree with the U.S. Environmental Protection Agency (EPA) and the State of Louisiana, as represented by the Department of Environmental Quality (DEQ), to remedy violations of the Clean Water Act and National Pollution Discharge Elimination System (NPDES) permits issued to the Parish for its sewerage treatment plants. The Consent Decree requires the City-Parish to devise a capital improvements program that will reduce sanitary sewer overflows during peak rainfall events. This program must be completed by December 31, 2014.

### **Sanitary Sewer Overflow Construction Program**

The Sanitary Sewer Overflow (SSO) Corrective Action Plan was developed by an outside engineering firm and its findings were presented to the Mayor-President and the Metropolitan Council in the fall of 1998. The purpose of the SSO Corrective Action Plan is to: (1) protect the public health through the control of sewer overflows; (2) comply with national, state, and local laws; (3) develop a computerized model of the sanitary sewer collection system; (4) develop standard specifications and design criteria for rehabilitation and new construction; (5) determine the effectiveness of sewer rehabilitation through the collection of flow data; and (6) resolve infiltration issues to provide for future growth.



As a result of the SSO Corrective Action Plan and a value engineering study coordinated by the U.S. Army Corps of Engineers, the Metropolitan Council implemented a \$618 million SSO Construction Program in August of 2001. This was approved in conjunction with the aforementioned Consent Decree with the EPA and DEQ. Highlights of this construction alternative include the construction of one large storage basin, deep underground gravity sewers, three ballasted flocculation waste water treatment facilities, storage tanks in outlying areas of the Parish, and rehabilitation of selected areas of the sanitary sewer collection system.

Financing of the SSO Corrective Action Plan began in August of 1999 with the passage of Ordinance 11542. This ordinance authorized a 95 percent increase in sewer user fees that was phased in over a three-year period beginning January 1, 2000, through January 1, 2002. In 2002, the Metropolitan Council approved an additional 10 percent increase that took effect January 1, 2003. The 2002 ordinance included an annual 4 percent increase in the fee beginning January 1, 2004, and continuing each subsequent year until the program is completed.

The SSO Construction Program will be financed significantly by the issuance of long-term-debt secured by sewer user fees and sewer sales taxes. The user fee increases approved by the Metropolitan Council will provide the Parish with a stronger user fee revenue base to secure bonds backed by the sewer user fee. It is estimated that approximately \$300 million in sewer user fee bonds will be issued. Other funding mechanisms that will be considered over the next three years include borrowing funds from the Louisiana Department of Environmental Quality's Revolving Loan Fund and financing a part of the program with variable-rate debt from the Louisiana Community Development Authority (LCDA). Pay-as-you-go funds generated from system operations will also be used in the construction program.

### **Postemployment Benefits Other Than Pension Plans**

One of the administration's primary concerns for the future financial planning process are "other postemployment benefit costs" (OPEB). In April 2004, the Governmental Accounting Standards Board (GASB) issued *Statement No. 43, Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans*. The new standard addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits provided to retirees. The new GASB standard will require the City-Parish to account for OPEB on an actuarial basis by December 31, 2006. The employer's portion of retiree health and dental insurance premiums have historically been paid by the General Fund. Effective January 1, 2003, the current costs of these premiums have been allocated to all employers and funds that participate in the health and dental self-insurance programs. Year 2003 claims totaled over \$7.9 million.

A committee has been formed to study the establishment of a City-Parish OPEB plan and the ability of the government to fund such a plan on an actuarial basis. In addition, members of the Human Resources Advisory Committee are studying alternatives concerning employee benefits for future employees in order to limit long-term liabilities, including OPEB. The recommendations are expected to be presented to the Metropolitan Council within the next year.

### AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Baton Rouge and Parish of East Baton Rouge for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report with contents conforming to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City-Parish has received this award each year for the 16-year period ending December 31, 2002. I believe our current report conforms to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for a certificate.

In addition, the City-Parish also received the GFOA's Award for Distinguished Budget Presentation for its annual operating budget prepared for the fiscal year covered by this Comprehensive Annual Financial Report. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications device.

The preparation of this report on a timely basis could not have been accomplished without the dedicated services of a highly qualified staff. I also acknowledge the thorough, professional, and timely manner in which the audit was conducted by our independent auditors, Postlethwaite & Netterville, APAC. In addition, I express my sincere appreciation to Mayor-President Bobby Simpson and the Metropolitan Council for the support they have shown the Finance Department over the last year. With the assistance of the Mayor-President and Metropolitan Council, we will strive to continuously improve our accounting and financial reporting to the people of East Baton Rouge Parish and other readers of our financial reports.

Respectfully submitted,



David M. Medlin, CPA  
Finance Director