

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 \$962.5 million (*net assets*). Of this amount, \$130.3 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 \$85.4 million during 2003. Governmental activities' net assets increased \$37.4 million during 2003, primarily as a result of the increase in capital assets from outside contributions (\$23.0 million), the reduction of prior-year long-term debt (\$4.1 million), additional tax revenues in the governmental activities (\$9.8 million), and other miscellaneous increases (\$0.5 million). Additional sewer user fees (\$3.7 million), sales tax revenues collected in excess of debt service and non-operating expenses in the sewerage fund (\$19.2 million), contributions from the federal and state governments, subdivision developers, and impact fees (\$25.0 million), and other miscellaneous increases (\$0.1 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 \$280.4 million, a decrease of \$3.5 million in comparison with the prior year. Approximately 42% of the fund balances, \$116.5 million, is *available for spending* at the City-Parish's discretion (*unreserved fund balance*).
- At December 31, 2003, unreserved fund balance for the General Fund was \$58.8 million, or 30% of total 2003 General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

With the implementation of Governmental Accounting Standards Board Statement No. 34, a government's presentation of financial statements has been greatly changed. The new 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. Donated infrastructure for the years 1980 - 2000 is expected to be included by 2006. 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

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

and as individual activities in the fund financial statements. All City-Parish component unit agencies except for four fire protection districts (See exhibits H-1 through H-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 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-7) 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 and the Capital Projects Fund as major funds. All non-major governmental funds are presented in one column, titled other governmental funds. Combining financial statements of the non-major 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. 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 non-major individual enterprise and internal service funds can be found in the combining and individual fund statements following the basic financial statements.

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

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-8) 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-15). 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) have not been capitalized in this financial presentation for the years 1980 through 2000. Donated governmental activities infrastructure accepted into City-Parish maintenance between year 2001 through 2003 have been capitalized. Governmental Accounting Standards Board Statement No. 34 allows the City-Parish a transitional period for reporting infrastructure assets to fiscal year 2006. The government plans to record all material donated assets within the next two fiscal years.

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-15 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City-Parish's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on Exhibits B-1 through B-3 of this report.

The combining statements referred to earlier in connection with the non-major 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-8 of the report.

Certain supplementary financial information can be found in Exhibits I-1 and I-2 of this report. These schedules and the statistical section (Exhibits J-1 through J-17) 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, including the OMB Data Collection Form. This information can be found under the Single Audit section.

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

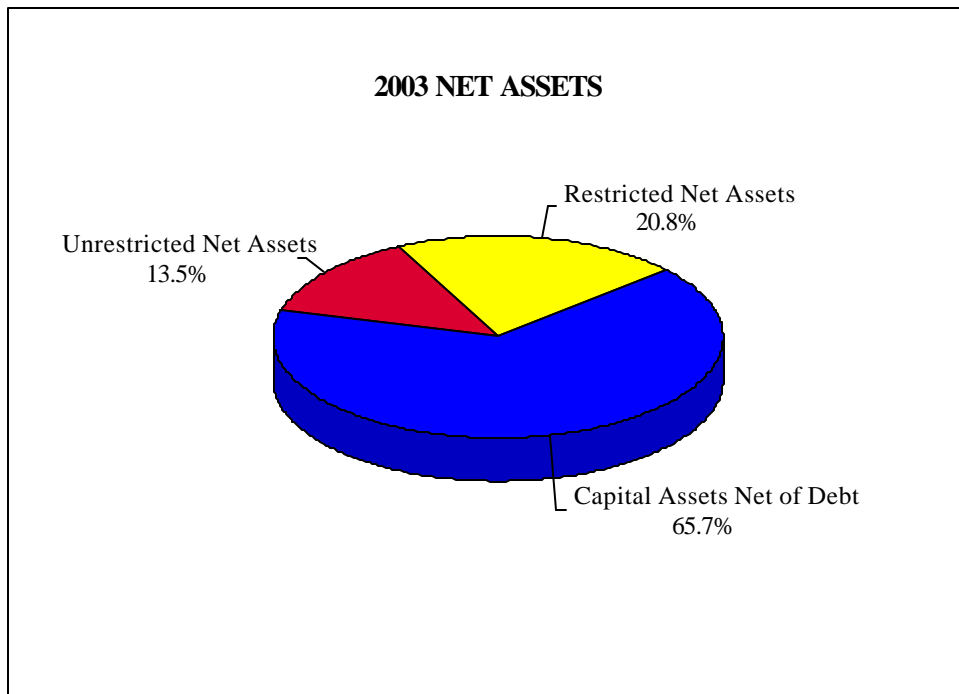
Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Assets for 2003, with comparative figures from 2002:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Net Assets
December 31, 2003 & 2002
(in millions)

	Governmental		Business-		Total	
	Activities		Type		Activities	
	2003	2002	2003	2002	2003	2002
Assets:						
Current and Other Assets	\$340.2	\$350.2	\$151.0	\$ 93.8	\$ 491.2	\$ 444.0
Restricted Assets	--	--	110.7	132.6	110.7	132.6
Capital Assets	<u>362.8</u>	<u>325.5</u>	<u>587.1</u>	<u>563.9</u>	<u>949.9</u>	<u>889.4</u>
Total Assets	<u>703.0</u>	<u>675.7</u>	<u>848.8</u>	<u>790.3</u>	<u>1,551.8</u>	<u>1,466.0</u>
Liabilities:						
Current Liabilities	47.3	53.3	28.3	12.5	75.6	65.8
Non-current Liabilities	<u>201.0</u>	<u>205.1</u>	<u>312.7</u>	<u>318.0</u>	<u>513.7</u>	<u>523.1</u>
Total Liabilities	<u>248.3</u>	<u>258.4</u>	<u>341.0</u>	<u>330.5</u>	<u>589.3</u>	<u>588.9</u>
Net Assets:						
Invested in Capital Assets Net of Debt	297.6	262.0	335.0	308.3	632.6	570.3
Restricted	148.5	151.5	51.1	71.6	199.6	223.1
Unrestricted	<u>8.6</u>	<u>3.8</u>	<u>121.7</u>	<u>79.9</u>	<u>130.3</u>	<u>83.7</u>
Total Net Assets	<u>\$454.7</u>	<u>\$417.3</u>	<u>\$507.8</u>	<u>\$459.8</u>	<u>\$ 962.5</u>	<u>\$ 877.1</u>

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



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

Approximately 65.7% (\$632.6 million) of the City-Parish's net assets as of December 31, 2003, 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 20.8% (\$199.6 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 13.5% of net assets, referred to as *unrestricted* (\$130.3 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, 2003, with comparative figures from 2002:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Changes in Net Assets
For the Years Ended December 31, 2003 & 2002
(in millions)

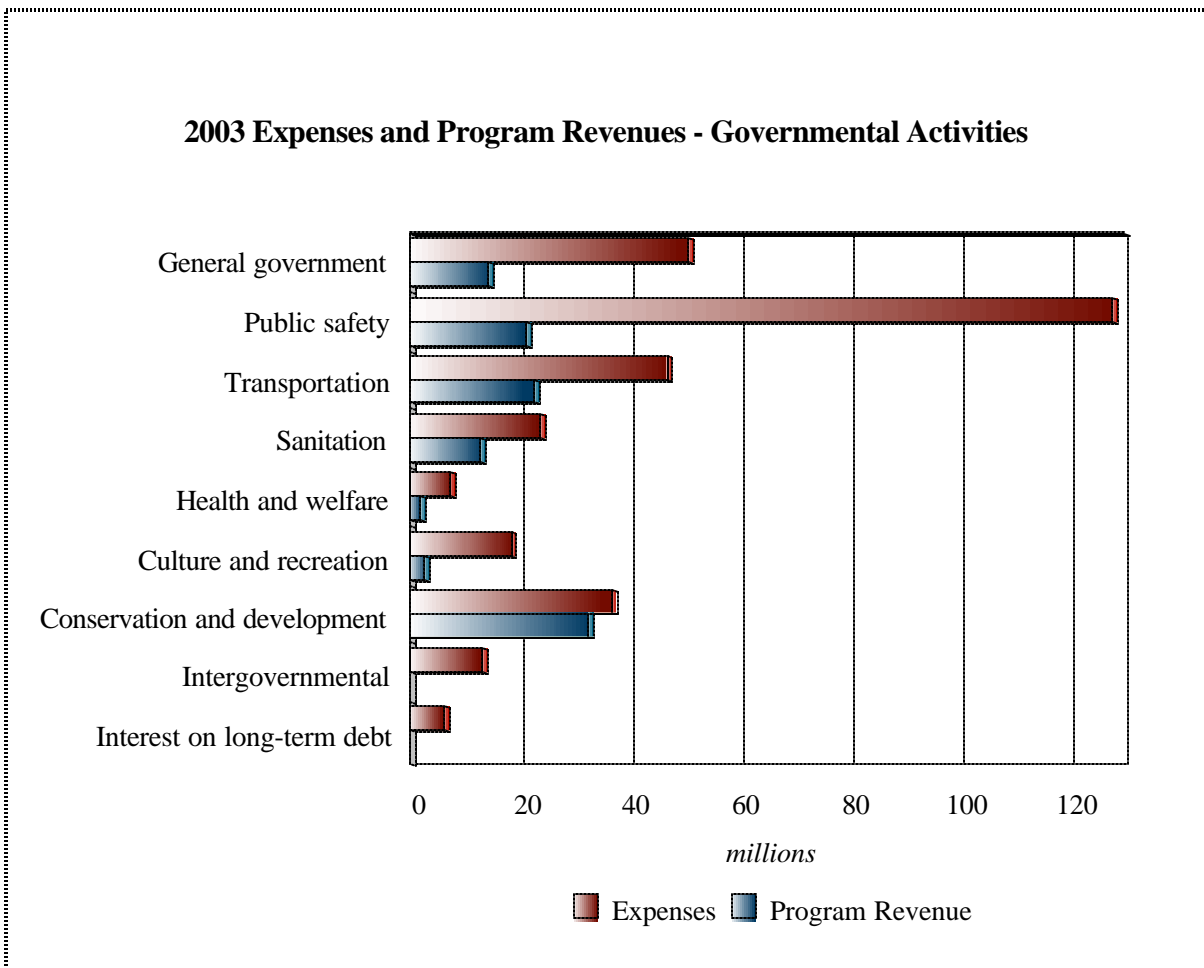
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 45.1	\$ 45.1	\$ 72.3	\$ 68.7	\$117.4	\$113.8
Operating Grants and Contributions	40.3	38.2	1.2	0.4	41.5	38.6
Capital Grants and Contributions	22.9	18.2	25.0	25.6	47.9	43.8
General Revenues:						
Sales Taxes	160.6	154.9	30.8	29.9	191.4	184.8
Other Taxes	102.4	98.0	--	--	102.4	98.0
Grants and Contributions Not Restricted to Specific Programs	4.5	4.1	--	--	4.5	4.1
Other	<u>5.5</u>	<u>5.7</u>	<u>3.2</u>	<u>4.3</u>	<u>8.7</u>	<u>10.0</u>
Total Revenues	<u>381.3</u>	<u>364.2</u>	<u>132.5</u>	<u>128.9</u>	<u>513.8</u>	<u>493.1</u>
Expenses:						
General Government	50.9	64.1	0.8	0.8	51.7	64.9
Public Safety	128.1	120.2	--	--	128.1	120.2
Transportation	46.9	29.1	13.6	12.2	60.5	41.3
Sanitation	23.6	23.1	79.6	78.8	103.2	101.9
Health and Welfare	7.1	8.1	--	--	7.1	8.1
Culture and Recreation	18.6	16.9	3.5	3.3	22.1	20.2
Conservation and Development	36.6	35.5	--	--	36.6	35.5
Intergovernmental	13.1	12.1	--	--	13.1	12.1
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>330.9</u>	<u>315.2</u>	<u>97.5</u>	<u>95.1</u>	<u>428.4</u>	<u>410.3</u>
Increase in Net Assets Before						
Transfers	50.4	49.0	35.0	33.8	85.4	82.8
Transfers	<u>(13.0)</u>	<u>(7.5)</u>	<u>13.0</u>	<u>7.5</u>	<u>--</u>	<u>--</u>
Increase In Net Assets	37.4	41.5	48.0	41.3	85.4	82.8
Net Assets, January 1	<u>417.3</u>	<u>375.8</u>	<u>459.8</u>	<u>418.5</u>	<u>877.1</u>	<u>794.3</u>
Net Assets, December 31	<u>\$454.7</u>	<u>\$417.3</u>	<u>\$507.8</u>	<u>\$459.8</u>	<u>\$962.5</u>	<u>\$877.1</u>

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

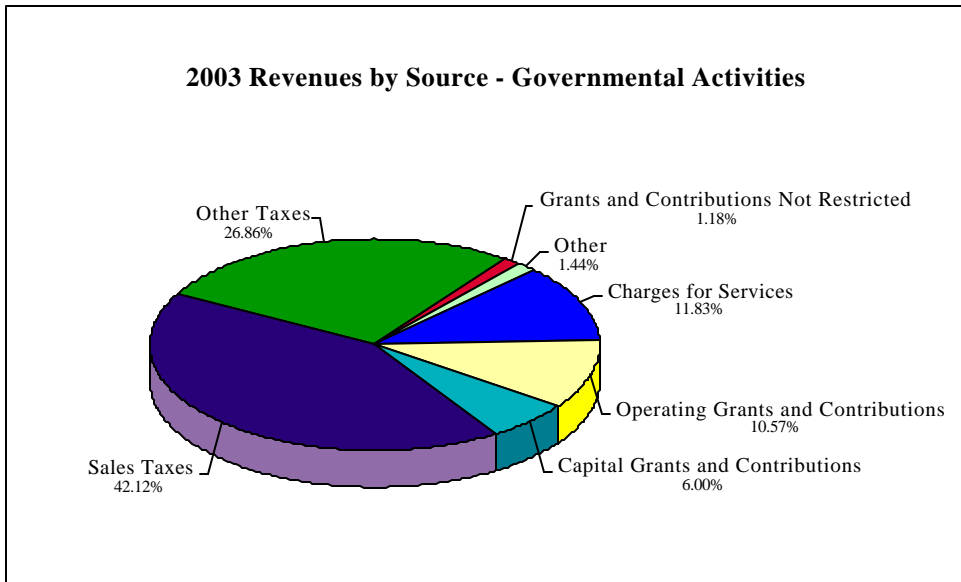
The government's net assets increased \$85.4 million during the current fiscal year.

Governmental Activities net assets increased \$37.4 million in 2003, primarily due to:

- (1) An increase of approximately \$23.0 million capitalized during the year from the following external sources: Capital grants from the State of Louisiana for transportation purposes (\$15.1 million), state capital grant for the new planetarium (\$1.1 million), donated infrastructure from developers (\$5.3 million), and miscellaneous capital grants for public safety and conservation and development from the federal and state governments (\$1.5 million).
- (2) An additional \$5.7 million in sales and use tax revenues due to growth in the economy.
- (3) An additional \$2.8 million in property taxes due to growth of the tax rolls.
- (4) An additional \$1.3 million in franchise tax revenues.
- (5) A net decrease of approximately \$4.1 million in long-term debt primarily due to the retirement of governmental activities bonded debt.
- (6) Other miscellaneous increases in net assets (\$0.5 million).

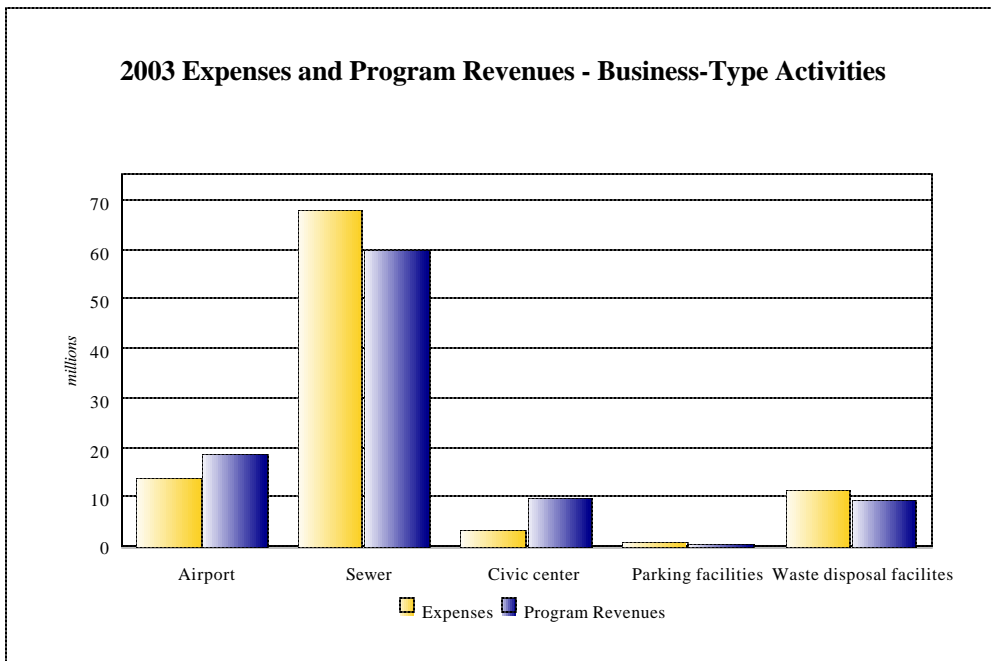


**CITY OF BATON ROUGE - PARISH OF EAST BATON ROUGE, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

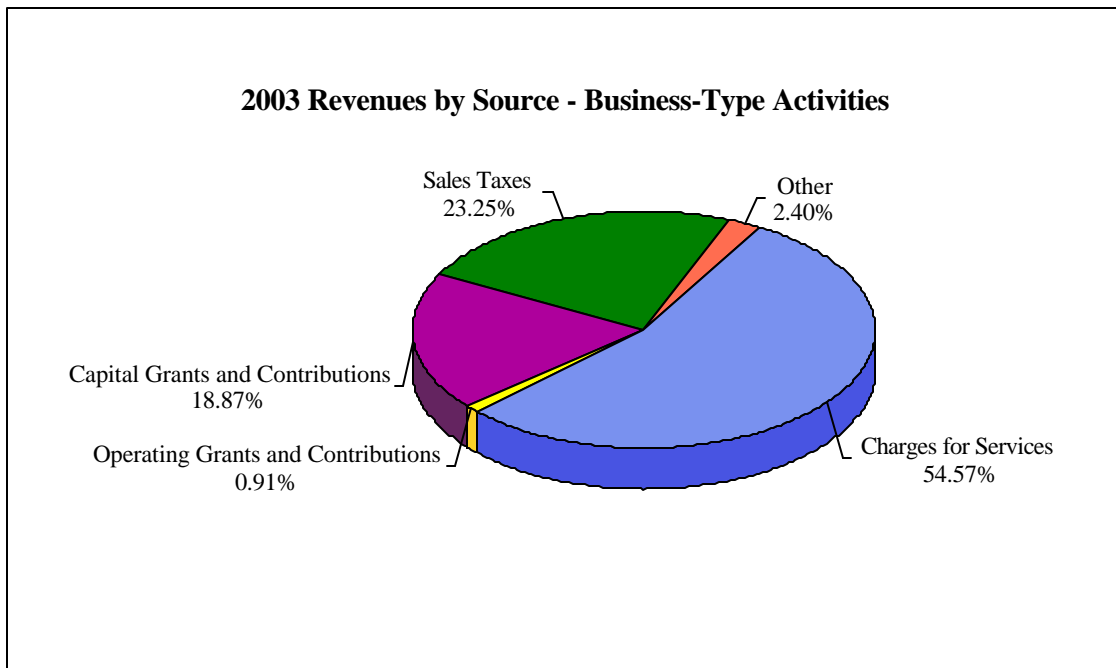


Business-Type Activities' net assets increased by \$48.0 million in 2003, primarily due to:

- (1) A 10% increase in the sewer user fee initiated by the Metropolitan Council on January 1, 2003, generating an additional \$3.7 million.
- (2) Sales tax (non-operating) revenues collected in excess of debt service and non-operating expenses that will be used for the sewerage capital improvements program in the amount of \$19.2 million.
- (3) Enterprise fund contributions from external parties of \$25.0 million from the following sources: airport grants from federal and state agencies (\$8.7 million), sewer fund grants from federal and state agencies (\$0.8 million), state capital outlay funds for the Riverside Centroplex (\$8.4 million), contributions of infrastructure from private developers to the sewerage system (\$2.9 million), and sewer impact fees (\$4.2 million).
- (4) Other miscellaneous increases in net assets of \$0.1 million.



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



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the primary government's governmental funds reported combined ending fund balances of \$280.4 million, a decrease of \$3.5 million in comparison with the prior year. The reduction in total fund balances is primarily attributable to the spending of Capital Project Fund fund balance on construction projects in 2003. Approximately 42% of total governmental funds fund balance (\$116.5 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 (\$28.9 million), (2) payment of debt service (\$26.3 million), (3) loans to low-income recipients (\$4.2 million), (4) legal appropriations in the 2004 operating budget (\$14.7 million), (5) continuing projects carried forward to the next fiscal year (\$89.1 million), or (6) investment of inventories at December 31, 2003 (\$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 \$10.3 million, while total fund balance was \$71.6 million. Compared with total fund balance of \$68.9 million at the end of 2002, fund balance rose approximately \$2.7 million during 2003. The increase in fund balance was simply a result of additional operating revenues exceeding the rise in General Fund operating costs during the year.

As mentioned previously, fund balance in the Capital Projects Fund fell (\$6.0 million) in 2003 as compared to ending fund balance in 2002 due to the spending of prior year fund balance for capital outlay and construction. Approximately \$96.9 million of Capital Projects Fund fund balance remains at December 31, 2003, for planned projects.

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

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 a negative \$10.0 million at December 31, 2003. In addition, the General Fund had provided short-term borrowing of \$11.4 million to the District at year-end. Most of this major fund's assets are capital assets. Due to the slow down in the aviation industry the District incurred a \$3.8 million loss before government contributions and transfers during 2003. The District's administration is working on a plan to address the future funding and operations of the airport. In addition, the District will be negotiating a new airport/airline lease agreement in 2004.

Unrestricted net assets of the Comprehensive Sewerage System Fund was \$123.7 million at December 31, 2003. 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 over \$174.8 million, reflecting a heavy investment in capital assets. The fund realized a net income of \$17.6 million before government contributions and transfers for the year ended December 31, 2003.

General Fund Budgetary Highlights

The total difference between the original General Fund budget and the final amended budget was an increase in appropriations of \$9.8 million. Supplemental appropriations totaling \$9.8 million were approved during the year by the Metropolitan Council for various programs summarized as follows: (1) drainage, road and building projects (\$6.1 million), (2) settlement of general, auto, and professional liability claims and judgments (\$1.4 million), (3) public works projects including litter, grass cutting, miscellaneous building maintenance and lighting projects and network upgrades (\$1.7 million), and, (4) supplementary departmental operating expenditures (\$0.6 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 \$4.7 million. The original General Fund budget used a one percent growth rate and actual sales tax revenues for the General Fund grew by 4.4 percent during 2003.
- Gaming admissions taxes were collected in excess of budget by approximately \$2.7 million. The administration's policy on these taxes is to appropriate gaming revenues only after they are collected and use them primarily for non-recurring expenditures.
- Gross receipts business taxes were collected in excess of budget by approximately \$1.8 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.
- Moderate growth within both the city and the parish increased property tax collections over the budgeted amount by approximately \$1.0 million.
- The risk management budget was underspent by approximately \$5.9 million when actual claims for employee benefits were lower than projected in the operating budget. Excess premiums were credited to the health insurance designation to offset needed premium increases in future years. (See Note 9(f) in the Notes to Financial Statements.)

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

- Approximately \$9.2 million of appropriations for departmental budgets were not spent during 2003. 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 \$8.0 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 bulletproof and tactical vests, provide for replacement of departmental office equipment, and provide funds for public works projects such as drainage, street improvements and seasonal workers.

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, 2003, amounts to \$949.9 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 \$60.5 million, an 11.5% increase for governmental activities and a 4.1% increase for business-type activities.

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

- Purchased right-of-way land and provided local match for the 1-10 frontage road from Bluebonnet Boulevard to Siegen Lane (\$14.5 million).
- Continue construction on Bluebonnet Extension (\$4.3 million).
- Capitalization of several additional infrastructure road projects:
 - Tiger Bend Road (\$1.8 million)
 - McClelland Drive (\$1.9 million)
 - Signal system replacement (\$3.5 million)
- Completion and capitalization of three new governmental buildings:
 - Coroner's Facility (\$1.4 million)
 - Highland Road Fire Station (\$1.0 million)
 - Zachary Branch Library (\$3.0 million)
- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$10.8 million).
- Renovations and improvements to the Airport terminal building and other Airport improvements (\$20.4 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, 2003 & 2002
 (in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 77.0	\$ 70.7	\$ 69.3	\$ 69.7	\$146.3	\$140.4
Buildings	86.9	83.8	69.5	65.5	156.4	149.3
Improvements Other Than Buildings and Infrastructure	143.7	133.3	410.7	409.6	554.4	542.9
Machinery and Equipment	18.0	19.9	2.5	2.9	20.5	22.8
Construction Work-In-Progress	<u>37.2</u>	<u>17.8</u>	<u>35.1</u>	<u>16.2</u>	<u>72.3</u>	<u>34.0</u>
Total	<u>\$362.8</u>	<u>\$325.5</u>	<u>\$587.1</u>	<u>\$563.9</u>	<u>\$949.9</u>	<u>\$889.4</u>

Additional information on the City-Parish's capital assets can be found in Note 6, Exhibit A-15 of this report.

Long-Term Debt: At the end of the current fiscal year, the City-Parish had total bonded debt outstanding of \$445.0 million. Of this amount, \$80.3 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 are no general obligation bonds outstanding for the City of Baton Rouge nor 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, 2003 & 2002
 (in millions)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Excess Revenue Contracts, Loans and Notes	\$ 73.5	\$ 77.8	\$ 6.8	\$ 4.9	\$ 80.3	\$ 82.7
Sales Tax Revenue Bonds	<u>71.5</u>	<u>75.7</u>	<u>293.2</u>	<u>302.6</u>	<u>364.7</u>	<u>378.3</u>
Total All Bonds, Contracts, Loans and Notes	<u>\$145.0</u>	<u>\$153.5</u>	<u>\$300.0</u>	<u>\$307.5</u>	<u>\$445.0</u>	<u>\$461.0</u>

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

On April 1, 2003, the Parish issued \$112,720,000 of Public Improvement (Sewer) Sales Tax Bonds to refund the: (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), and (4) to provide funds for the on-going sewerage capital improvements program. A portion of the refunding proceeds of the new issue was used to purchase U. S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service on the 1995 issue. Both 1993 issues were called and paid on April 1, 2003.

In 2003, the City of Baton Rouge received \$1,983,997 of additional long-term loan proceeds from the Louisiana Community Development Authority to provide funds to the Greater Baton Rouge Airport District in connection with their terminal development program. Although total loan authorization is \$9,000,000, only \$6,920,902 has been loaned to the City as of December 31, 2003. Funds are drawn down as expenses are incurred on airport projects. The loan is expected to be repaid over a twenty-eight year term.

As of December 31, 2003, City-Parish bonds are 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 (1/2%) Sales Tax Revenue Bonds	A3	A	A	Aaa	AAA	AAA

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% of its revenues from the 2% 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. Sales tax revenue assumptions are reviewed by 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. In their annual report of October 2003, they stated, "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 City-Parish government took the advice of these economists and prepared a 2004 operating budget with a two percent projected growth rate for sales 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 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.

