

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 and deferred outflows of resources of the City-Parish primary government exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$398.8 million (*net position*). Unrestricted net position for governmental activities is a deficit of \$1,194.6 million, while unrestricted net position for business-type activities is a deficit of \$4.6 million. The deficit in governmental activity unrestricted net position is primarily the result of the recognition of \$895.8 million in other postemployment benefit liabilities and \$553.3 million in net pension liability for governmental activities.
- The primary government's total net position decreased by \$42.1 million (\$2.6 million and \$39.5 million for governmental and business-type activities respectively) during 2018 to \$398.8 million.
- Governmental activities' net position decreased \$2.6 million during 2018 primarily as a result of decreases in sales tax revenues offset by increases in investment earnings, increases in other post-employment benefits offset by decreases in net pension and compensated absences liabilities and increases due to contributions for capital assets from capital grants and donated infrastructure.
- Net Position of business type activities decreased \$39.5 million during 2018. In the sewerage fund, increases in collections of user fees were offset by increases in bond interest expense and depreciation expense. Additionally, the airport district had a decrease in capital contributions from capital grants.
- As of the close of the current fiscal year, the City-Parish's governmental funds reported combined ending fund balances of \$499.4 million, an increase of \$35.9 million. Approximately 1.1% of the fund balances, \$5.7 million, is *available for spending* at the City-Parish's discretion (*unassigned fund balance*). The remainder of the fund balances are not available for discretionary spending because they are either nonspendable, restricted, committed or assigned for specific purposes. However, expenditures of committed fund balance remains under the City-Parish's authority.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-Wide Financial Statements

The government-wide financial statements (see Exhibits A-1 and A-2) are designed to be similar to those of private sector businesses in that all governmental and business-type activities are consolidated into columns which add to a total for the primary government. The statements combine all governmental funds and internal service funds' current financial resources with capital assets and long-term obligations. Also presented in the government-wide financial statements is a total column for the business-type activities of the primary government. Component units are separate legal governmental entities substantially influenced by the City-Parish or to which the City-Parish Metropolitan Council may be obligated to provide financial assistance and are presented as a separate column in the government-wide statements and as individual activities within the basic financial statements.

The Statement of Net Position (Exhibit A-1) presents information on all the government's assets and liabilities, and deferred inflows/outflows of resources, with the difference being reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the City-Parish is improving or weakening.

The Statement of Activities (Exhibit A-2) presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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 subsidies 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), transportation (street and road maintenance), culture and recreation (library), conservation and development (social programs), and interest and fiscal charges on long-term debt. These services are financed primarily with taxes. The business-type activities reflect private sector type operations (sewer utilities, airport, parking facility, convention center, solid waste collection and disposal) where the fee for service typically covers all or most of the costs.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The governmental major fund (see Exhibits A-3 through A-9) presentation is presented on a modified accrual basis. This is the manner in which the budget is typically developed excluding certain timing differences between the budget basis and the generally accepted accounting principle (GAAP) basis. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and 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 governmental 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.

While the business-type activities total column on the proprietary fund financial statements for enterprise funds (see Exhibit A-10 and A-11) 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

the different measurement focus which is reflected on the page following each statement (see Exhibits A-4 and A-6). The flow of current financial resources will reflect bond proceeds and interfund transfers as other financing sources and will show capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations into the governmental activities column in the government-wide statements.

Proprietary Funds encompass both enterprise and internal service funds on the fund financial statements. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The proprietary major fund (see Exhibits A-10 through A-12) presentation is presented on an accrual basis. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City-Parish's various functions. The government uses internal service funds to account for its equipment rental and replacement program and the Fleet Management maintenance and fuel activities. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities section in the government-wide financial statements. Combining statements of the nonmajor individual enterprise and internal service funds can be found in the combining and individual fund statements following the basic financial statements.

Generally accepted accounting principles also require the City-Parish to present **fiduciary funds**. While these funds represent a trust responsibility, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

Capital Assets

Capital assets include land, improvements to land, noise mitigation costs, easements, buildings, vehicles, machinery and equipment, infrastructure, and all other 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 capital assets. Donated infrastructure assets accepted into City-Parish maintenance since year 1980 have been capitalized.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City-Parish's liability to provide other post-employment benefits to its employees and its net pension liability and pension plan contributions. Required supplementary information can be found on Exhibit A-18 through A-22.

The combining and individual fund statements referred to earlier in connection with the nonmajor governmental and proprietary funds are presented in Exhibits B-1 through E-4.

Certain supplementary financial information can be found in Exhibits F-1 through F-2 of this report. These schedules and the statistical section (Exhibits G-1 through G-22) are included for additional information and analysis and do not constitute a part of the basic financial statements.

Also included in the report is the Office of Management and Budget 2 CFR part 200 (Uniform Guidance) Single Audit auditor reports, findings, and schedules. This information can be found under the Single Audit section.

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

Government-Wide Financial Analysis

The following table reflects the condensed Statement of Net Position for 2018, with comparative figures from 2017:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Net Position
December 31, 2018 & 2017
(in millions)

| | Governmental Activities | | Business- Type Activities | | Total | |
|----------------------------------|----------------------------|-------------------|---------------------------------|-----------------|------------------|------------------|
| | <u>2018</u> | <u>2017*</u> | <u>2018</u> | <u>2017*</u> | <u>2018</u> | <u>2017*</u> |
| Assets: | | | | | | |
| Current and Other Assets | \$ 565.7 | \$ 542.3 | \$ 156.9 | \$ 168.0 | \$ 722.6 | \$ 710.3 |
| Restricted Assets | -- | -- | 193.5 | 244.4 | 193.5 | 244.4 |
| Capital Assets | <u>924.9</u> | <u>927.0</u> | <u>2,003.6</u> | <u>1,986.7</u> | <u>2,928.5</u> | <u>2,913.7</u> |
| Total Assets | <u>1,490.6</u> | <u>1,469.3</u> | <u>2,354.0</u> | <u>2,399.1</u> | <u>3,844.6</u> | <u>3,868.4</u> |
| Deferred Outflow of Resources | <u>134.9</u> | <u>179.8</u> | <u>110.5</u> | <u>128.9</u> | <u>245.4</u> | <u>308.7</u> |
| Liabilities: | | | | | | |
| Current Liabilities | 45.4 | 58.4 | 58.7 | 80.8 | 104.1 | 139.2 |
| Non-current Liabilities | <u>1,822.4</u> | <u>1,864.7</u> | <u>1,721.0</u> | <u>1,725.9</u> | <u>3,543.4</u> | <u>3,590.6</u> |
| Total Liabilities | <u>1,867.8</u> | <u>1,923.1</u> | <u>1,779.7</u> | <u>1,806.7</u> | <u>3,647.5</u> | <u>3,729.8</u> |
| Deferred Inflow of Resources | <u>40.2</u> | <u>5.9</u> | <u>3.5</u> | <u>0.5</u> | <u>43.7</u> | <u>6.4</u> |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | 732.7 | 719.3 | 588.4 | 621.3 | 1,321.1 | 1,340.6 |
| Restricted | 179.4 | 168.6 | 97.5 | 92.5 | 276.9 | 261.1 |
| Unrestricted | <u>(1,194.6)</u> | <u>(1,167.8)</u> | <u>(4.6)</u> | <u>7.0</u> | <u>(1,199.2)</u> | <u>(1,160.8)</u> |
| Total Net Position | <u>\$ (282.5)</u> | <u>\$ (279.9)</u> | <u>\$ 681.3</u> | <u>\$ 720.8</u> | <u>\$ 398.8</u> | <u>\$ 440.9</u> |

*Restated

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

As of December 31, 2018, \$1,321.1 million of the City-Parish's net position reflects the government's investment in capital assets (land, buildings, noise mitigation costs, 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. Restricted net position represents those assets subject to external restrictions on how those assets may be used such as a property tax approved by the electorate for a specific purpose. Restricted net position increased by \$10.8 million from the previous year for governmental activities, primarily due to dedication of funds for library capital improvements. Restricted net position increased by \$5.0 million for business-type activities, due to an increase in amounts restricted for debt service. Unrestricted net position decreased by \$26.8 million from the previous year for governmental activities. This decrease was primarily due to an increase in other post-employment benefit liability for governmental activities and a decrease in sales tax revenues. Unrestricted net position decreased by \$11.6 million for business-type activities. This decrease was primarily due to an increase to restricted net position and an overall net operating loss.

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

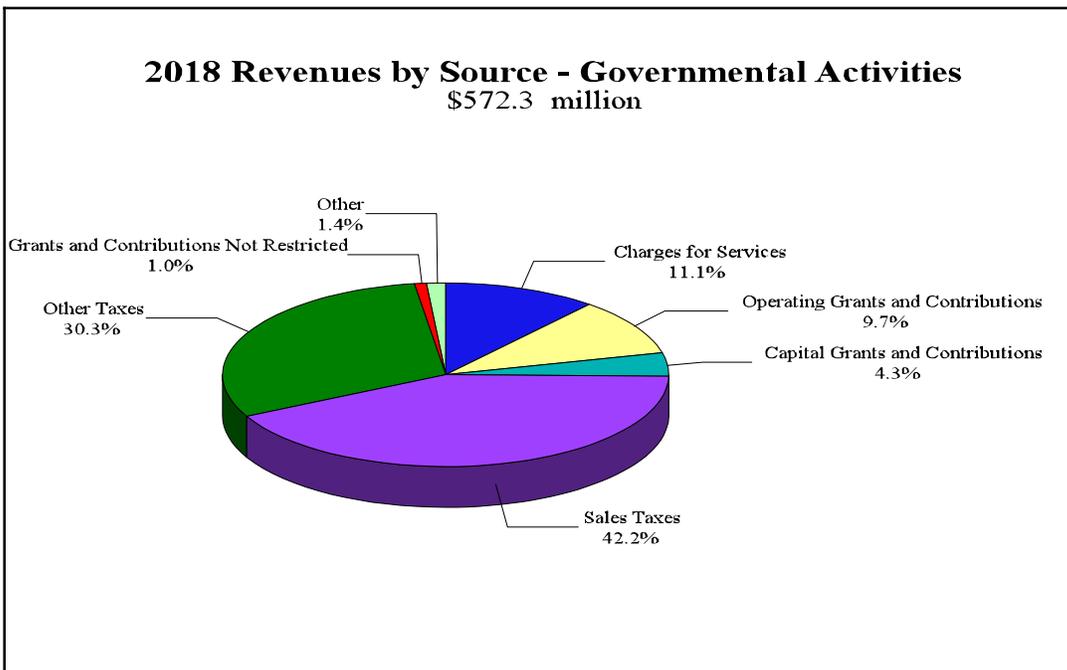
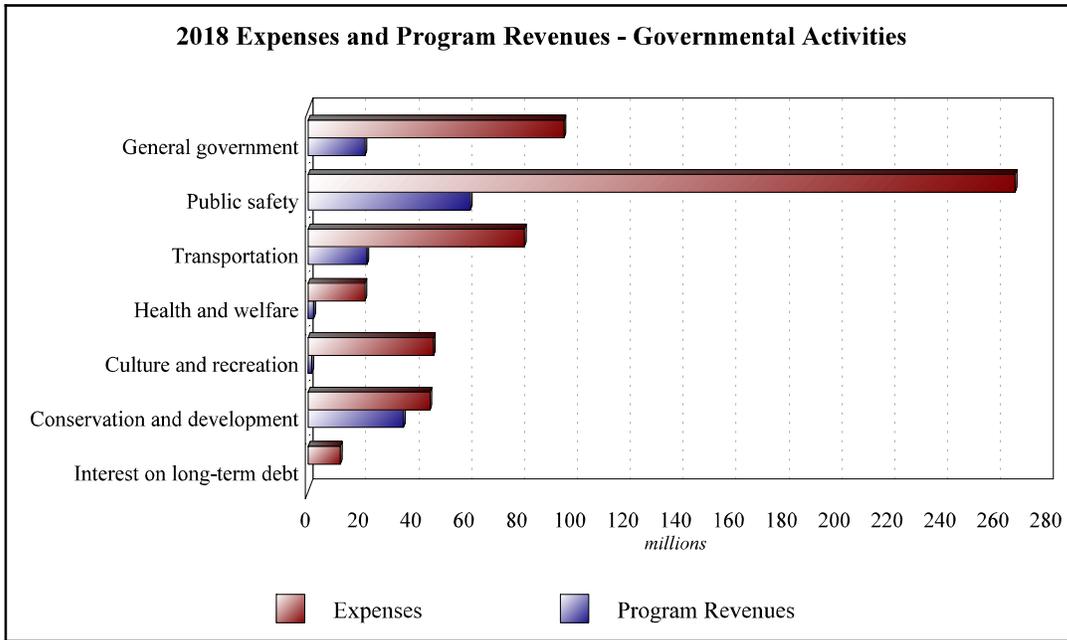
The table below provides a summary of the changes in net position for the year ended December 31, 2018, with comparative figures from 2017:

City of Baton Rouge, Parish of East Baton Rouge
Condensed Statement of Changes in Net Position
For the Years Ended December 31, 2018 & 2017
(in millions)

| | <u>Governmental</u> | | <u>Business-Type</u> | | <u>Total</u> | |
|---|-------------------------|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 63.8 | \$ 64.5 | \$163.6 | \$158.1 | \$227.4 | \$222.6 |
| Operating Grants and Contributions | 55.7 | 55.3 | 7.4 | 8.0 | 63.1 | 63.3 |
| Capital Grants and Contributions | 24.8 | 39.3 | 16.1 | 24.4 | 40.9 | 63.7 |
| General Revenues: | | | | | | |
| Sales Taxes | 241.1 | 247.6 | 46.6 | 47.9 | 287.7 | 295.5 |
| Other Taxes | 173.5 | 172.0 | 0.9 | 0.3 | 174.4 | 172.3 |
| Grants and Contributions Not | | | | | | |
| Restricted to Specific Programs | 5.3 | 5.9 | -- | -- | 5.3 | 5.9 |
| Other | <u>8.1</u> | <u>4.2</u> | <u>9.1</u> | <u>5.3</u> | <u>17.2</u> | <u>9.5</u> |
| Total Revenues | <u>572.3</u> | <u>588.8</u> | <u>243.7</u> | <u>244.0</u> | <u>816.0</u> | <u>832.8</u> |
| Expenses: | | | | | | |
| General Government | 96.8 | 99.4 | 1.2 | 0.7 | 98.0 | 100.1 |
| Public Safety | 267.2 | 288.7 | -- | -- | 267.2 | 288.7 |
| Transportation | 81.8 | 84.4 | 31.8 | 29.6 | 113.6 | 114.0 |
| Sanitation | -- | -- | 238.4 | 226.1 | 238.4 | 226.1 |
| Health and Welfare | 21.4 | 11.7 | -- | -- | 21.4 | 11.7 |
| Culture and Recreation | 47.4 | 49.8 | 13.8 | 13.0 | 61.2 | 62.8 |
| Conservation and Development | 46.1 | 48.9 | -- | -- | 46.1 | 48.9 |
| Interest on Long-Term Debt | <u>12.2</u> | <u>12.5</u> | <u>--*</u> | <u>--*</u> | <u>12.2</u> | <u>12.5</u> |
| Total Expenses | <u>572.9</u> | <u>595.4</u> | <u>285.2</u> | <u>269.4</u> | <u>858.1</u> | <u>864.8</u> |
| Decrease in Net Position Before Transfers | (0.6) | (6.6) | (41.5) | (25.4) | (42.1) | (32.0) |
| Transfers | <u>(2.0)</u> | <u>(1.6)</u> | <u>2.0</u> | <u>1.6</u> | <u>--</u> | <u>--</u> |
| Decrease In Net Position | (2.6) | (8.2) | (39.5) | (23.8) | (42.1) | (32.0) |
| Net Position, January 1 | <u>(279.9)</u> | <u>138.4</u> | <u>720.8</u> | <u>774.6</u> | <u>440.9</u> | <u>913.0</u> |
| Net Position, December 31 | <u><u>\$(282.5)</u></u> | <u><u>\$ 130.2</u></u> | <u><u>\$681.3</u></u> | <u><u>\$750.8</u></u> | <u><u>\$398.8</u></u> | <u><u>\$881.0</u></u> |
| Effects of GASB 75 implementation | | <u>(410.1)</u> | | <u>(30.0)</u> | | <u>(440.1)</u> |
| Net Position, December 31, restated | | <u><u>\$(279.9)</u></u> | | <u><u>\$720.8</u></u> | | <u><u>\$440.9</u></u> |

* Interest expense for Business-Type Activities is reported within the functional categories.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

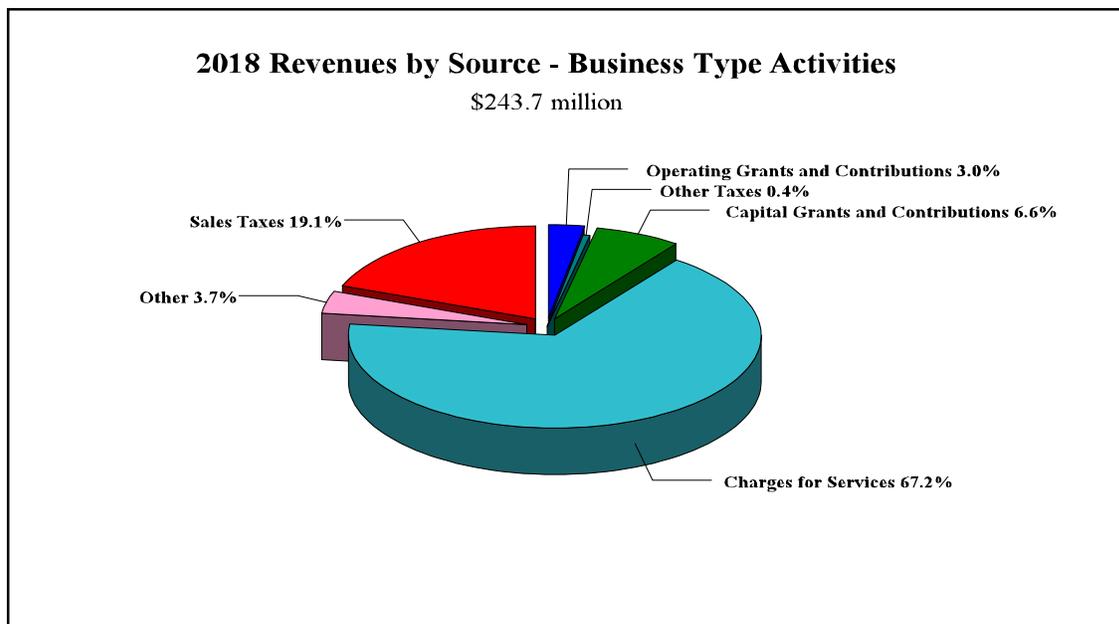
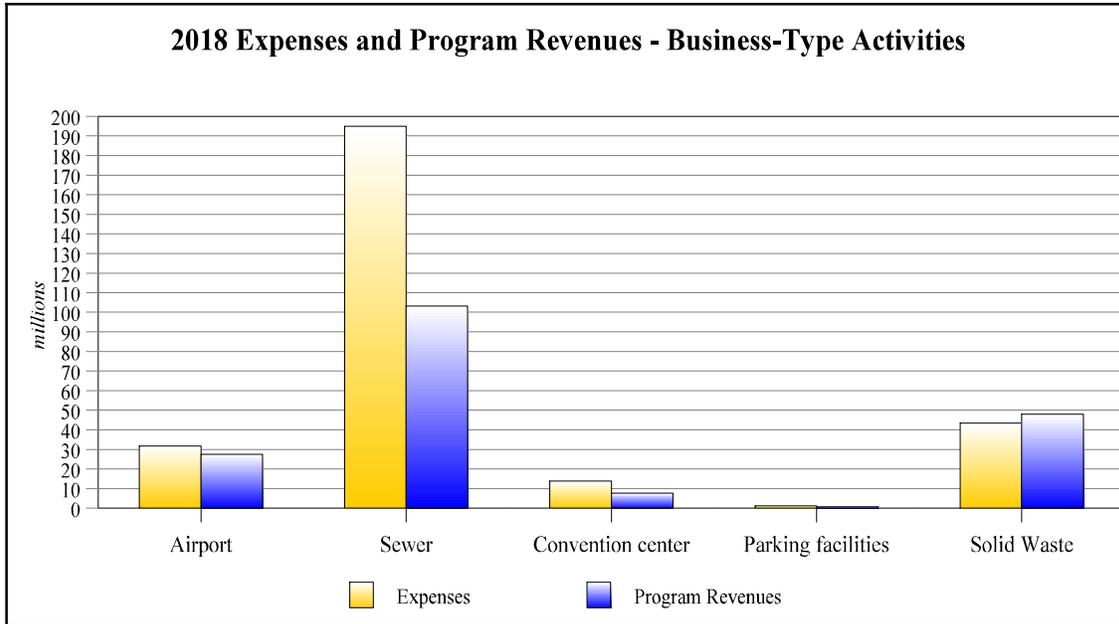


The government's net position decreased by \$42.1 million during the current fiscal year.

Governmental Activities' net position decreased \$2.6 million in 2018. The decrease in net position is a result of expenses exceeding revenues for the year. A further analysis of the decrease in net position is as follows:

- Decreases in long-term liabilities and obligations such as net pension and compensated absences offset by an increase in other post-employment benefits.
- Decrease in sales tax revenues in comparison to 2017, was primarily due to the effect of the spike in sales tax collections subsequent to the 2016 Flood.
- Capital grants and contributions capitalized during the year from external sources.

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



Business-Type Activities' net position decreased by \$39.5 million in 2018. The decrease in net position is a result of expenses exceeding revenues for the year. An analysis of major revenues and expenses is as follows:

- The Greater Baton Rouge Airport District experienced a decrease in capital contributions from capital grants.
- The Comprehensive Sewerage System Fund experienced increases in depreciation expense due to the completion of the sanitary sewer overflow project as well as increases in interest expense offset by increases in investment earnings.
- The Solid Waste Collection and Disposal Fund experienced an increase in collection of user fees due to a rate increase in 2018.

**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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary 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 \$499.4 million, an increase of \$35.9 million in comparison with the prior year. Approximately 1.1% of total governmental funds fund balance (\$5.7 million) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. Of the remaining fund balance, \$0.7 million is *nonspendable* and is not in spendable form, \$362.2 million is *restricted* and has limitations imposed on its use by external parties, \$104.1 million is *committed* for specific purposes imposed by the Metropolitan Council, and \$26.7 million has been assigned for various purposes by the Finance Director. Additional information on governmental fund balance can be found in Note 14 of the Notes to the Financial Statements including information on the specific purpose for amounts restricted, committed and assigned.

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, unassigned fund balance of the General Fund was approximately \$5.7 million, while total fund balance was \$94.0 million. After transfers, primarily to the grants, capital projects and debt service funds, the net change in fund balance for the General Fund was a deficit of \$4.4 million for the year. This decrease was primarily due to decreased sales taxes and gaming admissions taxes during 2018.

The Library Board of Control Fund collected revenues that exceeded expenditures by almost \$10.4 million in 2018. The primary source of revenue for this fund is a 11.1 mill property tax, which provides funding for all operating expenses of the library system and a pay-as-you-go capital improvement program. All revenues remaining after operational expenditures are funded are applied to the library's capital improvement program. Funding for the capital improvement program often accumulates for multiple years before beginning bid and construction on a new library, resulting in large fund balances in the library fund. During 2018, \$14.6 million was transferred to the capital project fund for library capital improvements.

Grants Fund expenditures and other financing uses exceeded revenues and other financing sources by \$0.2 million during 2018.

Fund balance in the Capital Projects Fund increased \$27.9 million in 2018. Major revenue sources in this fund during 2018, include \$7.8 million from the Louisiana Department of Transportation and Development, almost \$21.9 million transferred from the General Fund and Special Revenue Funds and \$18 million from sale of bonds. Outlays during 2018, of approximately \$31.2 million, include almost \$15.6 million for street and intersection improvements, \$7.5 million for building construction and improvements, and \$8.1 million for equipment and other capital outlay. Fund balance in the Capital Projects Fund will fluctuate year-to-year based on the status of projects and the progression of financing to fund those projects.

**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 for business-type activities in the government-wide financial statements, but in more detail.

Unrestricted net position of the Greater Baton Rouge Airport District was a negative \$15.5 million at December 31, 2018. Most of this major fund’s assets are capital assets with a net investment in capital assets of \$217.1 million. The fund reported a net loss of \$12.5 million before capital contributions and transfers for the year ended December 31, 2018.

Unrestricted net position of the Comprehensive Sewerage System Fund was negative \$0.4 million at December 31, 2018. 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. The net investment in capital assets portion of net position totaled approximately \$321.6 million, reflecting a heavy investment in capital assets. The fund realized a net loss of approximately \$43.6 million before capital contributions and transfers for the year ended December 31, 2018.

Unrestricted net position of the Solid Waste Collection and Disposal Fund was \$8.8 million at December 31, 2018. Most of this major fund’s assets are capital assets with a net investment in capital assets of \$10.6 million. The fund realized a net gain before transfers of \$5.1 million for the year ended December 31, 2018.

General Fund Budgetary Highlights

The 2018 General Fund originally budgeted expenditures of \$338.3 million (inclusive of transfers out) were increased by a net \$8.5 million during 2018 to reflect a final amended budget of approximately \$346.8 million. The additional appropriations were funded by excess funds in fund balance - assigned and unassigned. Committed fund balances were generally used as a source for the risk management appropriations, assigned fund balances for community center and certain public safety allocations, and restricted fund balances for specific General Fund operational costs.

Additional appropriations were made in the following areas:

| | <u>(in millions)</u> |
|--|-------------------------|
| Public safety costs | \$4.4 |
| Risk management from fund balance committed to self-insurance purposes | 2.9 |
| Other General Fund operational costs | 0.6 |
| Economic development initiatives | 0.3 |
| Grant programs | 0.1 |
| Other miscellaneous purposes | <u>0.2</u> |
| Total additional General Fund appropriations | <u><u>\$8.5</u></u> |

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

- Property tax collections were \$1.0 million in excess of budget, gross receipts business tax collections were \$0.7 million less than budget, and gaming admissions taxes were \$1.3 million less than budget for 2018.

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

- The risk management budget was underspent by approximately \$4.2 million when self-insured health care claims net of premiums received from other funds were lower than projected in the operating budget.
- Intergovernmental revenues for retiree drug subsidy \$0.9 not included in the final budget.
- Approximately \$19.9 million of the appropriations for departmental budgets were not spent during 2018. 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 \$12.6 million, are included in assigned fund balance on the General Fund balance sheet. The majority of these funds are appropriated for needed police vehicles and other public safety equipment, to upgrade computers, provide for replacement of departmental office equipment, and provide funds for public works projects such as drainage, street improvements, and repairs and renovations to City-Parish buildings.

Capital Asset and Debt Administration

Capital Assets: Capital assets for the City of Baton Rouge, Parish of East Baton Rouge Consolidated Government's governmental and business-type activities as of December 31, 2018, amount to \$2,928.5 million (net of accumulated depreciation). These capital assets include land, buildings and system improvements, machinery and equipment, airport facilities, parking facilities, a convention center, a landfill, wastewater treatment facilities, roads, highways, bridges, and drainage systems. The total increase in the City-Parish's capital assets for the current fiscal year was \$14.8 million, a 0.2 percent decrease for governmental activities and a 0.9 percent increase for business-type activities.

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

- Planning, design, right-of-way acquisition, and construction on approximately nine major street or intersection improvements funded by the one-half percent sales and use tax dedicated for street and road improvements (\$1.1 million).
- Capital improvements to the sewerage system, including upgrades to treatment plants and rehabilitation of major sewer lines (\$97.7 million).
- Renovations and improvements to Airport buildings, runways, and other Airport improvements (\$8.9 million).
- Depreciation expense of \$50.6 million for governmental activities and \$93.1 million for business-type activities offset the above increases.

**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, 2018 & 2017
(in millions)

| | <u>Governmental</u> | | <u>Business-Type</u> | | <u>Total</u> | |
|---|---------------------|----------------|----------------------|------------------|------------------|------------------|
| | <u>Activities</u> | | <u>Activities</u> | | | |
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Land and right-of-way | \$179.6 | \$177.5 | \$ 95.4 | \$ 95.7 | \$ 275.0 | \$ 273.2 |
| Buildings | 130.4 | 134.3 | 95.9 | 103.9 | 226.3 | 238.2 |
| Noise Mitigation Costs | -- | -- | 58.7 | 58.4 | 58.7 | 58.4 |
| Improvements (Other Than Buildings) and Infrastructure | 522.1 | 536.2 | 1,742.7 | 1,643.7 | 2,264.8 | 2,179.9 |
| Machinery and Equipment | 28.8 | 28.2 | 0.9 | 1.1 | 29.7 | 29.3 |
| Construction Work-In-Progress | <u>64.0</u> | <u>50.8</u> | <u>10.0</u> | <u>83.9</u> | <u>74.0</u> | <u>134.7</u> |
| Total | <u>\$924.9</u> | <u>\$927.0</u> | <u>\$2,003.6</u> | <u>\$1,986.7</u> | <u>\$2,928.5</u> | <u>\$2,913.7</u> |

Additional information on the City-Parish's capital assets can be found in Note 6, Exhibit A-17 of this report.

Long-Term Debt: At the end of the current fiscal year, the City-Parish had total bonded debt outstanding of \$1,715.7 million. Of this amount, \$95.8 million comprises debt backed by the full faith and credit of the government. The remainder of the debt represents bonds secured solely by specified revenue sources such as sales tax and user fees. There were no general obligation bonds outstanding for the City of Baton Rouge or the Parish of East Baton Rouge at the end of the fiscal year.

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

City of Baton Rouge, Parish of East Baton Rouge
Summary of Limited Tax Obligation, Excess Revenue and Revenue Bonds
December 31, 2018 & 2017
(in millions)

| | Governmental | | Business-Type | | Total | |
|---|-------------------|----------------|-------------------|------------------|------------------|------------------|
| | <u>Activities</u> | | <u>Activities</u> | | | |
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Limited Tax Obligation Bonds | \$ 0.4 | \$ -- | \$ -- | \$ -- | \$ 0.4 | \$ -- |
| Excess Revenue Contracts, Loans and Notes | 95.8 | 102.1 | 428.5 | 429.3 | 524.3 | 531.4 |
| Revenue Bonds | <u>192.8</u> | <u>186.4</u> | <u>998.2</u> | <u>981.2</u> | <u>1,191.0</u> | <u>1,167.6</u> |
| Total All Bonds, Contracts, Loans and Notes | <u>\$289.0</u> | <u>\$288.5</u> | <u>\$1,426.7</u> | <u>\$1,410.5</u> | <u>\$1,715.7</u> | <u>\$1,699.0</u> |

As of December 31, 2018, City-Parish bonds were rated by three major rating services as follows:

| | <u>Underlying Ratings</u> | | |
|--|--|--------------------------------------|----------------------------------|
| | <u>Moody's</u> <u>Investors</u> <u>Service</u> | <u>Standard</u> <u>and Poor's</u> | <u>Fitch</u> <u>Investors</u> |
| City of Baton Rouge (2%) Sales Tax Revenue Bonds | Aa2 | AA+ | AA+ |
| Parish of East Baton Rouge Road and Street Improvements (½%) Sales Tax Revenue Bonds | A2 | A+ | AA- |
| East Baton Rouge Sewerage Commission Revenue Bonds | Aa3 | AA- | AA |

Additional information on debt administration can be found in Exhibit A-17, Note 10 of this report, including information concerning the computation of legal debt margins for different types of bonds.

Economic Factors and Next Year's Budget and Rates

The City-Parish's General Fund receives over 59 percent of its revenues from the 2 percent general sales and use tax levied by the City of Baton Rouge or the Parish of East Baton Rouge; therefore, economic indicators are very important in forming the General Fund budget estimates. Dr. James A. Richardson and Dr. Loren C. Scott, expert economists, prepare an econometric model for Louisiana and its major metropolitan areas each year. Statistics on personal income growth and employment growth are generated. From these numbers, a range of potential sales and use tax growth is estimated. Based upon the advice of these experts, the 2019 operating budget assumes a conservative growth rate for sales and use tax revenues of 1% over 2018 anticipated collections. Additional sales and use tax revenues will be available due to the completion of the City-Parish's obligation for one of the Tax Increment Financing Districts.

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

The proposed budget for the year 2019 for all funds, exclusive of operating transfers between funds, totals \$926.2 million. This is an increase of approximately \$7.0 million or 0.76 percent over the 2018 budget. The General Fund budget increased by approximately \$3.5 million mainly due to the appropriation of additional funds needed for employee benefit programs and public safety radio equipment. The decrease of \$1.6 million in the Special Revenue Funds budgets and \$8.7 million in the Capital Project Funds is due to the reduction of one-time funding for libraries and other capital projects budgeted for in 2019. Debt Service Funds budgets increased \$1.2 million due to the issuance of debt in 2018. Enterprise Fund Budgets increased \$5.6 million primarily due to increases in sewerage system operations and maintenance.

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 or email address: financeinternetaccount@brla.gov.

