



**Department of Finance
Accounting Division**

City of Baton Rouge
Parish of East Baton Rouge

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June 25, 2007

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, 2006. 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, 2006, 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, 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:

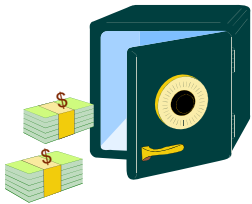
<u>Name of Organization</u>	<u>Type of Unit</u>
▶ The City-Parish	Primary Government
▶ City of Baton Rouge and Parish of East Baton Rouge Employees' Retirement System	Blended Component Unit
▶ District Attorney of the Nineteenth Judicial District	Discrete Component Unit
▶ Nineteenth Judicial District 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
▶ Crime Prevention Districts	Discrete Component Units
▶ Capital Area Transit System	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 policies is 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, Library Board of Control Special Revenue Fund, and Grants Special Revenue Fund, this comparison is presented in Exhibits A-7 through A-9. 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-26.

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 closest large Metropolitan Statistical Area (MSA) to New Orleans. Because of its proximity to New Orleans, the Baton Rouge MSA initially absorbed nearly a quarter million south Louisiana residents in the aftermath of Hurricane Katrina. Since then, traffic counts, sales tax collections, school enrollment, and other factors indicate that the region's population is up a historically high 5.3 percent.



Baton Rouge 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

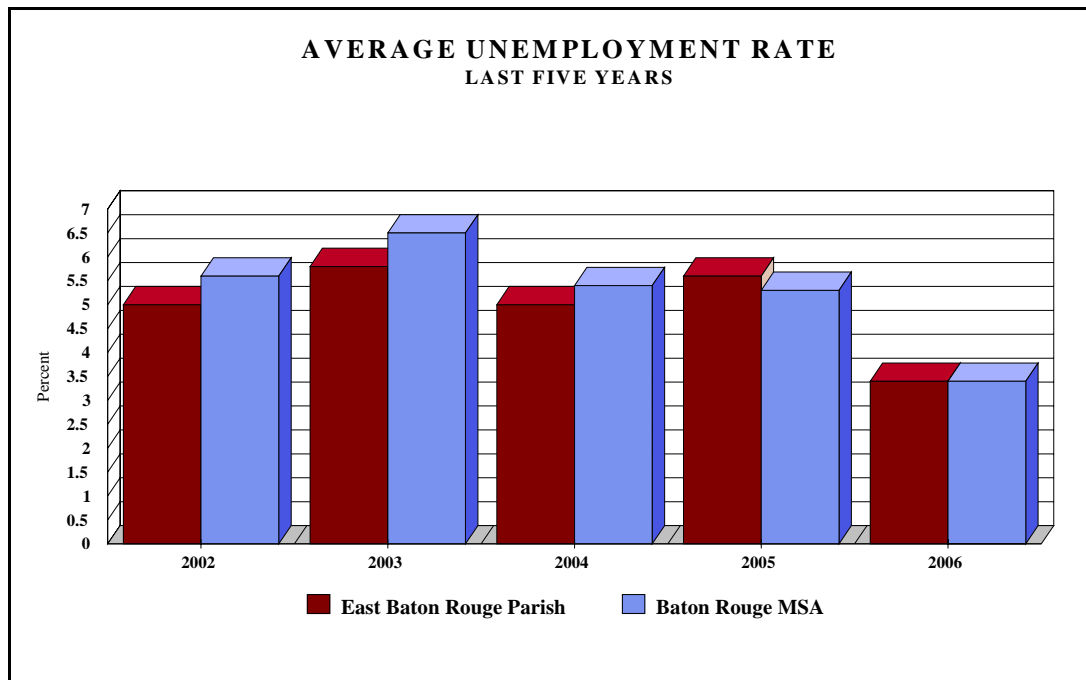
Rouge's labor force. Other important industries include government, construction, banking and financial services, insurance, real estate, and wholesale and retail trade.

According to the Louisiana Department of Labor, the annual average rate of local unemployment in the Baton Rouge MSA fell in 2006, as reflected in the following chart:

	<u>East Baton Rouge Parish</u>	<u>Baton Rouge MSA</u> ⁽¹⁾
2002	5.0	5.6
2003	5.8	6.5
2004	5.0	5.4
2005	5.6	5.3
2006 ⁽²⁾	3.4	3.4

¹⁾ Metropolitan Statistical Area (includes East Baton Rouge, West Baton Rouge, Livingston, Ascension, East Feliciana, Iberville, Pointe Coupee, St. Helena, and West Feliciana Parishes)

⁽²⁾ Preliminary Figures



The economy of East Baton Rouge Parish was strongly impacted by the 2005 Hurricanes Katrina and Rita, experiencing growth in both employment and sales tax collections as a result of unprecedented population growth during the end of 2005 and the first six months of 2006.

Following are comments from Dr. James A. Richardson, Alumni Professor of Economics at Louisiana State University, and Dr. Loren C. Scott, Professor Emeritus of Economics at Louisiana State University, on their predictions of sales and use tax revenue growth in East Baton Rouge Parish for 2007.

Our projection for 2007 is that the Baton Rouge economy will grow by 7,600 jobs, an estimate in line with the growth in the 1990s, but slightly lower than the job growth in 2005 and 2006. The bottom line is that the local economy is expected to continue to grow and this is good for the tax base of local governments.

The complicating factor for the tax base of Baton Rouge and East Baton Rouge Parish is the Katrina effect. During the first eight months of 2005, sales tax collections for the City-Parish grew by 4.8 percent, while for the last four months of 2005 sales tax collections grew by 27.5 percent. During the first seven months of 2006, sales tax collections in the City-Parish have grown by over 18 percent. This substantial growth in the last four months of 2005 and the first eight months of 2006 suggests a sales tax base that is probably not sustainable.

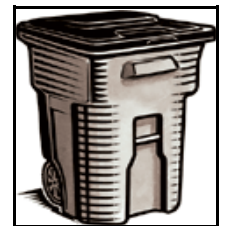
You indicated that for the Capital Improvement programs you had extrapolated a sales tax base from 2004, the last so-called normal year. We believe this is a prudent approach in assessing your capital improvement programs and anticipating revenues for 2007. You indicated you have used a growth rate of 5.0 percent for 2005 and 2006 and a rate of 3.0 percent in extrapolating sales tax collections from 2006 to 2007 on the revised sales tax base. We believe the City-Parish could use a range of growth rates from 3.0 percent to 4.0 percent relative to the revised sales tax base for 2006.

The Baton Rouge economy has long been a leader in economic growth around the state. The local economy is still 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. The Baton Rouge metropolitan area has an array of assets that should allow it to maintain a solid economic growth over the next year and, indeed, over the next three to five years.

Growth in general sales and use tax (2 percent) revenues in 2006 for the General Fund operations of the City and Parish combined were \$16.1 million more than 2005 revenues, representing a 10.76 percent increase. Sales tax collections for both the ½ percent sewerage tax and the ½ percent road and street improvement tax increased by \$4.1 million or 11.3 percent during fiscal 2006. The general sales and use tax plays a significant role in financing the operations of the General Fund. Based primarily on the projections of Dr. Richardson and Dr. Scott, the City-Parish Metropolitan Council adopted the 2007 General Fund Budget with a sales and use tax growth rate of 4.0 percent over the adjusted base discussed above. Until the level of sustained sales tax growth is determined, excess collections will be used on one-time expenditures such as capital improvement projects.

Major Initiatives in 2006

A major change in the solid waste disposal program took place during 2006. The solid waste collection service that was previously accounted for in the General Fund and the Consolidated Garbage Service District Special Revenue Fund was moved to the Solid Waste Collection and Disposal Enterprise Fund. This 2006 budget action combines the functions of parish-wide collection with the disposal function at the landfill and will allow for a full-cost method of accounting. In addition, the parish moved to automated residential garbage collection. Between January and July 2006, all parish residents received a new 96-gallon garbage cart. Monthly residential garbage fees were increased to \$12.00 per month per household. In addition, the price per ton for disposal increased from \$20 to \$28 for in-parish solid waste.



Long-Term Financial Planning

Sewer Improvement Program

The City-Parish entered into a new consent decree with the United States Environmental Protection Agency (EPA) and the Louisiana Department of Environmental Quality (DEQ) relative to wastewater improvements in East Baton Rouge Parish on March 14, 2002. The new consent decree requires the City-Parish to make various wastewater treatment plant and sanitary sewer infrastructure improvements in order to reduce sanitary sewer overflows in the sewer collection system and meet wastewater discharge permit requirements under wet weather conditions. The consent decree deadline for completing the Sewer Capital Improvements Program is December 31, 2014.

The original Sanitary Sewer Overflow (SSO) Capital Improvements Program alternative selected by the City-Parish in 2003 included the construction of a complex tunnel system in the central and south areas of the Parish. This system was



to function as a conveyance system and as a storage system during peak wet weather flows. This alternative also included the upgrade of multiple pump stations throughout the Parish and the rehabilitation of sewer collection lines in areas that were identified as having major infiltration and inflow problems. The cost of this program was last estimated in 2004 to be over \$680 million.

On August 1, 2005, the City-Parish presented an alternative SSO Capital Improvements Program to the EPA. This modified program will rely more on the rehabilitation of the sewer collection system, pump stations and transmission improvements, the construction of a flow equalization basin at the South

Wastewater Treatment Plant, and improvements to the South Wastewater Treatment Plant Facility. The total cost for this modification has been estimated to be \$554 million. This program modification does not include the cost of ongoing projects from the original program that totals approximately \$101 million. The total projected cost for this new alternative is estimated to be approximately \$655 million when both elements are combined. EPA has given the City-Parish verbal approval to proceed with this new approach to repairing and upgrading the Parish's sewerage system. The City-Parish, DEQ, and EPA are currently working to formally adopt the Remedial Measures Action Plan 2 (RMAP2) that is required by the consent decree so that the Parish can begin this phase of the sewer capital improvements plan and meet all consent decree deadlines.

The objective of the Sanitary Sewer Improvement Program is to protect public health through the control of sanitary sewer overflows, improve customer service, provide capacity for future growth, and implement a long-term maintenance program to protect existing and future capital investments. A comprehensive financing model has been developed and is being utilized by the Finance Department to manage the finances of the Sanitary Sewer Improvement Program. The first annual 4% sewer user fee increase was implemented on January 1, 2004. Annual 4% sewer user fee increases will continue to be levied throughout the life of this program. In order to mitigate additional increases in the sewer user fee, the City-Parish will continue to seek low interest loans, federal grants, and state grants to reduce program costs.

On August 9, 2006, the Metropolitan Council authorized the sale of \$196,930,000 of Sewer Revenue/Sales Tax Bonds. This bond sale was the first sale utilizing the combined revenue streams of the sewer user fee and the sewer sales tax. Future bond sales related to sewer improvements will use this new combined revenue stream as the security for future debt. The combination of the sewer user fee and the sewer sales tax as the basis for issuing debt to fund future sewer construction projects will provide the Parish with more bond capacity than it would have if it issued debt on the sewer user fee and the sewer sales tax individually. The ability to secure bonds using the sewer user fee and the sewer sales tax individually was eliminated with the issuance of the bonds on August 17, 2006. The purpose of the \$196,930,000 bond issue was to refund the outstanding balances of the Series ST-1998B, Series ST-2001, Series ST-2003, and Series ST-2004 sewer sales tax bonds, pay the costs of issuance for the bond issue and provide funding in the amount of \$39,963,130 for SSO RMAP2 Sewer Construction Projects.

On September 13, 2006, approval was granted by the Metropolitan Council to hire CH2M HILL, Inc., as the program manager for the sewer capital improvements program. CH2M HILL, Inc., was recommended for this role by the Engineers and Surveyors Selection Board. Their responsibilities will include developing and recommending an overall program strategy for the execution and completion of the SSO Capital Improvements Program, development of the project schedule and budget, initiation of a Parish Wide Sewer Master Plan and other planning efforts, establishment of inter-agency coordination, development of program processes and procedures, establishment of community awareness and reporting procedures, review of program engineering standards and specifications, review of the program right-of-way acquisition process, and other program management functions to expedite construction for compliance with the SSO Consent Decree.

One-Half Percent Road and Street Improvement Program

On October 15, 2005, the citizens of East Baton Rouge Parish approved an extension of the current one-half percent (½%) sales and use tax for road and street improvements. The proposition offered to voters extended the so-called “pot-hole” tax for an additional 23 years until 2030, and allowed for 70% of the proceeds to be used for the construction of new roads, widening of existing roads, intersection and signalization improvements, as well as other transportation improvements. In this new road construction program, called the “Green Light Plan”, the long-term issuance of debt was authorized, which over time will allow for an accelerated road construction schedule and reduce rising costs of projects due to inflation.



On May 3, 2006, the Parish of East Baton Rouge issued \$125,000,000 of Road and Street Improvement Sales Tax Revenue Bonds and appropriated the first phase of debt proceeds on the “Green Light Plan.” Additional information on the bond issuance can be found in Note 10 of the Notes to Financial Statements.

Voters, through the referendum, dedicated 27% of the proceeds to the recurring road rehabilitation project, and 3% of the tax to the beautification and street enhancement projects. The road rehabilitation program functions with projects prioritized on a six-month basis. The beautification allocation includes projects such as new sidewalks, curb construction, repairs and improvements that meet the Americans with Disabilities Act, landscaping and maintenance of pedestrian routes to and from public facilities.

It is anticipated that approximately 750 miles of additional City-Parish streets and roads will be rehabilitated during the next 25 years. Special attention will be given to projects which provide safe pedestrian routes to and from area schools and other public facilities.

It is estimated that over the 25-year period from January 1, 2006, through December 31, 2030, the tax along with the issuance of bonds and interest earnings will fund \$798 million in transportation capital improvements and provide \$440 million for rehabilitation and beautification components.

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, 2005. 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 19-year period ending December 31, 2005. 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. This was the fifteenth consecutive year that the department received this award. 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. We thank the Mayor-President and the Metropolitan Council for their support of excellence in financial reporting and fiscal integrity.

Respectfully submitted,

David M. Medlin, CPA

David M. Medlin, CPA
Finance Director