



Department of Finance
Accounting Division

City of Baton Rouge
Parish of East Baton Rouge

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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, 2008. 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, 2008, 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 collection and 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
➤ 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 B-3. For other governmental funds, the annual budget comparison is presented in the Combining and Individual Fund Statements and Schedules, Exhibits B-4 through B-25.

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 is part of 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. Many of these individuals have chosen to make Baton Rouge their permanent home, and a large number of new businesses have relocated to the area.



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 Baton Rouge MSA has the largest concentration of chemical industry employment in the state and is the home of the nation's second largest refinery. It is also the home of one of the state's Fortune 500 firms, the Shaw Group.

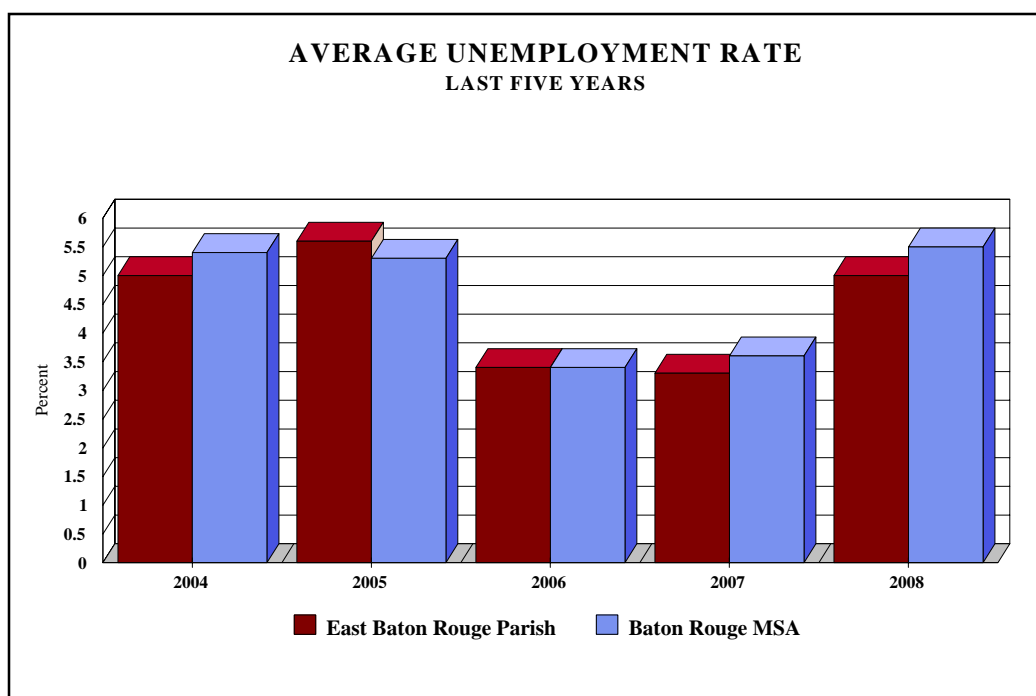
A number of significant companies engaged in oil refining, petrochemical processing, and wood products are found in the industrial corridor along the Mississippi River near Baton Rouge. These industries are major employers of Baton Rouge's labor force. Other important industries include government, construction,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

The national recession has had a very limited affect on the area. According to the Louisiana Department of Labor, the annual average rate of local unemployment increased only 1.7% in East Baton Rouge Parish and 1.9% in the Baton Rouge MSA in 2008, as reflected in the following chart:

	<u>East Baton Rouge Parish</u>	<u>Baton Rouge MSA ⁽¹⁾</u>
2004	5.0	5.4
2005	5.6	5.3
2006	3.4	3.4
2007	3.3	3.6
2008 ⁽²⁾	5.0	5.5

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

⁽²⁾ Preliminary Figures



The economy of East Baton Rouge Parish was strongly impacted by Hurricanes Katrina and Rita in 2005 and that impact continued through 2008. Baton Rouge was again impacted in 2008 by the significant damage resulting from Hurricane Gustav. Despite the losses resulting from Hurricane Gustav and the national economic recession, local economists have indicated that they foresee positive prospects for growth in the Baton Rouge economy. 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, issued *Louisiana Economic Outlook* (LEO) on Louisiana's major metropolitan statistical areas. Following is their predictions of economic growth in East Baton Rouge Parish and the Baton Rouge MSA for 2009-2010.

...We estimate that in 2009, the Baton Rouge region will add 2,400 jobs (+.6 percent) and will follow that with an additional 6,800 jobs in 2010 (+1.8 percent). In percentage terms, this would make the Baton Rouge MSA the fourth fastest growing MSA in the state, behind Houma, Lake Charles, and Lafayette. In absolute terms, its growth will be the fastest in the state.

What is behind this rather optimistic outlook for the Baton Rouge region? Part of the answer lies in a still surging construction sector. However, unlike the New Orleans MSA, Baton Rouge has some other things going for it that will be adding permanent jobs in the future.

In last year's LEO we reported about \$5.1 billion in construction projects either announced or underway in the Baton Rouge MSA. Normally, a \$500 million dollars year would have been considered very good, so a factor of 10 higher was considered spectacular. Some of these projects have since been completed, but there have been enough new announcements that the value of underway/announced projects is now even larger at \$6.5 billion.

Dr. Richardson and Dr. Scott had the following comments on their prediction of sales and use tax revenue growth in East Baton Rouge Parish for 2009.

...the Department of Finance is projecting a 3 to 4 percent growth rate for 2009 with this growth rate being applied to the adjusted 2008 sales tax base, which is related to growth in the normal sales tax base and not the actual sales tax base. The projected sales tax collections for 2009 will be \$163,332,370 if the growth rate is 3 percent. The 3 percent projection is reasonable given the forecast for the Baton Rouge economy for 2009 and a national forecast that suggests a recession, but not a sustained recession.

Revenue growth for the City-Parish seems to have stabilized in 2008, reflecting only small decreases from an all-time high revenue mark in 2006. General sales and use tax (2 percent) collections for General Fund operations and debt service dedications of the City and Parish combined were \$164.4 million, net of several large enterprise zone adjustments, an increase of \$1.0 million over 2007 revenues, (a 0.64 percent increase). Sales tax collections for the ½ percent sewerage tax and the ½ percent road and street improvement tax increased by 5.77 and 5.79 percent, respectively, during fiscal 2008. 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 2009 General Fund Budget with a sales and use tax growth rate of 3.0 percent over the adjusted sales tax base of 2008.

Major Initiatives in 2008

City-parish officials have made public safety of our citizens and visitors a top priority. During 2008, the Metropolitan Council approved the hiring of thirty additional police officers, twenty-two firemen, as well as twelve communications officers and various other support personnel. Police officers were granted a 7.5% pay increase during 2008 and fire personnel received a 3% increase.

The City-Parish is currently implementing a Security Canopy Program to make our city safer, including a system of 130 cameras tied to critical infrastructure. Additionally a ShotSpotter gunshot detection system will be incorporated with the surveillance cameras to monitor areas of high crime. Gun shots can be detected within seconds and located within 40 feet of their origination. In its initial phase, the system monitors eight square miles. In those areas where the camera canopy is installed, video can be reviewed to determine if a crime has been committed, and video evidence is captured.

A program to install traffic-enforcement cameras at problem intersections to record vehicles that run red lights was initiated in 2008, and additional cameras will be installed in 2009. The goal of this program is to improve safety for the motoring public.



Long-Term Financial Planning

Sewer Improvement Program



The City-Parish entered into a 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 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.

On July 10, 2007, EPA and DEQ formally approved the City-Parish's request to revise the original Remedial Measures Action Plan 2 (RMAP2) Sanitary Sewer Overflow Capital Improvements Program from a complex tunnel system with some rehabilitation and pump station upgrades to a program which emphasizes system-wide rehabilitation, conveyance and pumping upgrades and wet weather improvements to the South Wastewater Treatment Plant. This modified program will rely more on the rehabilitation of the sewer collection system, pump station 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 concept and cost for this modification has been analyzed by the sewer system's program manager; CH2M HILL, Inc. Their Program Delivery Plan (PDP) was delivered to the City-Parish in November 2007 and was updated in October 2008. CH2M HILL's estimated cost for completing the revised RMAP2 program is \$1.2 billion. The PDP contains rehabilitation, capacity improvement, and storage/equalization projects planned through the program's deadline in 2014. The PDP also recommends the closure of the Central Wastewater Treatment Plant and routing its flows to the South Wastewater Treatment Plant. This recommendation has many positive aspects including eliminating a discharge point into the Mississippi River, removing a treatment plant from the downtown area, providing additional dry weather flows to the South Wastewater Treatment Plant which will assist in the biological treatment process, and generate long-term savings in operations and maintenance costs.

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.

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.



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.

At December 31, 2008, twenty-nine projects were in an "active" status ranging from corridor survey/design study through construction. During 2008, two projects included in the Green Light Plan were completed: Veterans Memorial Boulevard Extension and Burbank Drive - Segment 2. Bids have been accepted and construction is underway on the following projects: Burbank Drive - Segment 1, North Harrell's Ferry Road, Downtown Signalization, and Lobdell Improvements.

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 \$755 million in road improvement projects. The remainder of the tax will provide \$414 million for the rehabilitation and beautification components of the program.

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, 2007. 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 20-year period ending December 31, 2007. 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 eighteenth 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,



Marsha J. Hanlon
Finance Director

