REFUNDING ISSUE
BOOK-ENTRY ONLY

RATING: AMBAC Insured
See "RATINGS" herein

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals and, except as stated herein, is not subject to the alternative minimum tax on corporations. See "TAX EXEMPTION" for a discussion of Bond Counsel's opinion, including a description of alternative minimum tax consequences for corporations.

$29,225,000
The City of St. Louis, Missouri
Water Revenue Refunding Bonds, Series 1998

Dated: December 1, 1998 Due: July 1, as shown below

The City of St. Louis Water Revenue Refunding Bonds, Series 1998 (the *"Series 1998 Bonds"*) are being issued by the City of St. Louis, Missouri (the *"City"*) under and pursuant to the Indenture (as herein defined). The Series 1998 Bonds will be issued in fully registered book-entry-only form in the denominations of $5,000 or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (*"DTC"*), an automated depository for securities and a clearinghouse for securities transactions. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 1998 Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 1998 Bonds will be made directly to DTC or its nominee, Cede & Co., which will remit such payments to the DTC Participants (as herein defined) for subsequent disbursements to the beneficial owners of the Series 1998 Bonds. The payment of principal of, premium, if any, and interest on the Series 1998 Bonds when due, will be made by BNY Trust Company of Missouri, St. Louis, Missouri, the trustee for the Series 1998 Bonds (the *"Trustee"*). See *"THE SERIES 1998 BONDS — BOOK-ENTRY-ONLY SYSTEM"* herein. Interest on the Series 1998 Bonds is payable semiannually on January 1 and July 1 of each year, commencing July 1, 1999.

THE SERIES 1998 BONDS ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE REVENUES (AS HEREIN DEFINED) DERIVED BY THE CITY FROM THE OPERATION OF THE CITY'S WATERWORKS SYSTEM. THE SERIES 1998 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR PROVISION AND THE TAXATION POWER OF THE CITY IS NOT PLEDGED TO THE PAYMENT OF THE SERIES 1998 BONDS, EITHER AS TO PRINCIPAL, PREMIUM OR INTEREST. THE BONDS ARE NOT AN INDEBTEDNESS OR AN OBLIGATION OF THE STATE OF MISSOURI OR ANY POLITICAL SUBDIVISION THEREOF.

THE BONDS ARE SUBJECT TO OPTIONAL AND MANDATORY REDEMPTION PRIOR TO MATURITY AS DESCRIBED HEREIN.

The proceeds of the Series 1998 Bonds are to be used (i) to advance refund certain maturities of the outstanding City of St. Louis Water Revenue Refunding and Improvement Bonds, Series 1994; (ii) to purchase a surety bond to fund the 1998 Reserve Account (as hereinafter defined) up to the Debt Service Reserve Fund Requirement; and (iii) to pay the costs of issuance of the Series 1998 Bonds, including the cost of a premium for municipal bond insurance. A portion of the proceeds or the Series 1998 Bonds will be used to purchase certain direct obligations of or obligations guaranteed by the United States of America (the *"Escrowed Securities"*) which, along with certain funds of the City, will be deposited into an irrevocable escrow fund (the *"Escrow Fund"*) created for the redemption of the Series 1994 Bonds maturing on and after July 1, 2007 (the *"Refunded Bonds"*) in advance of their stated maturities. The Escrowed Securities in the Escrow Fund will be in an amount sufficient to pay the principal of, interest on and redemption premium of the Refunded Bonds when due, through July 1, 2004, when such Refunded Bonds will be redeemed and retired. The Escrow Fund will be held by BNY Trust Company of Missouri, St. Louis, Missouri (the *"Escrow Agent"*).

Payment of principal of and interest on the Series 1998 Bonds will be guaranteed by a municipal bond insurance policy to be issued by AMBAC Assurance Corporation. The municipal bond insurance policy will be issued concurrently with the issuance of the Series 1998 Bonds, is non-cancellable and extends for the term of the Series 1998 Bonds.

Ambac

MATURITY SCHEDULE

Maturity July 1	Principal Amount	Interest Rate	Yield	Maturity July 1	Principal Amount	Interest Rate	Yield
1999	$50,000	3.150%	3.150%	2011	$3,740,000	4.400%	4.500%
2007	$2,850,000	4.100%	4.100%	2012	$3,905,000	4.500%	4.600%
2008	$3,300,000	4.150%	4.200%	2013	$4,085,000	4.625%	4.700%
2009	$3,440,000	4.250%	4.300%	2014	$4,270,000	4.750%	4.800%
2010	$3,585,000	4.300%	4.400%				

The Series 1998 Bonds are offered when, as and if issued and received by the Underwriters and subject to prior sale, and to the approval of legality by McGhee & Associates, New York, New York, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the Office of the City Counselor and by White & Watson, L.C., St. Louis, Missouri, as Disclosure Counsel, and for the Underwriters by their co-counsel, The Stolar Partnership, St. Louis, Missouri, and Polsinelli, White, Vardeman & Shalton, Kansas City, Missouri. It is expected that the Series 1998 Bonds will be available for delivery to DTC in New York, New York, on or about December 23, 1998.

M♦R♦ Beal & Company
The Chapman Company

First Chicago Capital Markets, Inc.
J.C. Bradford & Co.

A.G. Edwards & Sons, Inc.

This Official Statement is dated December 16, 1998, and the information contained herein speaks only as of such date.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 1998 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources that are believed to be reliable but it is not guaranteed by the City or the Underwriters as to accuracy or completeness. This Official Statement is not to be construed as a contract or agreement between the City or the Underwriters and the purchasers or bondholders of any of the Series 1998 Bonds. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication there has been no change in the affairs of the City or the other matters discussed herein since the date hereof.

In connection with this offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Series 1998 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 1998 Bonds to certain dealers at prices lower than the public offering prices stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

The Series 1998 Bonds have not been registered under the Securities Act of 1933, as amended, the Florida Securities Act or various other state securities acts, nor has the Indenture been qualified under the Trust Indenture Act of 1939, as amended in reliance upon certain exemptions contained in such acts.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE WATERWORKS SYSTEM OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE REGISTRATION OR QUALIFICATION OF THE SERIES 1998 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 1998 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NO FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY HAS PASSED UPON THE MERITS OF THE SERIES 1998 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

To the extent required by the rules of the Municipal Securities Rulemaking Board, the City and the Underwriters shall comply with applicable secondary market disclosure requirements.

$29,225,000
THE CITY OF ST. LOUIS, MISSOURI
WATER REVENUE REFUNDING BONDS
SERIES 1998

THE CITY OF ST. LOUIS, MISSOURI

ELECTED OFFICIALS

Clarence Harmon, Mayor
Darlene Green, Comptroller
Francis G. Slay, President-Board of Aldermen
Larry C. Williams, Treasurer

BOARD OF ALDERMEN

Parrie May	Ward	1	Margaret Vining	Ward	15
Nancy Weber	Ward	2	James F. Shrewsbury	Ward	16
Freeman Bosley, Sr.	Ward	3	Joseph D. Roddy	Ward	17
Miguel Mitchell	Ward	4	Terry Kennedy	Ward	18
April Ford Griffin	Ward	5	Michael McMillan	Ward	19
Marit Clark	Ward	6	Sharon Tyus	Ward	20
Phyllis Young	Ward	7	Bennice Jones-King	Ward	21
Stephen J. Conway	Ward	8	Kenneth Jones	Ward	22
Vacant	Ward	9	James Sonderman	Ward	23
Craig N. Schmid	Ward	10	Robert Ruggeri	Ward	24
Matt Villa	Ward	11	Paul Michael Beckerle	Ward	25
Fred Heitert	Ward	12	Irving C. Clay, Jr.	Ward	26
Alfred J. Wessels, Jr.	Ward	13	Gregory J. Carter	Ward	27
Stephen Gregali	Ward	14	Lyda Krewson	Ward	28

BOARD OF ESTIMATE AND APPORTIONMENT

Clarence Harmon, Mayor
Darlene Green, Comptroller
Francis G. Slay, President of the Board of Aldermen

DEPARTMENT OF PUBLIC UTILITIES

David A. Visintainer, Director of Public Utilities
and Water Commissioner
G. F. Herron, Manager, Service Delivery Group
James A. Kummer, Manager, Finance Section

FINANCIAL ADVISORS
P.G. Corbin & Company, Inc.
Philadelphia, Pennsylvania

Columbia Capital Consultants, Inc.
St. Louis, Missouri

WATER DIVISION ACCOUNTANTS
KPMG Peat Marwick
St. Louis, Missouri

ESCROW VERIFICATION AGENT

Deloitte & Touche, LLP

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Appendix E - Form of Opinion of Bond Counsel

OFFICIAL STATEMENT SUMMARY

This Summary, being part of the Official Statement, is subject in all respects to the more complete information contained therein. The offering of the Series 1998 Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Summary from the Official Statement or otherwise to use the same without the entire Official Statement.

Issuer — The City of St. Louis, Missouri.

Series 1998 Bonds — The Series 1998 Bonds are issued under the authority of Article VI, Section 27 of the Missouri Constitution, and pursuant to Chapters 108.170 and 108.140 Missouri Revised Statutes, as amended, and an ordinance adopted by the Board of Aldermen on December 4, 1998 and approved by the Mayor on December 16, 1998. See *"PLAN OF FINANCING — THE SERIES 1998 BONDS"*.

Redemption — The Series 1998 Bonds are subject to optional and sinking fund redemption by the City prior to maturity as set forth in the Official Statement. See *"THE SERIES 1998 BONDS — OPTIONAL REDEMPTION AND SINKING FUND REDEMPTION"*.

Use of Proceeds — The proceeds of the Series 1998 Bonds will be used, together with other available funds, (i) to refund and defease a portion of the outstanding Series 1994 Bonds; (ii) to purchase a surety bond to fund the 1998 Reserve Account up to the Debt Service Reserve Fund Requirement; and (iii) to pay the costs of issuance of the Series 1998 Bonds. See *"ESTIMATED SOURCES AND USES OF FUNDS"*.

Refunding of Series 1994 Bonds — A portion of the proceeds of the Series 1998 Bonds will be used to purchase certain obligations of, or guaranteed by, the United States of America (the *"Escrowed Securities"*) which will be deposited into an irrevocable escrow fund (the *"Escrow Fund"*) created for the redemption in advance of their stated maturities of the Series 1994 Bonds maturing on and after July 1, 2007 (the *"Refunded Bonds"*). The Escrowed Securities in the Escrow Fund will be in an amount sufficient to pay the principal of, interest on and redemption premium of the Refunded Bonds when due through July 1, 2004, when such Refunded Bonds will be redeemed and retired. The Escrow Fund will be held by BNY Trust Company of Missouri, St. Louis, Missouri (the *"Escrow Agent"*). See *"PLAN OF FINANCING — REFUNDING OF SERIES 1994 BONDS"* and *"ESCROW FUND FOR REFUNDING OF SERIES 1994 BONDS"*.

Security — Pursuant to the Indenture (as hereinafter defined), the Series 1998 Bonds are limited obligations of the City payable solely from the Revenues derived by the City from the operation of its Waterworks System. The Series 1998 Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory limitation or provision and the taxing power of the City is not pledged to the payment of the Series 1998 Bonds either as to principal, premium or interest. As further security for the Series 1998 Bonds, the City will at the time of delivery of the Series 1998 Bonds purchase a surety bond to satisfy the debt service reserve requirement. See *"SECURITY FOR THE SERIES 1998 BONDS"*.

Rate Covenant — The City must charge all users of water service such rates and charges as shall be fully adequate to meet the requirements of the Waterworks Revenue Fund as set forth in the Indenture, and the City will adopt or continue in effect rates for all services rendered by the Waterworks System sufficient to produce Net Revenues (as defined herein) for the next succeeding fiscal year at least equal to 110% of the amount of the principal of and interest coming due on all of the City's water revenue bonds, including the Series 1998 Bonds, the Outstanding Series 1994 Bonds and Additional Bonds during the next succeeding fiscal year. See *"SECURITY FOR THE SERIES 1998 BONDS — RATE COVENANT"*.

Waterworks System The City's waterworks system (the *"Waterworks System"*) consists of two water treatment plants, the Chain of Rocks treatment plant and the Howard Bend treatment plant; two reservoirs, the Compton Hill Reservoir and the Stacy Park Reservoir; and a 1,400 mile water distribution and supply system. See *"THE WATERWORKS SYSTEM — DESCRIPTION OF WATERWORKS SYSTEM"*.

Additional Bonds Test No Additional Bonds (other than refunding bonds) may be issued or obligations incurred by the City which are in whole or in part payable from or chargeable to the Revenues derived from the operation of the Waterworks System unless (a) the City certifies that it is not in default under the Indenture, and there is no event which, with the passage of time or giving of notice or both, would constitute a default thereunder, and (b) the Net Revenues of the Waterworks System for the most recent full fiscal year prior to the issuance of the Additional Bonds (as shown by the annual audit of an independent accountant) or its Adjusted Net Revenues (as certified by the Consulting Engineers) must equal at least 125% of Maximum Annual Debt Service (as defined in the Indenture).

Debt Service Coverage The following is a debt service coverage schedule for fiscal years 1995 through 2001.

	Actual FY 94-95	Actual FY 95-96	Actual FY 96-97	Estimated FY 97-98	Projected FY 98-99	Projected FY 99-2000	Projected FY 2000-01
Gross Revenues	$35,204,000	$38,970,000	$41,113,000	$40,109,000	$39,500,000	$39,000,000	$38,500,000
Total of All Operating Expenses	28,335,000	29,623,000	29,466,000	30,049,000	30,200,000	30,700,000	31,300,000
Depreciation	2,275,000	1,999,000	2,355,000	2,370,000	2,400,000	3,000,000	3,200,000
Net Revenues to Provide Coverage	6,869,000	9,347,000	11,647,000	10,060,000	9,300,000	8,300,000	7,200,000
Total Debt Service	2,257,000	3,940,000	4,443,000	4,515,000	3,605,717	4,094,200	4,040,349
Debt Service Coverage	3.04	2.37	2.62	2.23	2.58	2.03	1.78

OFFICIAL STATEMENT
Relating to

$29,225,000
The City of St. Louis, Missouri
Water Revenue Refunding Bonds
Series 1998

INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to furnish information with respect to the offering by the City of St. Louis, Missouri (the *"City"*) of the City's Water Revenue Refunding Bonds, Series 1998, in the aggregate principal amount of $29,225,000 (the *"Series 1998 Bonds"*). The Series 1998 Bonds are being issued to advance refund certain maturities of the City's Series 1994 Bonds pursuant to an Indenture of Trust between the City and BNY Trust Company of Missouri (formerly Mark Twain Bank) dated as of April 1, 1994, as supplemented by the Second Supplemental Indenture of Trust between the City and UMB Bank of St. Louis N.A. as trustee (the *"Trustee"*) dated as of December 1, 1998 (collectively referred to hereinafter as the *"Indenture"*) and are secured by and payable solely from the revenues derived by the City from the operations of the Waterworks System (the *"Waterworks System"*). Certain capitalized terms used in this Official Statement are defined in **APPENDIX A** hereto.

PLAN OF FINANCING

The Series 1998 Bonds

The Series 1998 Bonds are issued under the authority of Article VI, Section 27 of the Missouri Constitution, and pursuant to Chapters 108.170 and 108.140 Missouri Revised Statutes, as amended, and an ordinance adopted by the Board of Aldermen on December 4, 1998 and approved by the Mayor on December 16, 1998, authorizing and directing the issuance of water revenue refunding bonds in an aggregate amount not to exceed $40,000,000 (the *"Ordinance"*).

The proceeds of the Series 1998 Bonds will be used (i) to refund and defease certain maturities of the outstanding Series 1994 Bonds; (ii) to purchase a surety bond to fund the Series 1998 Water Revenue Debt Service Reserve Account (the *"1998 Reserve Account"*) up to the Debt Service Reserve Fund Requirement; and (iii) to pay the costs of issuance of the Series 1998 Bonds including the cost of a premium for municipal bond insurance. See *"ESTIMATED SOURCES AND USES OF FUNDS"*, herein.

Refunding of Series 1994 Bonds

A portion of the proceeds of the Series 1998 Bonds will be used to purchase certain direct obligations of or obligations guaranteed by the United States of America (the *"Escrowed Securities"*) which will be deposited into an irrevocable escrow fund (the *"Escrow Fund"*) created for the redemption in advance of their stated maturities the $27,775,000 of the Series 1994 Bonds maturing on and after July 1, 2007 (the *"Refunded Bonds"*). The Escrowed Securities will be in an amount sufficient to pay the principal of, interest on and redemption premium of the Refunded Bonds when due through July 1, 2004, when such Refunded Bonds will be redeemed and retired. The Escrow Fund will be held by BNY Trust Company of Missouri, St. Louis, Missouri (the *"Escrow Agent"*). At the time of delivery of the Series 1998 Bonds, Deloitte Touche, LLP, independent public accountants, will verify to the City, the Escrow Agent and the Underwriters that the Escrowed Securities are in such principal amount and are scheduled to mature at such times and to yield interest in such amounts which will be sufficient to pay when due, the principal of, interest on and redemption premium of the Refunded Bonds through July 1, 2004. See *"ESCROW FUND FOR REFUNDING OF SERIES 1994 BONDS"* herein.

The following table shows the maturities of the outstanding Series 1994 Bonds as of the date of this Official Statement:

Maturity Date	Principal Amount
July 1, 1999	$ 1,785,000
July 1, 2000	1,880,000
July 1, 2001	1,980,000
July 1, 2002	2,090,000
July 1, 2003	2,235,000
July 1, 2004	2,365,000
July 1, 2005	2,500,000
July 1, 2006	2,645,000
July 1, 2007	2,805,000
July 1, 2008	2,970,000
July 1, 2009	3,150,000
July 1, 2014	18,850,000

Definitions and Document Summaries

This Official Statement contains summary descriptions of, among other things, the Series 1998 Bonds, the City and the Waterworks System. All references herein to the Indenture and any other documents are qualified in their entirety by reference to such documents and all references herein to the Series 1998 Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. The Indenture is available for inspection at the offices of the Trustee. Unless otherwise defined herein, certain capitalized words and terms used in this Official Statement shall have the meanings ascribed to them in **APPENDIX A** — *"SUMMARY OF THE INDENTURE"* and **APPENDIX B** - *"INFORMATION CONCERNING THE CITY OF ST. LOUIS, MISSOURI"*, hereto.

Payment of principal of and interest on the Series 1998 Bonds is guaranteed by a municipal bond insurance policy to be issued by AMBAC Insurance Corporation (*"AMBAC"*). See *"SECURITY FOR THE BONDS — BOND INSURANCE"* and *"BOND INSURANCE"* herein.

ESTIMATED SOURCES AND USES OF FUNDS

The table below shows the sources and uses of funds, in connection with the issuance of the Series 1998 Bonds:

Sources of Funds:

Par amount of Series 1998 Bonds	$29,225,000.00
Transfer from Series 1994 Debt Service Fund	835,567.50
Transfer from Series 1994 Bonds Debt Service Reserve Fund	1,672,503.00
Accrued Interest from 12/01/98 to 12/23/98	78,697.13
Total Sources of Funds	$31,811,767.63

Uses of Funds:

Original issue Discount	$ 189,534.85
Deposit to Net Cash Escrow Fund	30,958,521.74
Surety Bond Fee	45,298.75
Payment in connection with forward delivery agreement	50,000.00
Costs of Issuance Account[1]	200,000.00
Deposit to Debt Service Fund	78,697.13
Gross Bond Insurance Premium	108,594.75
Total Underwriter's Discount	177,688.00
Rounding Amount	3,432.41
Total Uses of Funds	$31,811,767.63

[1] Includes rating fees, legal fees and other expenses related to the sale of the Series 1998 Bonds.

THE SERIES 1998 BONDS

Form and Denominations

The Series 1998 Bonds will mature and bear interest as set forth on the cover page of this Official Statement. The Series 1998 Bonds are issued as fully registered bonds in the denominations of $5,000 or integral multiples thereof. Interest on the Series 1998 Bonds is payable semiannually on January 1 and July 1 of each year, commencing July 1, 1999.

Optional Redemption

The Series 1998 Bonds maturing July 1, 2009 and thereafter are subject to optional redemption prior to maturity by the City with funds from any source, in whole or in part at any time, with the maturities so to be redeemed to be selected by the City (and within a maturity as selected by lot) on or after January 1, 2009, during the periods and at the redemption prices set forth in the table below, in each case together with accrued interest to the date of redemption:

Period During Which Redeemed (dates inclusive)	Redemption Price
January 1, 2009 - December 31, 2009	101%
January 1, 2010 - December 31, 2010	100.5%
January 1, 2011 and thereafter	100%

Notice of Redemption

In accordance with the Indenture, notices of redemption shall be mailed by the Trustee, postage prepaid, not less than 30 days before any redemption date, to the registered Bondholders of the Series 1998 Bonds that are to be redeemed. Each such notice shall identify the Series 1998 Bonds to be redeemed (and, in the case of Series 1998 Bonds to be redeemed in part only, the principal amounts to be redeemed), shall specify the redemption date and the Redemption Price, and shall state that on the Redemption Date the Redemption Prices will become due and payable on each Series 1998 Bond and that interest thereon shall cease to accrue from and after said date and that the Series 1998 Bonds to be redeemed will be payable at the principal corporate trust office of the Trustee.

In accordance with the Indenture, notice of redemption of Series 1998 Bonds shall be given only if sufficient funds have been deposited with the trustee.

Transfer and Exchanges

Subject to any restrictions imposed by the Indenture relating to global bond certificates in the event Bonds are issued in book-entry-only form, the Series 1998 Bonds may be transferred in the Bond Register only upon surrender thereof to the Trustee duly endorsed for transfer or accompanied by a written instrument of transfer duly executed by the Registered Owner thereof or his attorney or legal representative in such form as shall be satisfactory to the Trustee. Upon any such transfer, the City shall execute and the Trustee shall authenticate and deliver in exchange for such Bond, a new Bond or Bonds, registered in the name of the transferee.

Book-Entry-Only System

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY, THE TRUSTEE AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE CITY, THE TRUSTEE AND THE UNDERWRITERS TAKE NO RESPONSIBILITY OR OBLIGATION FOR THE ACCURACY THEREOF, AND NEITHER THE PARTICIPANTS NOR THE BENEFICIAL OWNERS SHOULD RELY ON THE FOREGOING INFORMATION WITH RESPECT TO SUCH MATTERS, BUT SHOULD INSTEAD CONFIRM THE SAME WITH DTC OR THE PARTICIPANTS, AS THE CASE MAY BE.

The following description of the procedures and recordkeeping with respect to beneficial ownership interests in the Series 1998 Bonds, payments of principal, premium, if any, and interest on the Series 1998 Bonds to DTC, its nominee, Participants (defined below) or Beneficial Owners (defined below) confirmation and transfer of beneficial ownership interests in the Series 1998 Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based solely on information furnished by DTC.

DTC will act as securities depository for the Series 1998 Bonds. The Series 1998 Bonds will be issued as fully-registered securities registered in the name of Cede & Co., DTC's nominee. One fully-registered Series 1998 Bond certificate will be issued for each maturity of each series as set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Uniform Commercial Code, as amended, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (*"Participants"*) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (*"Indirect Participants"*). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 1998 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 1998 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 1998 Bond (*"Beneficial Owner"*) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner

entered into the transaction. Transfers of ownership interest in the Series 1998 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Series 1998 Bonds is discontinued.

To facilitate subsequent transfers, all Series 1998 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 1998 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 1998 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1998 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to the Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 1998 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 1998 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 1998 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal and Redemption Price, if any, and interest payments related to the Series 1998 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Redemption Price, if any, and interest to DTC is the responsibility of the City or the Trustee and disbursement of such payments to Beneficial Owners is the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 1998 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be prepared, executed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, either a successor securities depository will be selected by the City or Bond certificates will be prepared, executed and delivered.

For every transfer and exchange of the Series 1998 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other government charge that may be imposed in relation thereto.

The City and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC or any Participant; (ii) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal and Redemption Price, if any, and interest relating to the Series 1998 Bonds; (iii) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to Bondholders;

or (iv) any other action taken by DTC, or its nominee, Cede & Co., as Bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the Series 1998 Bonds, as nominee of DTC, references in this Official Statement to the holders of the Series 1998 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners, and the Trustee will treat Cede & Co. as the only bondholder of Series 1998 Bonds for all purposes under the Indenture.

DTC management is aware that some computer applications, systems, and the like for processing data (*"Systems"*) that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 problems". DTC has informed its Participants and other members of the financial community (the *"Industry"*) that it has developed and is implementing a program so that its systems, as the same relate to the timely payment of distributions (including principal and income payments) to security holders, book-entry deliveries, and settlement of trades with DTC (*"DTC Services"*), continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: (i) impress upon them the importance of such services being Year 2000 complaint; and (ii) determine the extent of their efforts for year 2000 remediation (and, as appropriate testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

SECURITY FOR THE SERIES 1998 BONDS

Source of Payment

The Series 1998 Bonds are limited obligations of the City, payable solely from and secured by a pledge of the Revenues of the Waterworks System, subject to the application thereof for the payment of Operations and Maintenance Expenses, in accordance with the Indenture. *"Revenues,"* as defined in the Indenture, constitutes (i) all income and revenues from all sources, collected or received directly or indirectly by the City from the operation of the Waterworks System, including without limitation except as expressly provided in the Indenture, all fees and user charges received by or on behalf of the City in its capacity as the operator of the Waterworks System in connection with the operation, improvement and enlargement of the Waterworks System, or any part thereof; and (ii) income received by the City and required to be deposited in the Waterworks Revenue Fund on any investment of money held pursuant to the Indenture.

The Series 1998 Bonds do not constitute an indebtedness of the City within the meaning of any constitutional or statutory limitation or provision and the taxing power of the City is not pledged to the payment of the Series 1998 Bonds, either as to principal, premium, or interest.

Bond Insurance

Payment of principal of and interest on the Series 1998 Bonds is guaranteed by a municipal bond insurance policy to be issued by AMBAC. The municipal bond insurance policy will be issued concurrently with the issuance of the Series 1998 Bonds, is non-cancellable and extends for the term of the Series 1998 Bonds. See, *"BOND INSURANCE"* herein and **APPENDIX D** — *"FORM OF A BOND INSURANCE POLICY"* hereto.

Debt Service Reserve Account

As additional security for the Bonds, the Indenture provides that the City will establish and maintain a Reserve Account to which the City will deposit a sum (the *"Debt Service Reserve Fund Requirement"*) equal to the maximum principal and interest coming due in any fiscal year or such lesser amount which is the greatest allowable under the Code that may be invested without regard to restrictions on yield on all Outstanding Bonds, including the Series 1998 Bonds and any Additional Bonds, or a debt service reserve fund policy or surety bond shall be provided by a Bond Insurer or a letter of credit provided by a bank acceptable to the City in such amount. When and as long as the sum on deposit in this 1998 Reserve Account shall equal the Debt Service Reserve Fund Requirement on the Bonds, no further payments need to be made, but should the 1998 Reserve Account be reduced or depleted, additional deposits shall be made thereafter in equal monthly installments until said 1998 Reserve Account shall have credited an amount equal to the Debt Service Reserve Fund Requirement on the Bonds; provided, however the 1998 Reserve Account shall be replenished within twelve months unless a certificate is provided by an independent Water Consultant or Consulting Engineer which verifies the sufficiency of debt service coverage within an extended time period. All amounts paid and credited to the 1998 Reserve Account shall be used solely to prevent any default in the payment of the principal of and interest on the Bonds. The Indenture requires that the 1998 Reserve Account be maintained by the Trustee and used to pay principal of and interest on the Bonds in the event other available funds are insufficient for such purposes. Notwithstanding the foregoing, pursuant to the First Supplemental Indenture of Trust between the City and BNY Trust Company of Missouri (formerly Mark Twain Bank) dated as of April 1, 1994 a Series 1994 Debt Service Reserve Account (the *"1994 Reserve Account"*) was set up solely for the benefit of the Series 1994 Bonds. Consequently the Bonds (including the Series 1998 Bonds and any Additional Bonds) may not be entitled to any benefits of the 1994 Reserve Account and any shortfall in amounts required to pay principal and interest on the Bonds (including the Series 1998 Bonds and any Additional Bonds) shall be first made up by available monies in the 1998 Reserve Account. The Series 1994 Bonds are not entitled to any benefits of the 1998 Reserve Account and any shortfall in amounts required to pay principal and interest on the Series 1994 Bonds shall be first made up by available monies in the 1994 Reserve Account.

AMBAC Assurance Surety Bond

The Indenture requires the establishment of a 1998 Reserve Account in an amount equal to the Debt Service Reserve Fund Requirement. The Indenture authorizes the City to obtain a surety bond (the *"Surety Bond"*) in place of fully funding the 1998 Reserve Account. Accordingly, application has been made to AMBAC for the issuance of a Surety Bond for the purpose of funding the 1998 Reserve Account (see *"SECURITY FOR THE SERIES 1998 BONDS - 1998 DEBT SERVICE RESERVE ACCOUNT"* herein). The Series 1998 Bonds will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Series 1998 Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by AMBAC of a demand for payment executed by the Paying Agent certifying that provision for the payment of principal of or interest on the Series 1998 Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to AMBAC, AMBAC will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due on the Series 1998 Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bonds.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by AMBAC under the terms of the Surety Bond and the City is required to reimburse AMBAC for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the City is subordinate to the City's obligations with respect to the Series 1998 Bonds.

In the event the amount on deposit, or credited to the 1998 Reserve Account exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the 1998 Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the 1998 Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy,

surety bond or other such funding instrument (the *"Additional Funding Instrument"*), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Indenture provides that the 1998 Reserve Account shall be replenished from available funds, in such priority as the City may direct, in the Water Contingent Fund and the Water Replacement and Improvement Fund, in equal monthly installments per month until said account shall have credited an amount equal to the Debt Service Reserve Fund Requirement; provided, however, that the Debt Service Reserve Fund Requirement shall be replenished within twelve months (a) in the event of a loss due to valuation; and (b) in the event of a withdrawal for the purpose of paying interest on and the principal of the Bonds as the same shall become due, provided, however, that the Debt Service Reserve Fund Requirement replenishment period may be extended by an additional 12 months if all monies in the Water Contingent Fund and the Water Replacement and Improvement Fund are depleted and provided that a certificate is provided by the City that certifies that a rate ordinance has been enacted into law to fund such replenishment and a certificate is provided by the Water Consultant or Consulting Engineers which certifies that the Debt Service Reserve Fund Requirement will be met within the extended time period.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

Rate Covenant

The City has covenanted under the Indenture to establish and maintain fees, charges, and rates for the use of the Waterworks System as shall be sufficient at all times to (i) pay the Operations and Maintenance Expenses of the Waterworks System (as defined in the Indenture), (ii) pay the principal of and interest on all revenue bonds of the Waterworks System, and (iii) establish and maintain the reserves and accounts established pursuant to the Indenture. The City must charge all users of water services such rates and charges as shall be fully adequate to meet the requirements of the Waterworks Revenue Fund as set forth in the Indenture, and the City will adopt or continue in effect rates for all services rendered by the Waterworks System sufficient to produce Net Revenues for the next succeeding fiscal year at least equal to 110% of the amount of the principal of and interest coming due on all of the City's water revenue bonds, including the Series 1998 Bonds during the next succeeding fiscal year. Net Revenues constitutes all Revenues received from the operation of the Waterworks System, less Operating and Maintenance Expenses and depreciation for the Water Division Fiscal Year.

If the City has not adjusted the water rates at the end of a twenty-four month period following the last adjustment of water rates, the City covenants that it shall promptly employ Consulting Engineers to perform a water rate study for purposes of determining the Net Revenues of the Waterworks System for the next succeeding two year period. If such study indicates that a rate adjustment is necessary to comply with the rate covenants described above, the City agrees to take such action as it deems necessary to comply with the rate covenants in the Indenture.

Allocation of Revenues

The City is required to deposit all of the Revenues of the Waterworks System in the Waterworks Revenue Fund maintained by the City in accordance with the provisions and requirements of the Indenture. Revenues are then allocated monthly by the City to the various funds and accounts created by the Indenture in the following order of priority:

1. To a fund designated the Waterworks Operation and Maintenance Fund a sum sufficient to pay the estimated Operation and Maintenance Expenses during the month; such sum to be determined by the Water Commissioner.

2. To a fund designated the Waterworks Bond Fund and therein, to the Debt Service Account, an amount at least equal to one-sixth of the amount of interest that will become due and payable on the Bonds then outstanding on the next succeeding interest payment date, plus an amount at least equal to one-twelfth of the aggregate principal amount of Bonds that will become due on the next succeeding principal

payment date, provided, however, the City shall be entitled to reduce such monthly payment of principal and interest, by an amount equal to the amount deposited or transferred from the Water Contingent Fund to the Waterworks Bond Fund by the City. All monies in the Waterworks Bond Fund shall be used only for the purpose of paying interest on and the principal of the Bonds.

3. To the 1998 Reserve Account an amount equal to the Debt Service Reserve Fund Requirement, or a debt service reserve fund policy or a surety bond shall be provided by a Bond Insurer in such amount or a letter of credit shall be provided by a bank acceptable to the City in such amount. When and as long as the sum on deposit in the 1998 Reserve Account shall equal the Debt Service Reserve Fund Requirement, no further payment needs to be made, but should the 1998 Reserve Account be reduced or depleted, additional deposits shall be made thereafter from available funds, in such priority as the City may direct, in the Water Contingent Fund and the Water Replacement and Improvement Fund, in equal monthly installments per month until said 1998 Reserve Account shall have credited an amount equal to the Debt Service Reserve Fund Requirement; provided, however the Debt Service Reserve Fund Requirement shall be replenished within twelve months (a) in the event of a loss due to valuation; and (b) in the event of a withdrawal for the purpose of paying interest on and the principal of the Bonds as the same shall become due, provided however that the Debt Service Reserve Fund Requirement replenishment period may be extended by an additional twelve months if all monies in the Water Contingent Fund and the Water Replacement and Improvement Fund are depleted and provided that a certificate is provided by the City that certifies that a rate ordinance has been enacted into law to fund such replenishment and a certificate is provided by the Water Consultant or Consulting Engineers which certifies that the Debt Service Reserve Fund Requirement will be met within the extended time period. The Indenture requires that the 1998 Reserve Account be maintained by the Trustee and used to pay principal of and interest on the Bonds in the event other available funds are insufficient for such purposes.

4. To a fund designated the Water Replacement and Improvement Fund an amount equal to the Water Replacement and Improvement Fund Requirement as defined in each Supplemental Indenture. The deposit to such Fund shall be made in monthly installments until said Fund shall have credited an amount equal to the Water Replacement and Improvement Fund Requirement; but should such Fund be reduced or depleted, additional deposits shall be made thereafter in monthly installments of $25,000 until said Fund shall have been restored to an amount equal to the Water Replacement and Improvement Fund Requirement. The Water Replacement and Improvement Fund Requirement as of December 1, 1998, is $750,000.

5. To the Water Contingent Fund, all monies remaining in the Waterworks Revenue Fund. Monies in the Water Contingent Fund may be used for (i) paying the cost of the operation, maintenance, and repair of the Waterworks System, (ii) paying the cost of extending, improving or making replacements to the Waterworks System; (iii) preventing default in, anticipating payments into, or increasing the amounts in other accounts; (iv) payment of any gross receipts tax now or hereafter levied by the City; (v) payment of the principal of, redemption premium, if any, and interest on any subordinate or junior lien bonds; (vi) the payment of any redemption premium due on the Bonds; or (vii) any other lawful purpose in connection with the Waterworks System.

Additional Bonds

No Additional Bonds (other than Refunding Bonds) may be issued or obligations incurred by the City which are in whole or in part payable from or chargeable to the Revenues derived or to be derived from the operation of the Waterworks System (except obligations subordinate to the Series 1994 Bonds) unless the following conditions, as set forth in the Indenture, are met: (a) the City certifies that it is not in default under the Indenture, and there is no event which, with the passage of time or giving of notice or both, would constitute a default thereunder; and (b) the Net Revenues of the Waterworks System for the most recent full fiscal year prior to the issuance of the Additional Bonds (as shown by the annual audit of an independent accountant) or its Adjusted Net Revenues (as certified by the Consulting Engineers) must equal at least 125 % of Maximum Annual Debt Service. If at the time

of issuance of any Additional Bonds there is an increase in rates from those in effect for the immediately preceding fiscal year, the Net Revenues may be adjusted to give effect to such rate increase. Such adjustment will be accomplished by recalculating Net Revenues as if the increased rate been in effect during the immediately preceding fiscal year (the Net Revenues as recalculated are called *"Adjusted Net Revenues"*).

The restrictions upon the issuance of Additional Bonds or other obligations set out in the Indenture shall not apply in the event of substantial damage or destruction of the Waterworks System to the extent the Waterworks System cannot be operated, under certain conditions which are set forth in the Indenture. In such event, Additional Bonds may be issued solely for the purpose of paying the cost of restoring the Waterworks System to reasonable working order.

Subordinated Indebtedness

The Indenture permits the issuance of Subordinated Indebtedness secured by a lien on the Revenues of the Waterworks System. Prior to the issuance of any Subordinated Indebtedness, the City and the Consulting Engineers or Water Consultant shall furnish the Trustee with the evidence that the rate covenant has been satisfied. The principal amount of any Subordinated Indebtedness shall, by its terms, not be subject to acceleration upon default unless and until the principal amount of the Series 1994, the Series 1998 Bonds and any Additional Bonds have been accelerated pursuant to the Indenture.

ESCROW FUND FOR REFUNDING OF SERIES 1994 BONDS

Escrow Fund

A portion of the proceeds of the Series 1998 Bonds will be used to purchase certain direct obligations of or obligations guaranteed by the United States of America (the *"Escrowed Securities"*) which will be deposited into an irrevocable escrow fund (the *"Escrow Fund"*) held by the Escrow Agent and created for the redemption in advance of their stated maturities of the Refunded Bonds. The Escrowed Securities will be in an amount sufficient to pay the principal of, interest on and redemption premium of the Refunded Bonds through July 1, 2004.

Verification Agent

At the time of delivery of the Series 1998 Bonds, Deloitte & Touche, LLP, independent public accountants, will verify to the City, the Escrow Agent and the Underwriters that the Escrowed Securities are in such principal amount and are scheduled to mature at such times and to yield interest in such amounts which will be sufficient to pay when due, the principal of, interest on and redemption premium of the Refunded Bonds through July 1, 2004. See *"VERIFICATION OF ARITHMETICAL AND MATHEMATICAL CALCULATIONS"* herein.

DEBT SERVICE REQUIREMENTS

The following table lists the debt service requirements on the Series 1998 Bonds.

Debt Service on Series 1998 Bonds

Fiscal Year Ending June 30	Principal	Coupon	Interest	Total Debt Service
1999	$ 50,000.00	3.150%	$ 751,199.90	$ 801,199.90
2000	-	-	1,286,196.26	1,286,196.26
2001	-	-	1,286,196.26	1,286,196.26
2002	-	-	1,286,196.26	1,286,196.26
2003	-	-	1,286,196.26	1,286,196.26
2004	-	-	1,286,196.26	1,286,196.26
2005	-	-	1,286,196.26	1,286,196.26
2006	-	-	1,286,196.26	1,268,196.26
2007	2,850,000.00	4.100	1,286,196.26	4,136,196.26
2008	3,300,000.00	4.150	1,169,346.26	4,469,346.26
2009	3,440,000.00	4.250	1,032,396.26	4,472,396.26
2010	3,585,000.00	4.300	886,196.26	4,471,196.26
2011	3,740,000.00	4.400	732,041.26	4,472,041.26
2012	3,905,000.00	4.500	567,481.26	4,472,481.26
2013	4,085,000.00	4.625	391,756.26	4,476,756.26
2014	4,270,000.00	4.750	202,825.00	4,472,825.00
Total	$29,225.00.00		$16,022,812.54	$45,247,512.54

THE WATERWORKS SYSTEM

General

The City of St. Louis was founded in 1764. For the next 67 years, the City's water supply was obtained from wells, springs, and the Mississippi River. In 1829, when the City had a population of about 5,000, it issued a contract for the construction and operation of a waterworks system. Revenue from the sale of water was to be collected for a period of 25 years, after which the waterworks system would become the property of the City. The waterworks was completed in 1831. Because of financial difficulties the contractor sold most of his interest in the facility to the City, and in 1835, the City acquired the remaining interest. Since then, the City has owned and operated a water utility to provide water service to the citizens of the City. The City supplies potable water to residential, commercial and industrial customers within the City, and provides water on a wholesale basis to cities and private water companies within proximity to the City.

Description of Waterworks System

The City's Waterworks System consists of two water treatment plants - the Chain of Rocks treatment plant and the Howard Bend treatment plant; two reservoirs - the Compton Hill Reservoir and the Stacy Park Reservoir; and a 1,400 mile water distribution and supply system. The entire system is capable of processing approximately 480 million gallons of water per day and a storage capacity of 128.6 million gallons.

The Chain of Rocks treatment plant is located on the north side of the City, approximately five miles south of the confluence of the Missouri and Mississippi Rivers, and draws water from the Mississippi River. At present,

the plant principally includes rapid sand filters, pumps, mixing basins, chlorination equipment and fluoridation equipment, and utilizes a lime softening treatment process. The Chain of Rocks plant has a design capacity of approximately 320 million gallons of water per day. During fiscal year 1998, average water production was approximately 86 million gallons of water per day with a maximum daily production rate of about 140 million gallons.

The Howard Bend plant is located in western St. Louis County approximately 15 miles west of the city limits, and draws its water from the Missouri River. The treatment process at the Howard Bend plant is similar to that used at the Chain of Rocks plant. The Howard Bend plant has a design capacity of approximately 160 million gallons of water per day. During fiscal year 1998, average water production was approximately 48 million gallons of water per day with a maximum daily production rate of 80 million gallons.

The Stacy Park Reservoir, which receives its water from the Howard Bend plant, has a total storage and operating capacity of 100 million gallons. The Compton Hill Reservoir is used to store water for the Compton distribution system and as a source of supply during periods of high consumption. The Compton Hill Reservoir has operating and storage capacity of approximately 28.6 million gallons. The Compton Hill Reservoir was recently reconstructed using a portion of the proceeds of the Series 1994 Bonds.

The water distribution system is divided into two semi-isolated systems. The high level, or Stacy System, is supplied by the Howard Bend plant. Most customers served from this system are residential. The remainder of the distribution system is the low level, or Compton Hill System, and is supplied primarily from the Chain of Rocks plant. This system primarily serves industrial customers. During peak demand periods, water may be introduced from the Stacy System into the Compton Hill System. The majority of the distribution system was constructed prior to 1940.

Management

The Water Division is a division of the City Department of Public Utilities, and operates the Waterworks System. The Water Division has budgeted for 412 employees, and operates under an annual budget of $44 million.

Certain policies of the Water Division, including rates and fees for services and budgetary matters, are proposed by the Mayor's office, in conjunction with the Director of Public Utilities and the Water Commissioner, and are presented to the Board of Aldermen and its committees. The Public Utilities Committee has oversight of the Water Division affairs. All fiscal and budgetary matters are approved by the Board of Estimate and Apportionment before final passage by the Board of Aldermen.

Management Personnel

The following are brief resumes of key management personnel of the Water Division:

David Visintainer, Director of Public Utilities and Water Commissioner, has oversight responsibilities for all of the Water Division's operations and planning. As Director of Public Utilities, Mr. Visintainer serves as the principal contact with the City administration. Mr. Visintainer has a bachelor's and a master's degree in civil engineering from the University of Missouri-Rolla. He is a registered professional engineer and has a Missouri Class A Water Certification. He has 27 years of engineering experience and has been with the Water Division for 16 years.

G. F. Herron, Service Delivery Engineering Executive, supervises a staff of approximately 200 employees. Mr. Herron has a bachelor's degree in civil engineering from the University of Missouri-Rolla and is a registered professional engineer. He has worked for the Water Division for 35 years and has been in his present position since 1991.

James Kummer, Fiscal Manager, manages the Water Division's finance section, which has 10 employees. Mr. Kummer has a bachelor's degree in Economics and a master's degree in Public Policy Administration, both from the University of Missouri-St. Louis. He has 24 years of financial and budgeting experience and has been with the Water Division for 17 years.

Service Area and Customers

The Waterworks System provides water service to all customers within the City on a retail basis. In addition, the City supplies water on a wholesale basis to the cities of Webster Groves, St. Charles and St. Peters, and the Missouri American Water Company, as well as the St. Louis County Water Company. By mid-1999 the Public Water Supply District #2 of St. Charles County will begin taking water on a wholesale basis. The City of St. Louis has experienced a decline in residents in recent years. However, the growing populations in the St. Louis and St. Charles County suburbs have maintained the demand for water from the Waterworks System through these wholesale arrangements. (See *"WHOLESALE CUSTOMERS"* below.) The Waterworks System presently has sufficient water treatment and storage capacity to serve the City's existing customers and the anticipated demands of the potential customers to whom the City is considering providing service.

Retail Customers

Retail customers account for approximately 92% of the volume of water sold by the Water Division. There are two types of retail customers: flat rate and metered. Approximately 87,000 are flat rate customers and approximately 14,300 are metered customers. All of the flat rate/unmetered customers and approximately 5,000 of the metered customers are residential users. The remaining metered customers are commercial and industrial users. Metered water consumption has declined due to a net loss of metered customers, as well as a reduction in water use among remaining metered customers.

Wholesale Customers

While there has been a reduction in retail water customers, the City has concentrated on increasing the volume of water it sells to wholesale customers. Wholesale water customers account for approximately 8% of the water sold by the Water Division. Water is provided on a wholesale basis to the Cities of Webster Groves, St. Charles and St. Peters, to the St. Louis County Water Company and the Missouri American Water Company. Excess plant capacity exists to meet this additional production without any additional capital costs or operational changes. By mid-1999 the Water Division will provide wholesale water to the Public Water Supply District #2 of St. Charles County.

All of the existing relationships are either of long standing or pursuant to long-term contracts. The City of Webster Groves has been a wholesale customer since 1953 and this relationship is expected to continue indefinitely. All other contracts have unexpired terms in excess of ten years and, with renewal options, possible terms exceeding, in some cases, fifty years.

Top Ten Customers

The following table sets forth information regarding the ten largest retail customers of the Waterworks System for the 1997 calendar year.

Customer	Revenue	% of Total
Anheuser-Busch	$4,347,036	11.55%
Mallinckrodt Chemical	798,541	2.12%
Monsanto Chemical	536,165	1.42%
Zoological Gardens	426,256	1.13%
Washington University	404,962	1.08%
St. Louis Housing Authority	338,908	0.90%
Sigma Chemical	202,128	0.54%
Warner Jenkinson	179,502	0.48%
Ralston	140,158	0.37%
Rheox, Inc.	131,676	0.35%
Total Top Ten	$7,505,332	19.94%
Total Calendar Year 1997 Retail Billing	$37,639,504	

Source: Water Division.

Billing and Enforcement

Bills to metered customers are for water actually used in the previous quarter. Bills for flat rate customers are sent quarterly and in advance of service. One-third of the City water meters are read monthly and bills to one-third of both the metered and flat rate water users are mailed each month. All bills are due fifteen (15) days after the billing date and considered delinquent five (5) days past that due date. A delinquent bill notice is sent on that date. In the event a bill remains unpaid ten (10) days after the date of the delinquent bill, a notice is sent to the delinquent premise indicating that service will be discontinued if payment is not made within five (5) days. Therefore, service can be terminated for non-payment thirty-five (35) days after the billing date. The Water Commissioner actively utilizes this remedy in collection of delinquent bills.

Delinquent bills constitute a lien upon the real estate to which water service has been rendered. The City is authorized by State statute to file suit against any owner of property receiving water service and to pursue such legal action as is necessary to collect the delinquent bill.

The management of the Water Division estimates that on average under 3% of the customers have their service cut off for nonpayment of their bills by the final due date and, consequently, their water service is discontinued until the billed amount and reconnection fees have been paid. According to Water Division officials, the City's collection rate is excellent with an approximately 99.5% collection rate for fiscal year 1998. The following table shows billing and collection information for fiscal years 1994 through 1998.

Billing and Collection Amounts

Fiscal Year	Billing Amount[1]	Revenue Collected[2]	Amount Uncollected	% Uncollected
1998	$37,079,594	$36,926,726	$ 152,868	0.41
1997	38,090,269	36,552,548	1,537,721	4.04
1996	36,084,068	34,735,719	1,348,349	3.74
1995	31,879,121	30,893,282	985,839	3.09
1994	26,491,915	25,770,763	721,152	2.72

[1]Billing amount is the service amount only.

[2]Revenue collected is gross water sales revenue less service line maintenance funds.

Source: Water Division

Rate Setting Procedure

Rates are developed as part of the Water Division's budget process. On a monthly basis, the finance section of the Water Division examines revenues and expenses and compares these figures to budgeted amounts. As the first step in the next year's budget process, estimates of revenue and expenses are developed. The rates also must meet a debt service coverage test in accordance with the terms of the Indenture, which will provide at least 110% of the amount of the principal of and interest coming due on all of the City's water revenue bonds (including the Series 1998 Bonds) during the next succeeding fiscal year. See *"SECURITY FOR THE SERIES 1998 BONDS - RATE COVENANT"* herein. If it is determined that no rate increase is needed to meet the Water Division's needs, the budget is developed from those estimates. If it is determined that a rate adjustment is needed to meet expenses, a board bill is written to enact the necessary rates.

A rate increase request must first pass the Board of Estimate and Apportionment, the City's fiscal board, comprised of the Mayor, Comptroller and President of the Board of Aldermen. From the Board of Estimate and Apportionment, the request passes to the Board of Aldermen and becomes a board bill. The bill is assigned to the Public Utilities Committee. If it is passed in committee, the bill will go before the full Board of Aldermen for vote, where a simple majority is needed to adopt the rate increase.

In the event that rates have not been adjusted for a two year period, the Water Division must employ an independent Water Consultant or Consulting Engineer to perform a cost of service study. This study would encompass rate sufficiency testing and make appropriate recommendations with respect to the City's water rates. See *"SECURITY FOR THE SERIES 1998 BONDS - RATE COVENANT"* herein.

Rates and Charges

The present rates for water service were adopted by the Board of Aldermen and approved by the Mayor on March 29, 1994, as part of a three year rate increase package. The City's current quarterly rates are those set by the Rate Ordinance and became effective July 1, 1996, as follows:

	Rate Per Billing Quarter
Flat (per each)	
Room charge	$2.24
Water closet	8.73
Baths	7.33
Shower	7.33
Sprinkling per linear front foot of lot	0.150
Swimming Pool (cubic feet of contents)	
101-500	13.74
501-1000	19.23
1001-1500	24.73
1501-2000	30.22
Metered Readiness-To-Serve ("R-T-S")	
Meter Size	
5/8"	14.16
3/4"	16.48
1"	20.90
1-1/2"	30.22
2"	43.93
3"	85.16
4"	151.06
6"	288.39
8"	439.45
10"	604.26
Metered Quantity (per CCF)	
First 25,000 CU FT	1.05
Next 1,975,000 CU FT	0.82
Over 2,000,000 CU FT	0.62
Charity	0.55
Schools	0.62
Zoo	0.55

Source: Water Division

Environmental Matters

There are several federal and state laws and regulations that have a significant impact on the operation and maintenance of the Waterworks System. The Waterworks System is subject to the Safe Drinking Water Act

and its 1996 amendments (the *"Act"*), whose standards are developed by the United States Environmental Protection Agency (*"EPA"*). The Missouri Department of Natural Resources has adopted the drinking water standards established by the EPA and has the primary responsibility for enforcement of such standards in Missouri.

According to Water Division management, the Waterworks System is currently in compliance with applicable federal and state environmental laws and regulations, including the Act. The Waterworks System has never been under a consent decree of the EPA. There is no further environmental matter for which any significant mandated expenditure is either required or anticipated.

NPDES Discharge Permit

Residual solids, including materials removed or generated by the Waterworks System are returned to the Mississippi River from the Chain of Rocks plant and the Missouri River from the Howard Bend plant. These discharge, are permitted by National Pollutant Discharge Elimination System (*"NPDES"*) permits (the *"Permits"*) that the Missouri Department of Natural Resources (*"MDNR"*) issued to the City for the Chain of Rocks and Howard Bend plants. The Permits under which the Plants are currently discharging have expirations dates of March 5, 1991 (for the Chain of Rocks plant) and August 13, 1993 (for the Howard Bend plant). The City has filed for reauthorization of the Permits, but MDNR has yet to begin the reauthorization process. Under the federal law that governs the NPDES process, the conditions of the existing Permits remain in force past the expiration dates until reauthorizations are issued, and this is the situation at the present time.

The City's current permits do not contain any limitations on the effluent discharges to the Mississippi or Missouri Rivers but do require monitoring and reporting of river solids quantities and identification of chemical additives. However, the Permits were written before the 1987 amendments to the Clean Water Act, which shifted the focus of permitting from limits based on technology to limits based on water quality. This change has often resulted in the imposition of toxics discharge standards. Reauthorized NPDES permits could contain restrictions on the solids content of the discharge stream as a means of reducing emissions of the City's chlorinated compounds to the Mississippi and Missouri Rivers.

Capital Improvement Program

The City plans to continue funding an ongoing capital improvement program with funds available in the Water Contingent Account established by the Indenture. No additional bond financing is presently anticipated. The existing water rates are presently expected to be adequate to fund all presently planned capital improvements and to enable the Water Division to continue its commitment to properly maintain and operate the Waterworks System and provide high quality water.

Non-Debt Financed Capital Improvement Projects (through fiscal year 2003)

Stacy Park Reservoir Seismic Improvements	$3,500,000
Booster Pump Station-Maple and Skinker Avenues	$3,400,000
Chain of Rocks Filter Wash Diversion	$2,000,000
Distribution System Valve Replacement and Main Lining and Replacement Improvements	$1,600,000
Distribution System and Plant Electronic Control and Data Retrieval Improvements (SCADA System)	$ 800,000
Seismic Upgrade of Southwest Avenue Bridge Crossing for 60 inch Conduit	$ 300,000

WATER DIVISION FINANCIAL INFORMATION

Management Discussion of Operations

According to Water Division management, the Revenues of the Waterworks System generally are not sensitive to weather factors. Specifically, flat rate revenues are not sensitive to wet or dry periods since virtually an unlimited amount of water is available at the same price. Any downturn in flat rate revenues is produced by a general decline in the number of customers.

Metered bills may be sensitive to weather conditions because they are based upon actual consumption of water. However, conservation can impact Revenues to some extent. Presently, conservation due to drought conditions has not had any impact on Water Division customers because the City's withdrawal of water from the Mississippi and Missouri Rivers is not limited with respect to supply. However, there can be some level of decline in Revenues due to conservation when water rates increase. Customers have responded to their overall cost increases by becoming more conscious of waste. However, the City has not experienced any real marked decrease in consumption that can be perceived as a response to a rate increase. Any significant decline in metered revenue can be attributed to a loss of metered customers and to downturns in the economy.

Water Division operating expenses generally follow the inflation rate. The largest expense to the Water Division is salaries and fringe benefits, followed by chemicals and electricity for the operation and maintenance of the Waterworks System. Any significant change in operating expenditures beyond the rate of inflation would be due to some mandated change in how the Water Division's treatment process is accomplished. According to Water Division management no such significant change is anticipated in the near future.

Comparison of Fiscal Year 1998 (unaudited) to Fiscal Year 1997

In comparing fiscal year 1998 (unaudited) to fiscal year 1997 results, the most significant difference is the decline in net income of $1.6 million. This net income figure reflects a decrease in retail water revenue with a slight increase in wholesale water revenue while operating expenses increased modestly. Retail water sales declined due to the loss of both metered and flat rate accounts. Retail water rates were last adjusted in July, 1996, (a 7% increase) as the final phase of the three year rate increase package approved in 1994. Since that increase, customer losses of about 1% per year, plus some metered usage conservation, have eroded retail water revenues. Operating expenses increased by an approximate 1.8% in fiscal year 1998 compared to fiscal year 1997.

Summary of Operations

The following tables set forth financial information of the Water Division for the fiscal years ending June 30, 1993, 1994, 1995, 1996 and 1997. The information included herein was obtained from the Water Division. Reference is made to the audited financial statements and the notes contained therein, which are included in **APPENDIX C** — *"AUDITED FINANCIAL STATEMENTS OF THE WATER DIVISION AS OF JUNE 30, 1997 AND 1998"*.

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	Actual FY 93-94	Actual* FY 94-95	Actual* FY 95-96	Actual* FY 96-97	Unaudited Estimated* FY 97-98
OPERATING REVENUES					
Metered Customers	$13,579,513	$17,390,000	$19,832,000	$20,859,000	$19,944,000
Flat Rate Customers	11,978,968	14,840,000	15,770,000	16,892,000	16,550,000
Wholesale Customers	2,257,902	1,853,000	1,912,000	1,835,000	2,009,000
Other Operating Revenues	1,427,935	1,121,000	1,456,000	1,527,000	1,606,000
Gross Revenues	29,244,318	35,204,000	38,970,000	41,113,000	40,109,000
OPERATING EXPENDITURES					
Operating Expenditures	(25,811,141)	(26,133,000)	(27,104,000)	(26,886,000)	(27,380,000)
Gross Receipts Tax	(1,743,939)	(2,202,000)	(2,519,000)	(2,580,000)	(2,669,000)
Depreciation	(2,390,289)	(2,275,000)	(1,999,000)	(2,355,000)	(32,370,000)
Total of All Operating Expenses	(29,945,369)	(30,610,000)	(31,622,000)	(31,821,000)	(32,419,000)
Net Operating Income	(701,051)	4,594,000	7,348,000	9,292,000	7,690,000
COVERAGE ADJUSTMENTS					
Depreciation	2,390,298	2,275,000	1,999,000	2,355,000	2,370,000
Net Revenues to Provide Coverage	1,689,238	6,869,000	9,347,000	11,647,000	10,060,000
DEBT SERVICE PAYMENTS					
Principal	(4,932,100)	0	0	(1,540,000)	(1,695,000)
Interest	(321,772)	(2,257,000)	(2,475,000)	(2,903,000)	(2,820,000)
Total Debt Service	(5,253,872)	(2,257,000)	(3,940,000)	(4,443,000)	(4,515,000)
NON-OPERATING REVENUES (EXPENDITURES)					
Loss on Disposal of Assets	0	0	(1,288,00)	(1,123,000)	0
Net Increase in the fair value of investments	0	0	0	0	1,854,000
Interest Income	585,780	3,426,000	3,149,000	3,368,000	3,040,000
Interest on Customer Deposits	(22,301)	(17,000)	(16,000)	(17,000)	(17,000)
Miscellaneous Net	(54,081)	66,000	66,000	43,000	573,000
Total Non-Operating Revenues (Expenditures)	509,398	3,475,000	3,475,000	2,271,000	4,304,000
Available for Capital Expenditures	(3,055,236)	8,087,000	8,087,000	9,475,000	9,929,892
Debt Service Coverage	0.32	3.04	3.04	2.62	2.23

The debt service coverage formula changed for the fiscal year ending June 30, 1994.

	Projected 1998-99	Projected 1999-00	Projected 2000-01	Projected 2001-02
OPERATING REVENUES				
Metered Customers	$19,400,000	$18,800,000	$18,200,000	$17,700,000
Flat Rate Customers	16,400,000	16,200,000	16,000,000	15,850,000
Wholesale Customers	2,100,000	2,400,000	2,700,000	2,800,000
Other Operating Revenues	1,600,000	1,600,000	1,600,000	1,600,000
Gross Revenues	39,500,000	39,000,000	38,500,000	37,950,000
OPERATING EXPENDITURES				
Operating Expenditures	(27,700,000)	(28,200,000)	(28,800,000)	(29,400,000)
Gross Receipts Tax	(2,500,000)	(2,500,000)	(2,500,000)	(2,500,000)
Depreciation	(2,400,000)	(3,000,000)	(3,200,000)	(3,200,000)
Total of All Operating Expenses	(32,600,000)	(33,700,000)	(34,500,000)	(35,100,000)
Net Operating Income	6,900,000	5,300,000	4,000,000	2,850,000
COVERAGE ADJUSTMENTS				
Depreciation	2,400,000	3,000,000	3,200,000	3,200,000
Net Revenues to Provide Coverage	9,300,000	8,300,000	7,200,000	6,050,000
DEBT SERVICE PAYMENTS				
Principal	1,835,000	1,880,000	1,980,000	2,090,000
Interest	1,770,717	2,221,109	2,109,589	1,000,689
Total Debt Service	3,605,717	4,094,200	4,040,349	4,035,139
NON-OPERATING REVENUES (EXPENDITURES)				
Net increase in the fair value of investments	0	0	0	0
Interest Income	2,500,000	2,500,000	2,000,000	2,000,000
Interest on Customer Deposits	(16,000)	(16,000)	(16,000)	(16,000)
Miscellaneous Net	50,000	40,000	40,000	40,000
Total Non-Operating Revenues (Expenditures)	2,524,000	2,524,000	2,024,000	2,024,000
Available for Capital Expenditures	7,394,277	6,395,650	4,798,712	3,653,922
Annual Debt Service Coverage	2.58%	2.03%	1.78%	1.50%

THE BOND INSURANCE POLICY

The following information has been furnished by AMBAC for use in this Official Statement. Reference is made to **APPENDIX D** for a specimen of the Bond Insurance Policy.

AMBAC has made a commitment to issue the Bond Insurance Policy relating to the Series 1998 Bonds effective as of the date of issuance of the Series 1998 Bonds. Under the terms of the Bond Insurance Policy, AMBAC will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the *"Insurance Trustee"*) that portion of the principal of and interest on the Series 1998 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the City (as such terms are defined in the Bond Insurance Policy). AMBAC will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which AMBAC shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 1998 Bonds and, once issued, cannot be cancelled by AMBAC.

The Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 1998 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 1998 Bonds, AMBAC will remain obligated to pay principal of and interest on outstanding Series 1998 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 1998 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Series 1998 Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC to the extent of such recovery if sufficient funds are not otherwise available.

The Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Bond Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Bond Insurance Policy, payment of principal requires surrender of Series 1998 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 1998 Bonds to be registered in the name of AMBAC to the extent of the payment under the Bond Insurance Policy. Payment of interest pursuant to the Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to AMBAC.

Upon payment of the insurance benefits, AMBAC will become the owner of the Series 1998 Bond and right to payment of principal or interest on such Series 1998 Bond and will be fully subrogated to the surrendering Bondholder's right to payment.

THE BOND INSURER

AMBAC Corporation

AMBAC is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $3,200,000,000 (unaudited) and statutory capital of approximately $1,815,000,000 (unaudited) as of September 30, 1998. Statutory capital consists of AMBAC's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service and Fitch IBCA, Inc. have each assigned a triple-A claims-paying ability rating to AMBAC.

AMBAC has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC under policy provisions substantially identical to those contained in its bond Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Series 1998 Bonds.

AMBAC makes no representation regarding the Series 1998 Bonds or the advisability of investing in the Series 1998 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official statement other than the information supplied by AMBAC and presented under the headings *"THE BOND INSURANCE POLICY"* and *"THE BOND INSURER"*.

Available Information

The parent company of AMBAC, AMBAC Financial Group Inc. (the *"Company"*), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the *"Exchange Act"*), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the *"Commission"*). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the *"NYSE"*) at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of AMBAC's financial statements prepared in accordance with statutory accounting standards are available from AMBAC. The address of AMBAC's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Parent with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement.

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and filed on March 31, 1998;

(2) The Company's Current Report on Form 8-K dated March 27, 1998 and filed on March 27, 1998;

(3) The Company's Amendment to its Annual report on Form 10-K/A for the fiscal year ended December 31, 1997 and filed on March 31, 1998;

(4) The Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 and filed on May 15, 1998;

(5) The Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 and filed on August 14, 1998; and

(6) The Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998 and filed on November 13, 1998.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above under *"AVAILABLE INFORMATION"*.

LITIGATION

According to the City Counselor's Office, there is no litigation pending in any court or, to the best knowledge of the City, threatened, that would restrain or enjoin the issuance or delivery of the Series 1998 Bonds, or that questions the validity of the Series 1998 Bonds or, the Indenture or concerns any proceedings of the City taken in connection therewith, or the pledge or application of any Revenues provided for their payment, or that contests the power of the City with respect to the foregoing.

The City is subject to a variety of suits and proceedings arising out of its ordinary course of operations, some of which may be adjudicated adversely. In the opinion of the Office of the City Counselor, there is no litigation pending against the City which if determined adversely would have a material adverse effect on the Waterworks System's operations.

THE YEAR 2000 ISSUE

The City

The Year 2000 Issue refers to the inability of a date-sensitive computer program to recognize a two-digit date field designated as "00" as the year 2000. Mistaking "00" for 1900 could result in reporting errors and potential disruptions in normal administrative operations including a temporary inability to process transactions. If not addressed, this would potentially have far-reaching implications, some of which cannot be predicted with any degree of certainty. It is the intent of the Water Division not to experience any disruption in the production and distribution of potable water to the citizens of the City and the customers of the Water Division in connection with the year change to 2000.

The Water Division has completed a review of all computer programs currently in use. It has identified its most critical and vulnerable programs and has either modified them with year 2000 compliant software upgrades by third-party software providers or is in the process of replacing the remaining programs through upgrades by a third-party software provider. The Water Division's best estimate is that all modifications and upgrades will be tested and implemented by mid-1999.

Since most of the modifications have been completed or are scheduled for implementation as part of routine upgrades, management has estimated that the costs of the remaining modifications or any future corrective action are minimal and are included within the Water Division's Information Systems normal operating and planned capital budgets.

DTC

DTC management is aware that some computer applications, systems, and the like for processing data (*"Systems"*) that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may

encounter "Year 2000 problems". DTC has informed its Participants and other members of the financial community (the *"Industry"*) that it has developed and is implementing a program so that its systems, as the same relate to the timely payment of distributions (including principal and income payments) to security holders, book-entry deliveries, and settlement of trades with DTC (*"DTC Services"*), continue to function appropriately. This program includes a technical assessment and a remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: (i) impress upon them the importance of such series being Year 2000 complaint; and (ii) determine the extent of their efforts for year 2000 remediation (and, as appropriate testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

The Trustee

The Trustee has been actively working to identify and address any potential date-related Year 2000 processing issues. The Trustee is committed to ensuring that all of its computer processing systems will correctly recognize, manipulate and calculate dates into the 21st Century, and anticipates having its computer system Year 2000 compliance in advance of January 1, 2000.

AMBAC

Under the Bond Insurance Policy, the first date for the payment of debt service on the Bonds which would be affected by the Year 2000 problem is July 1, 2000. AMBAC's parent company (Ambac Financial Group. Inc.) reported in its Form 10-Q Quarterly Report, as filed with the SEC on August 13, 1998, that it has budgeted approximately $1 million of its operating income for Year 2000 compliance issues, using internal and external sources. The entire plan, which is scheduled for completion by December 3, 1998, consists of three phases: (1) assessment and impact analysis, including inventory and code scanning (already completed), (2) testing and review (currently in process) and (3) remediation. AMBAC has potential exposure under its outstanding municipal bond insurance policies (including the Bond Insurance Policy for the Series 1998 Bonds) for any failure by an insured issuer to make debt service payments due to the issuer's internal systems failure or external factors. AMBAC may be required to pay claims in this regard, but it expects full recovery of claims paid when applicable Year 2000 problems are resolved. AMBAC makes no assurance regarding the ultimate outcome of the plan, and external failures (such as failures affecting securities exchanges or funds and securities clearing organizations) could have a material adverse impact on the operations of AMBAC and its parent company.

UNDERWRITING

M♦R♦Beal & Company, Inc., as representatives of a group of underwriters (the *"Underwriters"*), has agreed to purchase the Series 1998 Bonds from the City at a price of $29,225,000 (being the principal amount of the Series 1998 Bonds less an Underwriter's discount of $177,688.00 (excluding original issue discount of $189,531.88) plus accrued interest. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 1998 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Series 1998 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof. The initial public offering prices of the Series 1998 Bonds may be changed from time to time by the Underwriters.

INDEPENDENT AUDITORS

The financial statements of the Water Division as of June 30, 1998 included in this Official Statement, have been audited by KPMG Peat Marwick, independent auditors, as stated in their report appearing herein.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Deloitte Touche, LLP will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Series 1998 Bonds of (1) the computations contained in the provided schedule to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Refunded Bonds, and (2) the computations of yield on both the securities and the Series 1998 Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Series 1998 Bonds is exempt from tax. Deloitte Touche, LLP will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Series 1998 Bonds.

FINANCIAL ADVISORS

P.G. Corbin & Company, Inc. and Columbia Capital Consultants, LLC, have served as financial advisors to the City with respect to the sale of the Series 1998 Bonds. The financial advisors assisted in the preparation of this Official Statement, and in other matters relating to the planning, structuring and issuance of the Series 1998 Bonds and provided other advice. The financial advisors have not independently verified the factual information contained in this Official Statement, but have relied upon information supplied by the City and other sources who have certified that such information contains no material misstatement of information.

TAX EXEMPTION

Federal and State Income Taxation

The opinion of McGhee & Associates, Bond Counsel, to be delivered upon the issuance of the Series 1998 Bonds, will state that, under existing law and assuming continuing compliance by the City with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the *"Code"*), interest on the Series 1998 Bonds (including any original issue discount properly allocable to the owners thereof as discussed in the portion of this Official Statement captioned *"TAX EXEMPTION - TAX-EXEMPT ORIGINAL ISSUE DISCOUNT BONDS"*) is excludable from the gross income of the owners thereof for federal income tax purposes and is exempt from income taxes imposed by the State under Chapter 143 of the Revised Statutes of Missouri. No opinion is expressed regarding the applicability with respect to the Series 1998 Bonds or the interest on the Series 1998 Bonds of the taxes imposed by the State on financial institutions under Chapter 148 of the Revised Statutes of Missouri.

In addition, the opinion of Bond Counsel will state that under existing law, interest on the Series 1998 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax on individuals and corporations and the federal environmental tax on corporations. However, interest on the Series 1998 Bonds, including any original issue discount properly allocable to the owners thereof, will be included in a corporate taxpayer's adjusted current earnings for purposes of calculating its federal alternative minimum tax and environmental tax liabilities.

The City has agreed to comply with certain covenants under the Indenture and Non-Arbitrage Certificate and with the requirements of the Code, regarding, among other matters, use, expenditure and investment of Series 1998 Bond proceeds (including the timely rebate, if required, of certain net arbitrage earnings). In the event that the City fails to comply with the covenants under the Indenture and the requirements of the Code, interest on the Series 1998 Bonds may become includable in gross income of the Bondholders (and thus taxable) from the date of issuance of the Series 1998 Bonds.

The ownership of tax-exempt obligations (such as the Series 1998 Bonds) may result in other federal (and, in some cases, state and local) tax consequences to certain Bondholders, including without limitation property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess net passive income, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits and individuals who otherwise qualify for the earned income credit. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds $2,200, increased by the cost of living adjustments provided by Section 32(j) of the Code. Interest on the Bonds will constitute disqualified income for this purpose. The Code also provides that the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Bonds will be included in determining the modified adjusted gross income of the taxpayer for the tax years beginning after December 31, 1997.

In addition, attention is called to the fact that Section 265(b)(1) of the Code eliminates the interest deduction otherwise allowable with respect to indebtedness deemed incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations acquired after August 7, 1986 other than "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code. The Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(1) of the Code.

From time to time proposed legislation is considered by the U.S. Congress that, if enacted, would affect the tax consequences of owning obligations, such as the Series 1998 Bonds. Thus, prospective purchasers of the-Series 1998 Bonds should be aware that future legislation may have an adverse-effect on the tax consequences of owning the Series 1998 Bonds.

Tax-Exempt Original Issue Discount Bonds

The initial public offering price of certain of the Series 1998 Bonds (the *"Tax-Exempt OID Bonds"*), is less than the amount payable at maturity. The difference between the initial public offering price to the public (excluding bond houses and brokers) at which price a substantial amount of each maturity of the Tax-Exempt OID Bonds is sold and the amount payable at maturity constitutes original issue discount, which will be excludable from gross income to the same extent as interest on the Series 1998 Bonds for Federal and Missouri income tax purposes. The Code provides that the amount excludable accrues in accordance with a constant interest method based on the compounding of interest, and that a Bondholder's adjusted basis for purposes of determining a Bondholder's gain or loss on disposition of such Tax-Exempt OID Bonds will be increased by such amount. A portion of the original issue discount that accrues in each year to an owner of a Tax-Exempt Bond which is a corporation will be included in the calculation of the corporation's Federal alternative minimum tax liability and Federal environmental tax liability. Consequently, corporate owners of any Tax-Exempt OID Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability or an environment tax liability although the owner of such Tax-Exempt OID Bond has not received cash attributable to such original issue discount in such year.

Owners of Tax-Exempt OID Bonds should consult their personal advisors with respect to the determination for Federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Bonds, other tax consequences of owning Tax-Exempt OID Bonds and the other state and local tax consequences of holding such Tax-Exempt OID Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of holders and beneficial owners of the Bonds to provide (i) certain financial information and operating data relating to the City by not later than 180 days following the end of the Issuer's Fiscal Year (which currently ends on June 30 of each year) (the *"Annual Report"*), commencing with the report for the 1998 Fiscal Year, and (ii) notice of the occurrence of certain enumerated events, if material. The Annual Report will be filed by or on behalf of the City with each Nationally Recognized Municipal Securities

Information Repository. The notices of material events will be filed by or on behalf of the City with the Municipal Securities Rulemaking Board. Any default in compliance with such covenants shall not be deemed an Event of Default under the Indenture, and the sole remedy in the event of any failure of the City or its Dissemination Agent to comply with such covenants shall be an action to compel performance. These covenants have been made in order to assist the Underwriters in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5) (the *"Rule"*). The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events. The City has determined that it is the only "obligated person" with responsibility for continuing disclosure within the meaning of the Rule.

The Annual Report will contain or include by reference:

(1) The audited financial statements of the City's Water Division for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If the Water Division's audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report will contain unaudited financial statements and the audited financial statements will be filed in the same manner as the Annual Report when they become available.

(2) Certain statistical and operating data of the City updated for the prior Fiscal Year in substantially the scope and form contained in **APPENDIX B** — *"INFORMATION CONCERNING THE CITY OF ST. LOUIS, MISSOURI"* to the final Official Statement in tables under the sections captioned:

(a) "ECONOMIC AND DEMOGRAPHIC DATA": "Population," "Employment," "Major Employers," "Major Taxpayers," and "Building and Construction Data";

(b) "FINANCIAL MANAGEMENT AND EXPENDITURE CONTROLS": "General Revenue Fund," "General Revenue Fund Receipts by Category," "Earnings Tax," "Franchise Tax," "Sales Tax," "Gross Receipts Tax," "Motor Vehicle Sales Tax," "Motor Fuel Tax," "Real and Personal Property Taxes," "Other Taxes," "License Fees," "Departmental Receipts" and "Operating Transfers";

(c) "SYSTEMS"; and

(d) "INSURANCE AND LITIGATION."

(3) Certain statistical and operating data of the Water Division updated for the prior Fiscal Year.

In addition, the City will give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Modifications to rights of holders of the Bonds;
4. Optional, contingent or unscheduled bond calls;
5. Defeasance;
6. Rating changes;
7. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. Unscheduled draws on debt service reserve funds reflecting financial difficulties;
9. Unscheduled draws on credit enhancements reflecting financial difficulties;
10. Substitution of credit or liquidity providers, or their failure to perform; or
11. Release, substitution or sale of property securing repayment of the Bonds.

If the Dissemination Agent (as defined in the Continuing Disclosure Agreement) has been instructed by the City to report the occurrence of a Material Event (as defined in the Continuing Disclosure Agreement), the Dissemination Agent shall promptly file a notice of such occurrence with each National Recognized Securities Information Repository or the Municipal Securities Rulemaking Board and the State Repository, if any, with a copy to the Issuer.

The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to the Continuing Disclosure Agreement. The initial Dissemination Agent shall be the Trustee.

Notwithstanding any other provision of the Continuing Disclosure Agreement, the City and the Dissemination Agent may amend the Continuing Disclosure Agreement (and the Dissemination Agent is required to agree to any amendment so requested by the City) and any provisions of the Continuing Disclosure Agreement may be waived, provided Bond Counsel or any other counsel experienced in federal securities law matters provides the Dissemination Agent with its opinion that the undertaking of the Issuer, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to the Continuing Disclosure Agreement.

In the event of a failure of the City or the Dissemination Agent to comply with any provision of the Continuing Disclosure Agreement, the Trustee may (and, at the request of the owners of at least 25% aggregate principal amount of Outstanding Bonds, is required to), or any owner or Beneficial Owner of Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance and sale of the Series 1998 Bonds are subject to the approval of McGhee & Associates, New York, New York, Bond Counsel to the City. Certain legal matters will be passed upon for the Underwriters by their counsel, The Stolar Partnership, St. Louis, Missouri, and Polsinelli, White, Vardeman & Shalton, St. Louis, Missouri, and for the City by the Office of the City Counselor.

Bond Counsel has assisted in the preparation of certain information including portions of this Official Statement under the captions *"THE SERIES 1998 BONDS"* (except for *"Book-Entry Form of Ownership"*), *"SECURITY FOR THE SERIES 1998 BONDS"* and *"TAX EXEMPTION"* and in **APPENDIX A** hereto, but has not been engaged or undertaken to review the accuracy, completeness or sufficiency of the remainder of this Official Statement and, accordingly, expresses no opinion as to the accuracy, completeness or sufficiency of other material or information, including financial information, included herein.

RATING

Moody's Investors Service and Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, have assigned ratings of "Aaa" and "AAA", respectively, to the Series 1998 Bonds, with the understanding that, upon delivery of the Series 1998 Bonds, the Bond Insurance Policy will be issued by the Bond Insurer. In addition, Moody's Investors Service and Standard & Poor's Ratings Services have assigned underlying ratings to the Series 1998 Bonds of "Baa1" and "A", respectively. Such rating reflects only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following address: Moody's Investors Service, 99 Church Street, New York, New York 10007. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances

so warrant. Any such downward provision or withdrawal of such ratings may have an adverse effect on the market price of the Series 1998 Bonds.

CERTIFICATE OF CITY CONCERNING THIS OFFICIAL STATEMENT

Concurrently with the delivery of the Series 1998 Bonds the City will furnish its certificate to the effect that, to the best of its knowledge, this Official Statement, as of its date and as of the date of delivery of the Series 1998 Bonds, does not contain an untrue statement of a material fact and does not omit to state a material fact which should be included herein for the purpose for which this Official Statement is to be used, to make the statements contained herein, in light of the circumstances in which they were made, not misleading.

MISCELLANEOUS

This Official Statement has been duly approved, executed and delivered by the City.

So far as any statements made in this Official Statement involve matters of opinion, projections or estimates, whether or not expressly stated, they are set forth as such and not representations of fact.

The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

THE CITY OF ST. LOUIS, MISSOURI

By: /s/ Clarence Harmon
Clarence Harmon, Mayor

By: /s/ Darlene Green
Darlene Green, Comptroller

By: /s/ Larry Williams
Larry Williams, Treasurer

APPENDIX A

SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture of Trust dated as of April 1, 1994 between the City of St. Louis ("City") and Mark Twain Bank, as trustee (the "Indenture") as supplemented by the Second Supplemental Indenture of Trust (the "Second Supplemental Indenture") dated as of December 1, 1998, between the City and BNY Trust Company of Missouri (successor-in-interest to Mark Twain Bank), as trustee, pursuant to which the Series 1998 Bonds are to be issued, and is qualified in its entirety by reference to the Indenture and the Second Supplemental Indenture, hereinafter referred to together as the "Indenture".

Definitions

The words and terms as used in the Indenture shall have the following meanings, unless some other meaning is plainly intended.

"Additional Bonds" means any additional Bonds, including Refunding Bonds, issued by the City pursuant to the Indenture.

"Additional Project" means the extension, improvement, purchase, acquisition, construction and enlargement of facilities, appurtenances and equipment for the Waterworks System to be financed or re-financed, in whole or in part, from the proceeds of any Additional Bonds issued pursuant to the provisions of the Indenture.

"Adjusted Net Revenues" means Net Revenues calculated as Net Revenues would have been calculated had the increased rate been in effect during the immediately preceding Water Division Fiscal Year, in the case in which there shall have been an increase in the rates in effect at the time of issuance of any Additional Bonds, from those in effect for the immediately preceding Water Division Fiscal Year.

"Aggregate Debt Service" means, as of any particular date of computation and with respect to any period, the sum of the amounts of Debt Service for such period with respect to all Series of Bonds.

"Annual Budget" means the annual budget of the City for the Water Division, as amended or supplemented from time to time, adopted or in effect for a particular City Fiscal Year as provided in the Indenture.

"Authorized Denominations" means $5,000 or any integral multiple thereof.

"Board of Aldermen" means the Board of Aldermen of the City.

"Bond", "Bonds" or "Series of Bonds" means any bond or bonds, including Additional Bonds, authenticated and delivered under and pursuant to the Indenture.

"Bond Counsel" means an attorney or firm of attorneys with nationally recognized standing in the field of municipal bond finance approved by the City.

"Bondholder", "Holder", "Owner" or "Registered Owner" means the registered owner of any Bond.

"Bond Insurer" means each insurance company which has insured the payment of the principal and interest on all or any portion of the Bonds and any successor thereto.

"Bond Insurance Policy" means the municipal bond insurance policy issued by a Bond Insurer.

"Bond Proceeds" means all amounts received on the sale of a Series of Bonds.

"Bond Register" means the register and all accompanying records kept by the Bond Registrar evidencing the registration, transfer and exchange of Bonds.

"Bond Registrar" means the Trustee when acting in such capacity under the Indenture.

"Business Day" means any day except Saturday, Sunday, a legal holiday, or a day on which banking institutions located in the States of Missouri and New York are authorized by law to close.

"Charter" means the Charter of the City as in effect from time to time.

"City Representative" means the person or persons at the time designated to act on behalf of the City in matters not requiring legislative authorization relating to the Indenture as evidenced by a written certificate furnished to the Trustee containing the specimen signature of such person or persons and signed on behalf of the City by its Mayor and its Comptroller. For the purpose of investing the Bond Proceeds the authorized City Representative shall be the City Treasurer or his designee. Such certificate may designate an alternate or alternates each of whom shall be entitled to perform all duties of the City Representative.

"Code" means the Internal Revenue Code of 1986, as amended and the applicable regulations thereunder.

"Collateral" or "collateral" as used in the definition of Permitted Investments means the obligations described in subparagraphs (1) and (2) of the definition of Permitted Investments.

"Consulting Engineers" means the independent engineer or independent engineering firm or corporation at the time retained by the City pursuant to the Indenture to perform the acts and carry out the duties provided for such Consulting Engineers in the Indenture.

"Cost of Construction", with respect to the Project or an Additional Project, means the City's costs properly attributable to the construction or acquisition thereof, including but not limited to, the costs of acquisition by or for the City of real or personal property or other interest therein, costs of physical construction, and costs of the City incidental to such construction or acquisition, including, but not limited to the cost of any indemnity and surety bonds and premiums on insurance during construction, planning, architectural, engineering, inspection and construction management fees, legal fees and expenses, cost of audits, fees and expenses of the Fiduciaries and costs of financing, construction period interest on any Bonds issued in connection with such Project, administrative and general overhead and keeping accounts and making reports required by the Indenture prior to commencement of operation of such Project, amounts, if any, required by the Indenture to be paid into any Fund or Account established under the Indenture upon the issuance of any Series of Bonds, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the City (other than the Bonds) incurred for such Project, costs of machinery, equipment and supplies and initial working capital required by the City for the commencement of operation of such Project, the initial funding of the reserves required under the Indenture, and may include reimbursement to the City for any such items of Cost of

Construction theretofore paid by or on behalf of the City. "Costs of Construction" shall also include the Costs of Issuance of any Series of Bonds to the extent payable from the Water Replacement and Improvement Fund pursuant to the Indenture or a Supplemental Indenture.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to the City and related to the authorization, sale and issuance of any Bonds, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credited charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refundings, premiums for the insurance of the payment of Bonds, fees payable in connection with any letter of credit securing all or a portion of the Bonds, financing charges, accrued interest with respect to the initial investment of proceeds of Bonds and any other costs, charge or fee in connection with the original issuance of Bonds.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state and without limitation, may include legal counsel for the City.

"Debt Service" for any period means, as of any date of calculation and with respect to any Series of Bonds, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest on the Bonds of such Series is to be paid from deposits (including investment income thereon) in the Waterworks Bond Fund made from Bond Proceeds or other amounts available therein, and (ii) that portion of each Principal Installment for such Series of Bonds which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there shall be no such preceding Principal Installment due date, from the date of issuance of such Series). Such interest and Principal Installments for such Series of Bonds shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

"Debt Service Reserve Fund Requirement" means Maximum Annual Debt Service or such lesser amount which is the greatest allowable under the Code that may be invested without regard to restrictions on yield.

"Depository" or "DTC " means The Depository Trust Company, New York, New York, a member of the Federal Reserve System, a "clearing corporation," within the meaning of the Missouri Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Security Exchange Act of 1934, and its successors and assigns.

"Defeasance Obligations" means direct obligations of the Department of the Treasury of the United States of America (including obligations issued or held in book entry form) which are non-callable. The value of Defeasance Obligations shall be determined as provided in the definition of "Value" herein.

"Event of Default" means with respect to the Indenture any Event of Default as defined in the Indenture.

"Fiduciary" means the Trustee and any Paying Agent or Escrow Agent, or any or all of them as may be appropriate.

"First Supplemental Indenture" means the First Supplemental Indenture of Trust dated as of April 1, 1994 between the City and the Trustee.

"Fiscal Year" means, with respect to the City, its fiscal year currently beginning on July 1 of each calendar year.

"Fitch" means Fitch Investors Service, Inc., its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Fitch shall mean any other nationally recognized securities rating agency designated by the City, by notice to the Trustee.

"Holder", "Bondholder", "Owner" or "Registered Owner" means the registered owner of any Bond.

"Interest Payment Date" shall, with respect to any Series of Bonds, specified in the Supplemental Indenture authorizing such Series of Bonds.

"Maximum Annual Debt Service" shall mean the maximum principal and interest requirement in any succeeding fiscal year on Bonds then Outstanding and on the Additional Bonds proposed to be issued.

"Maturity" means, with respect to any Bond, the date on which the principal of such Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration or acceleration or call for redemption or otherwise.

"Moody's" shall mean Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Moody's shall mean any other nationally recognized securities rating agency designated by the City, by notice to the Trustee.

"Net Revenues" means Revenues less Operation and Maintenance Expenses and excluding depreciation for the Water Division Fiscal Year.

"Non-Arbitrage Certificate" means the non-arbitrage certificate and any exhibit attached thereto relating to a Series of Bonds executed by the City on the date of closing of such Series of Bonds.

"1998 Bond Insurance Policy" shall mean the municipal bond insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Series 1998 Bonds as provided therein

"1998 Bond Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Operation and Maintenance Expenses" means the City's expenses for operation, maintenance, repairs, ordinary replacement and ordinary reconstruction of the Waterworks System and shall include, without limiting the generality of the foregoing, administrative expenses, insurance premiums, legal and engineering expenses, payment to pension, retirement, group life insurance, behalf and hospitalization funds, or other employee benefit funds, and any other expenses required to be paid by the City under the provisions of the Indenture or by laws consistent with standard practices for waterworks systems similar to the properties and business of the Waterworks System and applicable in the circumstances, including, without limitation, an allocable share of administrative and personnel costs incurred by the City at locations

other than the Waterworks System in connection with the operations of the Waterworks System, and the expenses, liabilities and compensation of the Fiduciaries required to be paid under the Indenture, all to the extent properly attributable to the Waterworks System.

"Ordinance" means the Ordinance of the City, which authorized, among other things, the issuance, sale and delivery of the Water Revenue Bonds, in accordance with the Indenture and a Supplemental Indenture, and any amendments or supplements thereto and any other ordinance providing for the issuance of a Series of Bonds under the Indenture.

"Outstanding" means, when used with reference to Bonds, as of a particular date, all Bonds theretofore authenticated and delivered, except:

(a) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancelling;

(b) Bonds which are deemed paid under the Indenture ;

(c) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Indenture; and

(d) Bonds held by or for the account of the City, the City or any person controlling, controlled by or under common control with the City for purposes of any consent or other action to be taken by the holders of a specified percentage of Bonds outstanding under the Indenture.

"Paying Agent" means the Trustee when acting in such capacity under the Indenture.

"Permitted Investments" means for all purposes other than (a) investments in escrow accounts and (b) investing and receiving credit for accrued and capitalized interest:

(1) Direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee ("Government Obligations");

(2) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation ("FHLMCs"); debentures of the Federal Housing Administration; mortgage-backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association ("FNMAs"); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMAs"); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; debt obligations and letter of credit-backed issues of the Student Loan Marketing Association; local authority bonds of the U.S. Department of Housing and Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; guaranteed transit bonds of the Washington Metropolitan Area Transit Authority; Resolution Funding Corporation securities;

(3) direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, by two of the three rating agencies as follows (but in all cases inclusive of Moody's if Moody's has rated any of the Bonds at the time Outstanding): "A" or better by Moody's Investors Service and "A" or better by S&P and "A" or better by Fitch, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, by two of the three rating agencies as follows (but in all cases inclusive of Moody's if Moody's has rated any of the Bonds at the time Outstanding): "A" or better by Moody's Investor Service and "A" or better by S&P and "A" or better by Fitch;

(4) Federal funds, unsecured certificates of deposit, time deposits or bankers acceptances (in each case having maturities of not more than 365 days) of any domestic bank including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are delivered to the Bond Insurer to the effect that full and timely payment of such deposit or similar obligation is enforceable against the principal office or any branch of such bank, which, at the time of purchase, has a short-term "Bank Deposit" rating by two of the three rating agencies as follows (but in all cases inclusive of Moody's if Moody's has rated any of the Bonds at the time Outstanding): "P-l" by Moody's and a "Short-Term CD" rating of "A-l" or better by S&P and a "Short-Term CD" rating of "A-l" or better by Fitch;

(5) deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than $3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation and provided that the rating of such bank or savings and loan association shall be at least equal to the rating of the Bonds;

(6) Commercial paper which is rated at the time of purchase by two of the three rating agencies as follows (but in all cases inclusive of Moody's if Moody's has rated any of the Bonds at the time Outstanding): in the single highest classification, by "A-l" by S&P and "A-l" by Fitch and "P-l" by Moody's, and which matures not more than 270 days after the date of purchase;

(7) Investments in a money market fund rated by two of the three rating agencies as follows (but in all cases inclusive of Moody's if Moody's has rated any of the Bonds at the time Outstanding): "AAAm" or "AAAm-G" or better by S&P and "AAA" as a long term or short term rating by Moody's and "AAA" or "F-I+" by Fitch;

(8) Repurchase agreements meeting the following criteria:

Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated by two of the three rating agencies as follows (but in all cases inclusive of Moody's if Moody's has rated any of the Bonds at the time Outstanding): "P-l" or "A3" or better by Moody's, and "A-l" or "A-" or better by S&P, and "A-l" or "A-" or better by Fitch, provided:

a. a master repurchase agreement or specific written repurchase agreement governs the transaction; and

b. the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("Agent") for the Trustee, and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits or not less than $50 million or (iii) a bank approved in writing for such purpose by the Bond Insurer, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and

c. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and

d. the repurchase agreement has a term of 180 days or less, and the Trustee or the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and

e. the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest is equal to at least 103 %.

(9) Other forms of investments approved in writing by the Bond Insurer, if any, and S&P, Moody's and Fitch (to the extent that each such rating agency has rated any Bonds at the time Outstanding).

Notwithstanding the definition of "Permitted Investments" in the Indenture, as long as Financial Guaranty Insurance Company shall be the Bond Insurer with respect to the Series 1994 Bonds, wherever such definition states that two out of three ratings are permitted, such Permitted Investments must have ratings from both Moody's and S&P.

Further notwithstanding the foregoing, pursuant to the Second Supplemental Indenture, as long as the Series 1998 Bonds are outstanding and the 1998 Bond Insurer is not in default on the 1998 Bond Insurance Policy, Permitted Investments of any funds or accounts related to the Series 1998 Bonds shall be limited as follows:

A. The 1998 Bond Insurer will allow the following obligations to be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow accounts. (The 1998 Bond Insurer does not give a premium credit for the investment of accrued and/or capitalized interest).

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below), or

(2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America.

B. The 1998 Bond Insurer will allow the following obligations to be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FBLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies approved by the 1998 Bond Insurer;

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1 +" by S&P and "P- 1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.);

(4) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(6) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(a) which are rated, based on an irrevocable escrow account or fund (the "escrow'), in the highest rating category of S&P and Moody's or any successors thereto; or

(b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(7) General obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;

(8) Investment agreements approved in writing by the 1998 Bond Insurer (supported by appropriate opinions of counsel) with notice to S&:P; and

(9) Other forms of investments (including repurchase agreements) approved in writing by the 1998 Bond Insurer with notice to S&P.

"Owner", "Holder", "Bondholder" or "Registered Owner" mean the registered owner of any Bond.

"Principal Installment" means, as of the date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no sinking fund installments have been established, or (ii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of sinking fund installments due on such future date plus such applicable redemption premiums, if any.

"Project" means the financing or re-financing of the extension, improvement, purchase, acquisition, construction and enlargement of the facilities, appurtenances and equipment described in each Supplemental Indenture.

"Record Date" shall, with respect to any Series of Bonds, have the meaning specified in the Supplemental Indenture authorizing such Series of Bonds but in no event shall be less than ten (10) days prior to the following Interest Payment Date or Maturity.

"Redemption Date", when used with respect to any Bond to be redeemed, means the date fixed for redemption pursuant to the Indenture and the Supplemental Indenture applicable thereto.

"Redemption Price" means, with respect to any Bond, the amount payable upon redemption thereof pursuant to such Bond or the Indenture, including any applicable premium.

"Refunding Bonds" means bonds issued to refund any Series of Bonds or portion thereof then Outstanding.

"Registered Owner", "Holder", "Bondholder" or "Owner" means the registered owner of any Bond.

"Revenues" means

(i) all income and revenues from all sources, collected or received directly or indirectly by the City in the operation of the Waterworks System, including without limitation except as herein expressly provided, all fees received by or on behalf of the City in its capacity as the operator of the Waterworks System in connection with the operation, improvement and enlargement of the Waterworks System, or any part thereof; and

(ii) income received by the City and required to be deposited in the Waterworks Revenue Fund on any investment of money held pursuant to the Indenture;

For purposes of determining Net Revenues, the term "Revenues" shall not include (1) any Bond Proceeds and other money (including investment earnings) credited to the Water Replacement and Improvement Fund for the financing of capital improvements to the Waterworks System, (2) insurance proceeds received by the City with respect to the Waterworks System, other than loss of use or business interruption insurance proceeds, (3) any interest earnings or other gain from investment of moneys or securities in any escrow or similar account pledged to the payment of any obligations therein specified in connection with the issuance of Refunding Bonds or the defeasance of any Series of Bonds in accordance with the Indenture, and (4) any consideration received by the City upon transfer of the Waterworks System pursuant to the Indenture.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill, Incorporated, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall mean any other nationally recognized securities rating agency designated by the City, by notice to the Trustee.

"Second Supplemental Indenture" means the Second Supplemental Indenture of Trust dated as of December 1, 1998 between the City and the Trustee.

"Series" means all of the Bonds delivered on original issuances in a simultaneous transaction or pursuant to a Supplemental Indenture authorizing the issuance of such Bonds as a separate Series, and any Bonds thereafter delivered in lieu of or in substitution for such Bonds pursuant to the Indenture, regardless of variations in maturity, interest rate, or other provisions.

"Series 1994 Bonds" means the Water Revenue Refunding and Improvement Bonds, Series 1994, authorized by the First Supplemental Indenture.

"Series 1998 Bonds" means the Water Revenue Refunding Bonds, Series 1998, authorized by the Second Supplemental Indenture.

"Series 1998 Escrow Account" means the account by that name created pursuant to the Series 1998 Escrow Agreement.

"Series 1998 Escrow Agent" means BNY Trust Company of Missouri, St. Louis, Missouri.

"Series 1998 Escrow Agreement" means the Escrow Agreement dated as of December 1, 1998 between the City and the Series 1998 Escrow Agent.

"Series 1998 Capitalized Interest Sub-account" means the sub-account created in the Second Supplemental Indenture.

"Series 1998 Cost of Issuance Sub-account" means the sub-account created in the Second Supplemental Indenture.

"Series 1994 Water Revenue Debt Service Reserve Account" means the account created in the First Supplemental Indenture.

"Series 1998 Water Revenue Debt Service Reserve Account"or "1998 Reserve Account" means the account created in the Second Supplemental Indenture.

"Series 1998 Waterworks Debt Service Account" means the account created in the Second Supplemental Indenture.

"Series 1998 Waterworks Construction Account" means the account created in the Second Supplemental Indenture.

"State" means the State of Missouri.

"Stated Maturity" means, when used with respect to any Bond, the date specified in the Indenture or in any Supplemental Indenture authorizing Additional Bonds as the fixed date on which the principal of such Bond is due and payable.

"Subordinated Indebtedness" means any evidence of debt referred to in, and complying with the provisions of, the Indenture.

"Supplemental Indenture" means any indenture supplemental or amendatory to the Indenture entered into by the City and the Trustee pursuant to the Indenture .

"Treasurer" means the Treasurer of the City, an officer of the City in accordance with the laws of the State of Missouri.

"Trust Estate" means the Trust Estate described in the Granting Clauses of the Indenture .

"Trustee" shall mean BNY Trust Company of Missouri (successor-in-interest to Mark Twain Bank), St. Louis, Missouri, as trustee under the Second Supplemental Indenture and any successors or assigns.

"United States Government Obligations" means bonds, notes, certificates of indebtedness, treasury bills, or other securities constituting direct non-callable obligations of the United States of America or obligations the payment of the principal of and interest of which are fully and unconditionally guaranteed by the United States of America, to which direct obligation or the guarantee of the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination thereof), unless the Bond Insurer which has insured the particular Series of Bonds approves otherwise.

"Value" means the value, determined as of the end of each month, of Permitted Investments and/or Defeasance Obligations (together, "investments") which shall be calculated as follows:

(a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times or other national publication acceptable to the Trustee): the average of the bid and asked prices for such investments so published at or most recently prior to such time of determination;

(b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal (if not there, then in the alternative, The New York Times or other national publication acceptable to the Trustee): the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(c) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(d) as to any investment not specified above: the value thereof established by prior agreement between the City, the Trustee and the Bond Insurer, if any, and the following three rating agencies: S&P, Moody's and Fitch (to the extent that each such rating agency has rated any Bonds at the time Outstanding).

Notwithstanding the foregoing, pursuant to the Second Supplemental Indenture, as long as the Series 1998 Bonds are outstanding and the 1998 Bond Insurer is not in default on the 1998 Bond Insurance Policy, with respect to any funds or accounts related to the Series 1998 Bonds,"Value", which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(1) As to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

(2) As to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(3) As to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(4) As to any investment not specified above: the value thereof established by prior agreement between the City, the Trustee and the 1998 Bond Insurer.

The value of Permitted Investments shall be determined as provided in the definition of "Value" herein.

"Water Commissioner" shall mean the Water Commissioner referred to in the present Charter of the City, or to such officer of said City who may hereafter be legally given the powers and duties given to the Water Commissioner under the present Charter of the City.

"Water Consultant" means the water consultant or water consulting firm or corporation from time to time retained by the City pursuant to the Indenture to perform the acts and carry out the duties provided for such Water Consultant in the Indenture.

"Water Contingent Fund" means the Water Contingent Fund established in the Indenture.

"Water Division Fiscal Year" means the annual accounting period of the Water Division for its general accounting purposes, which period currently consists of the twelve consecutive calendar months ending the last day of June of any year.

"Water Replacement and Improvement Fund" means the Water Replacement and Improvement Fund established in the Indenture.

"Water Replacement and Improvement Fund Requirement" means the requirement as set forth in the applicable Supplemental Indenture with respect to the Water Replacement and Improvement Fund.

"Water Revenue Debt Service Reserve Account" means the Water Revenue Debt Service Reserve Account established in the Indenture.

"Water Revenue Rebate Fund" means the Water Revenue Rebate Fund established in the Indenture.

"Waterworks Construction Fund" means the Waterworks Construction Fund established in the Indenture .

"Waterworks Operation and Maintenance Fund" means the Waterworks Operation and Maintenance Fund established in the Indenture .

"Waterworks Revenue Fund" means the Waterworks Revenue Fund created in the Indenture which may consist of separate accounts or subaccounts, as may be created by a Supplemental Indenture authorizing a Series of Bonds.

"Waterworks System" means the waterworks system owned and operated by the City, including all land owned or acquired by the City (by lease or otherwise) for purposes of such waterworks system and all improvements and facilities in existence and located on any such land, as said system may be hereafter added to, extended, improved or constructed and equipped.

Indenture to Constitute Contract

In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued under the Indenture by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the City and the Owners from time to time of the Bonds and a security agreement under the Missouri Uniform Commercial Code. The pledge and assignment made in

the Indenture and the covenants and agreement therein set forth to be performed on behalf of the City shall be for the equal benefit, protection and security of the Owners of any and all of the Bonds, all of which, regardless of the time or times of their authentication and delivery of maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or permitted by the Indenture.

Refunding Bonds

A. One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund (1) all Outstanding Bonds of one or more Series or one or more maturities within a Series or (2) any Subordinated Indebtedness. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds under the Indenture required by the provisions of the Supplemental Indenture authorizing such Bonds and determining the terms and details thereof.

B. Refunding Bonds of each Series issued to refund one or more Series of Outstanding Bonds or one or more maturities within a Series shall be authenticated and delivered by the Trustee only upon receipt by it from the City (in addition to the documents and moneys required by the Indenture) of:

(1) Irrevocable instruction to the Trustee, satisfactory to it, to give due notice or redemption of all Bonds to be redeemed, if any, on a Redemption Date specified in such instructions;

(2) If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, irrevocable instruction to the Trustee, satisfactory to it, to mail the notice provided for in the Indenture to the Owners of the Bonds being refunded;

(3) Either (a) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the Redemption Date, which moneys shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds to be refunded, or (b) United States Government Obligations in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of the Indenture and any moneys required pursuant to said Indenture which United States Government Obligations and moneys shall be held in trust and used only as provided in said Indenture;

(4) Either of the following: (a) a certificate of a City Representative setting forth (i) the Aggregate Debt Service, for the then current and each future Water Division Fiscal Year to and including the Water Division Fiscal Year next preceding the date of the latest maturity of any Bonds of any Series then Outstanding (X) with respect to the Bonds of all Series Outstanding immediately prior to the date of authentication and delivery of such Refunding Bonds, and (Y) with respect to the Bonds of all Series to be Outstanding immediately thereafter, and (ii) that the Aggregate Debt Service set forth for each Water Division Fiscal Year pursuant to (Y) above is no greater than the corresponding amounts set forth for such Water Division Fiscal Year pursuant to (X) above; or (b) the conditions and tests with respect to the issuance of Additional Bonds have been met.

The proceeds, including accrued interest, of the Refunding Bonds of each such Series shall be applied simultaneously with the delivery of such Bonds for the purpose of making deposits in such Funds and Accounts under the Indenture as shall be provided in the Supplemental Indenture authorizing such Bonds or determining the terms and details thereof and shall be applied to the refunding purposes thereof in the manner provided in said Supplemental Indenture.

C. Each Series of Refunding Bonds issued pursuant to clause (2) of subsection A of this Section to refund any Subordinated Indebtedness shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents, securities and moneys required by the section entitled "General Provisions for Issuance of Bonds") of:

(1) The certification referred to in subsections a and b in the Official Statement under the heading "SECURITY FOR THE SERIES 1998 BONDS — Allocation of Revenues";

(2) A certificate of the Trustee then duly appointed or acting under the Indenture, ordinance or other appropriate instrument securing and authorizing such Subordinated Indebtedness of a City Representative if there shall be no such trustee, that (a) provisions have been duly made for the redemption or payment at maturity of such Subordinated Indebtedness in accordance with the terms thereof, (b) the pledge, if any, securing such Subordinated Indebtedness, and all other rights granted by such indenture, ordinance or instrument shall have bed satisfied, and (c) such trustee or the paying agents for such Subordinated Indebtedness hold in trust the moneys required to effect such redemption or payment; and

(3) A Counsel's Opinion to the effect that all actions required under the indenture, ordinance or other appropriate instrument securing and authorizing such Subordinated Indebtedness to provide for the redemption or payment of such Subordinated Indebtedness have been taken.

The proceeds, including accrued interest, of the Refunding Bonds of each such Series shall be applied simultaneously with the delivery of such Bonds for the purpose of making deposits in such funds and accounts under the Indenture as shall be provided in the Supplemental Indenture authorizing such Series or determining the terms and details thereof and shall be applied to refund such Subordinated Indebtedness, including expenses in connection therewith, in the manner provided in such Supplemental Indenture.

Subordinated Indebtedness

Except as provided herein, nothing contained in the Indenture shall prohibit or prevent, or be deemed, or construed, to prohibit or prevent, the City from issuing bonds, notices, certificates, warrants or other evidence of indebtedness payable as to principal and interest from the Waterworks Revenue Fund and the Net Revenues subject and subordinate to the deposits and credits required to be made therefrom to the Waterworks Bond Fund, Water Revenue Debt Service Reserve Fund and the Water Replacement and Improvement Fund, or from securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Net Revenues herein created for the payment and security of the Bonds. Prior to the issuance of any Subordinated Indebtedness, the City and the Consulting Engineers or Water Consultant shall furnish the Trustee with the evidence that the test for the with respect to rate coverage has been satisfied. The principal amount of any such Subordinated Indebtedness shall, by its terms, not be subject to acceleration upon default unless and until the principal amount of the Bonds has been accelerated pursuant to the Indenture.

The Pledge Effected by the Indenture

A. There are pledged under the Indenture for the payment of the Bonds in accordance with their terms and the provisions of the Indenture, subject only to the rights of the holders of the Outstanding Obligations pursuant to the Outstanding Obligations Ordinances to the Revenues of the Waterworks System and the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, (1) the proceeds of sale of the Bonds, (2) Revenues, and (3) all Funds established by the Indenture, including the investments, if any, thereof.

B. Such proceeds of sale of the Bonds, the Revenues and the other moneys and securities pledged under the Indenture shall immediately be subject to the lien of the pledge as set forth in the Indenture without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the City irrespective of whether such parties have notice thereof.

Creation of Funds and Accounts

The following Funds are hereby established as Funds and Accounts of the City for application for the purposes hereinafter set forth:

(A) Waterworks Revenue Fund, to be held by the City;
(B) Waterworks Operation and Maintenance Fund, to be held by the City;
(C) Waterworks Bond Fund, to be held by the Trustee, consisting of a Debt Service Account and a Debt Service Reserve Account;
(D) Water Replacement and Improvement Fund, to be held by the City;
(E) Water Contingent Fund, to be held by the City; and
(F) Waterworks Construction Fund, to be held by the City;
(G) Water Revenue Rebate Fund, to be held by the Trustee.

All Revenues derived from the operation of the Waterworks System of the City shall be set aside as collected and shall be deposited in a Fund created and designated the "Waterworks Revenue Fund" of the City of St. Louis. Such Revenues shall be deposited and held in a bank account or accounts separate from all other bank accounts of the City.

As long as any of the Bonds remain Outstanding and unpaid, the Comptroller of the City shall, on the first business day of each month, credit all monies held in the Waterworks Revenue Fund to the following separate funds and accounts to the extent and for the purposes stated in the Indenture, in the priority set out in the Official Statement under the heading "SECURITY FOR THE SERIES 1998 BONDS — Allocation of Revenues".

In the event that the sums on deposit in the Waterworks Bond Fund and in the Water Revenue Debt Service Reserve Account hereinabove provided for should at any time be insufficient to pay accruing interest or maturing principal, or both, on the outstanding water revenue bonds of said City, the balances in the Water Replacement and Improvement Fund, the Water Contingent Fund and in the Waterworks Construction Fund may be drawn upon to the extent necessary to provide for the payment of such interest or principal or both.

Creation of the Construction Fund

There is hereby created and ordered established in the custody of the City a fund designated the "Waterworks Construction Fund" to which there shall be credited the amount set forth in the applicable Supplemental Indenture.

At the option of the City, any monies received for or in connection with the Waterworks System by the City from any other source may be paid into the Waterworks Construction Fund, unless required to be otherwise applied as provided by the Indenture. The City shall establish within the Waterworks Construction Fund a separate account or accounts for each Project and each Additional Project. Amounts in separate sub-accounts for each Project shall be applied by the City to the Cost of Construction of such Project and amounts for each Additional Project shall be applied to the purposes specified in the applicable Supplemental Indenture or, if no Bonds are issued, to the purposes specified in an ordinance for the City, a copy of which, certified by an Authorized Officer, shall be filed with the Trustee.

To the extent there are no other available funds held under the Indenture, monies in the Waterworks Construction Fund may be used to pay principal and interest on the Bonds in the event of a payment default.

The completion of each portion of the Project and any Additional Project shall be evidenced by a certificate of the Consulting Engineers, which shall be filed by the City promptly with the Trustee, stating the date of such completion and the amount remaining to be paid, if any, and that such Project has been completed in accordance with plans and specifications applicable thereto.

Surplus funds which remain in the Waterworks Construction Fund may be used by the City, at its option as follows:

(1) to redeem Bonds on the earliest redemption date;

(2) to purchase Bonds on the open market prior to such redemption date at prices (exclusive of accrued interest) not in excess of one hundred percent (100%) of the principal amount of such Bonds; or

(3) for any other lawful purpose of the Waterworks System.

provided that, with respect to any use selected by the City, the Trustee is furnished with a Counsel's Opinion to the effect that such use is lawful under the Missouri Constitution, the laws of the State of Missouri and the Charter and, if applicable, will not adversely affect the exclusion from Federal income taxes of interest on any of the Bonds.

In connection with the issuance of a Series of Bonds under the Indenture, the City may establish an account within the Construction Fund entitled the "Cost of Issuance Account" from which shall be paid upon the issuance and sale of each Series of Bonds the Costs of Issuance of such Series. To the extent of any deficiencies in such account, Costs of Issuance shall be paid out of the Construction Fund. Excess monies in the Cost of Issuance Account shall be transferred into the Construction Fund.

Creation of the Rebate Fund

There is created and ordered established in the custody of the Trustee a special trust fund to be designated "Water Revenue Rebate Fund (the "Rebate Fund"). The Rebate Fund shall consist of such accounts or sub-accounts as may be created by one or more Supplemental Indentures.

All moneys required or expected to be required to be rebated to the United States shall be deposited in the Rebate Fund.

Application of Moneys in the Waterworks Bond Fund

The City authorizes and directs the Trustee to withdraw sufficient funds from the Waterworks Bond Fund to pay the principal of, and redemption premium, if any, and interest on, the Bonds as the same become due and payable and to make said funds so withdrawn available to the Trustee and any Paying Agent for the purpose of paying such principal, redemption premium, if any, and interest.

Whenever the amount in the Waterworks Bond Fund from any source whatsoever is sufficient to redeem all of the Bonds Outstanding and pay interest to accrue thereon prior to such redemption, the City shall take and cause to be taken the necessary steps to redeem all such Bonds on the next succeeding Redemption Date for which the required redemption notice may be given or on such later Redemption Date. Any moneys in the Waterworks Bond Fund may be used to redeem a portion of the Bonds Outstanding so long as the City is not in default with respect to any payments under the Indenture and to the extent said moneys exceed the amount required (i) for payment of Bonds theretofore matured or called for redemption and (ii) for payment of any past due interest remaining unpaid.

Repayment to the Water Division from the Waterworks Revenue Fund

After payment in full of the principal of and redemption premium, if any, and interest on, the Bonds (or after provision has been made for the payment thereof as provided in the Indenture), and the fees, charges and expenses of the Trustee and Paying Agents and any other amounts required to be paid under the Indenture and the applicable Supplemental Indenture, all amounts remaining in the Waterworks Revenue Fund shall remain within a waterworks revenue fund of the Water Division upon the expiration or sooner termination of the Indenture.

Investment of Certain Funds

Moneys held in the Waterworks Bond Fund and the Water Revenue Debt Service Reserve Account shall be invested and reinvested by the Trustee to the fullest extent practicable in Permitted Investments which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Fund and Account, and in the case of the Waterworks Debt Service Reserve Account not later than 5 years. The Trustee shall make such investment in accordance with any instructions received from City Representative. The Trustee, upon notice to and written consent of a City Representative, may make any and all such investments through its own bond department or the bond department of any bank or trust company under common control with the Trustee.

Moneys in the Waterworks Revenue Fund, the Water Replacement and Improvement Fund and the Waterworks Construction Fund may be invested by the City in Permitted Investments which mature not later than such times as shall be necessary to provide moneys when needed to provide payments from such Funds. Moneys in the Waterworks Operation and Maintenance Fund may be invested by the City in

Permitted Investments which mature within 12 months and moneys in the Water Contingent Fund may be invested in Permitted Investments which mature within 5 years, and in any case not later than such times as shall be necessary to provide moneys when needed for payment from such respective Funds.

Earnings on any moneys on investments on all Funds and Accounts established under the Indenture shall be deposited in the Waterworks Revenue Fund, except that earnings on the moneys or investments in the Water Replacement and Improvement Fund shall, to the extent expressly required by the terms of any Supplemental Indenture authorizing the issuance a Series of Bonds, be retained in the Water Replacement and Improvement Fund.

Valuation and Sale of Investments

Obligations purchased as an investment of moneys in any Account or Fund shall be deemed at all times to be a part of such Account or Fund and any profit realized from the liquidation of such investment shall be credited to such Account or Fund and any loss resulting from the liquidation of such investment shall be charged to the respective Account or Fund.

In computing the amount in any Account or Fund created under the provisions of the Indenture for any purpose provided in the Indenture, obligations purchased as an investment of moneys therein shall be valued at cost or the principal amount thereof, whichever is lower, exclusive of accrued interest, except that such investments in the Water Revenue Debt Service Reserve Account shall be valued at the cost or market price thereof whichever is lower, exclusive of accrued interest. The valuation of such Accounts and Funds shall be made as of the end of each Fiscal Year.

Except as otherwise provided in the Indenture, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by a City Representative so to do or whenever it shall be necessary, in order to provide moneys to meet any payment or transfer from any Account or Fund held by the Trustee. The Trustee shall not be liable for making any such investment in the manner provided above or for any loss resulting from such investment.

Indebtedness and Liens

The City shall not issue any bonds, notes or other evidences of indebtedness, other than the Bonds, payable out of or secured by a pledge of the Revenues or of the moneys, securities of funds held or set aside by the City or by the Fiduciaries under the Indenture and shall not create or cause to be created any lien or charge on the Revenues or such moneys, securities or funds; provided, however, that nothing contained in the Indenture shall prevent the City from issuing Subordinated Indebtedness as provided in the Indenture.

Sale, Lease or Encumbrance of Property

A. Except as provided in the Indenture, no part of the Waterworks System shall be sold, or otherwise disposed of or encumbered.

B. The City may sell, for fair and reasonable value, at any time and from time to time any property constituting part of the Waterworks System which in the opinion of the Board of Aldermen (expressed in the form of an ordinance) and the Water Consultant is not necessary or useful in the operation thereof. The opinion of the Board of Aldermen and the Water Consultant shall be filed with the Trustee

prior to such sale. Except as stated above, the Comptroller may sell any surplus property as may be permitted by law.

C. The City may lease or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Waterworks System if such lease, contract, license, easement or right does not impede or restrict the operation by the City of the Waterworks System for Waterworks System purposes.

D. The City shall not sell, lease or otherwise transfer all or a substantial part of the Waterworks System unless the Bonds shall have been paid in full, both as to principal and interest or unless adequate provision (as defined in the Indenture) shall have been made for the payment of the Bonds. For purposes of this Section, the term "adequate provision" shall mean the defeasance of the Bonds in accordance with the Indenture or the assumption by the transferee of the obligations of the City under the Indenture and in the Bonds if: (1) in the written opinions of the Water Commissioner and the Water Consultant, after giving effect to such transfer and assumption, the ability of the transferee to meet the rate maintenance and other covenants under the Indenture and the security for the Bonds are not materially and adversely affected, (2) the City shall have furnished the Trustee with a Counsel's Opinion to the effect that such transfer will not adversely affect the tax-exempt status of interest on the Bonds under the Code, as applicable, and (3) such transferee shall expressly agree not to use the Funds held under the Indenture otherwise than as provided in the Indenture. Any consideration received by the City from the transferee of all or a substantial part of the Waterworks System shall not constitute "Revenues" under the Indenture or be subject to the terms and provisions of the Indenture. The terms and conditions of the transfer of all or a substantial part of the Waterworks System pursuant to this Section shall be set forth in a Supplemental Indenture executed by the City, the Trustee and the transferee and notice of such transfer shall be given to the Bondholders in accordance with the Indenture hereof.

Operations, Maintenance and Reconstruction

A. The City shall at all times operate, or cause to be operated, the Waterworks System properly and in a sound, efficient and economical manner and shall maintain, preserve, and keep the same or cause the same to be maintained, preserved, and kept with the appurtenances and every part and parcel thereof, in good repair, working order and conditions, and shall from time to time make or cause to be made, all ordinary, necessary and proper repairs, replacements and renewals so that at all times the operation of the Waterworks System may be properly and advantageously conducted, and, if any useful part of the Waterworks System is damaged or destroyed, the City shall, as expeditiously as may be possible, commence and diligently prosecute the ordinary replacement or reconstruction of such part so as to restore the same to use; provided, however, that nothing in the Indenture shall require the City to operate, maintain, preserve, repair, replace, renew or reconstruct any part of the Waterworks System (1) from sources other than the Revenues or (2) if there shall have been filed with the Trustee (i) a certificate executed by a City Representative stating that in the opinion of the City abandonment of operation of such part is economically justified and is not prejudicial to the interest of the Owners of the Bonds, and (ii) a consent to the filing of such certificate is given by the Trustee, which consent shall be withheld only upon reasonable grounds.

B. To the extent permitted by law and deemed necessary by the City for the efficient or economical operation of the Waterworks System, it shall maintain, preserve, and renew all the franchises, rights, powers and privileges acquired, owned or held by it.

C. The City shall establish and enforce reasonable rules and regulations governing the operation, use and services of the Waterworks System.

The City further covenants with the Holders of said Bonds that as long as any Bonds authorized under the Indenture are Outstanding and unpaid, it will operate or cause to be operated in a sound, efficient and economical manner and maintain or cause to be maintained in good repair, working order or condition, the Waterworks System.

Rates and Charges

The City shall, at all times while any Bonds shall be Outstanding perform all duties with respect to the operation and maintenance of the Waterworks System and shall establish, fix, prescribe and collect such rates, fees and other charges for the use of the Waterworks System as shall be reasonably anticipated to provide in each Water Division Fiscal Year an amount so that the Revenues shall be sufficient to pay the Aggregate Debt Service for such Water Division Fiscal Year and to provide the funds necessary to make the required deposits in and maintain the several Funds and Accounts established in the Indenture, and in any event, as shall be required to pay or discharge all indebtedness, charges and liens whatsoever payable out of Revenues under the Indenture.

Insurance

A. So long as any Bonds are Outstanding the City shall at all times carry insurance or cause insurance to be carried or be self-insured. In any case, the City shall be designated as an insured as its interest may appear, with a responsible insurance company or companies authorized and qualified under the laws of the State of Missouri and of the United States of America to assume the risk thereof, covering such properties of the Waterworks System as are customarily insured, and against loss or damage from such causes as are customarily insured against, by public or private corporations engaged in a similar type of business.

B. Any proceeds of insurance for the Waterworks System shall, to the extent necessary and desirable, be applied to the repair and replacement of any damaged or destroyed properties of the Waterworks System. If any of said p are not used or committed for use with respect to the repair or replacement of Waterworks System property within twenty four (24) months of receipt, such proceeds shall be paid into the Water Contingent Fund.

Condemnation

The City covenants that in the event that Waterworks Systems or any part thereof is taken by the exercise of eminent domain, any proceeds received in connection with such exercise of eminent domain shall, to the extent necessary and desirable, be applied to the replacement of the Waterworks System or such part thereof. If any of said proceeds received are not applied to or committed for use with respect to such replacement within twenty-four (24) months or receipt, such proceeds shall be paid into the Water Contingent Fund.

Water Consultant

The City shall employ a Water Consultant from time to time whenever and for the purposes contemplated by the Indenture. Such Water Consultant shall be a water consultant or water consultant firm or corporation having a wide and favorable reputation for skill and experience with respect to the operation and maintenance of water systems and in projecting revenues to be derived from the operation of water systems.

Consulting Engineers

The City shall employ Consulting Engineers from time to time whenever and for the purposes contemplated or required by the Indenture. Such Consulting Engineers shall be engineers or engineering firms having a wide and favorable reputation for skill and experience in the construction and operation of water system facilities.

Waterworks System Budget

Prior to the commencement of each Water Division Fiscal Year the Water Commissioner of the City shall cause to be prepared an Annual Budget setting out the estimated receipts and expenditures of the Waterworks System of the City for the then ensuing fiscal year. This budget shall contain:

(a) An estimate of the receipts expected to be derived from the operation of the Waterworks System.

(b) The estimated cost of operating the Waterworks System during the next Water Division Fiscal Year.

(c) Any unusual and extraordinary expenses of operation or maintenance which might be reasonably anticipated and an estimate of the cost thereof.

(d) Which replacements to the Waterworks System may be anticipated and the estimated cost thereof.

(e) The amount of interest to become due during the ensuing year on the Bonds then Outstanding.

(f) The principal of such Bonds which will become due absolutely by their terms.

Accounts and Reports

A. The City, through the Board of Aldermen and the Comptroller, shall keep or cause to be kept proper books of record and account of the Waterworks System (separate from all other records and accounts of the City) in which complete and correct entries shall be made of its transactions relating to the Revenues, each Fund and Account established under the Indenture and which shall at all times be subject to the inspection of the Trustee, and the Owners of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

B. The Trustee shall advise the City promptly after the end of each month of the respective transactions during such month relating to each Fund and Account held by the Trustee under the Indenture. The City shall have the right upon reasonable notice and during reasonable business hours to examine the books and records of the Trustee with respect to the Funds and Accounts held by the Trustee under the Indenture.

C. The City shall annually, within 180 days after the close of each Water Division Fiscal Year (commencing with the Water Division Fiscal Year ending June 30, 1994) cause an audit to be made of its books and accounts relating to the Waterworks System for such Water Division Fiscal Year by an independent and recognized certified public accountant or firm of independent certified public accountants

not in the regular employment of the City. Promptly thereafter reports of each audit shall be filed with the Trustee, each Bond Insurer and with each rating agency, if any, maintaining a credit rating on any of the Bonds. Each such Audit Report shall set forth with respect to such Water Division Fiscal Year:

(1) a statement of financial condition of the Waterworks System as of the end of such Water Division Fiscal Year and the related statement of revenues and expenses of the Water Division Fiscal Year then ended;

(2) a summary with respect to each Fund and Account established under the Indenture of the receipts therein and disbursements therefrom;

(3) the details of all Bonds issued, paid, purchased or redeemed;

(4) the amounts on deposit at the end of such Water Division Fiscal Year to the credit of each Fund and Account established under the Indenture showing the respective amounts on deposit to the credit thereof in each Fiduciary under the Indenture and any security held therefor, and showing the details of any investment thereof;

(5) the amounts of the proceeds received from any sales of property constituting part of the Waterworks System; and any sales of property constituting part of the Waterworks System; and

(6) a list of all insurance policies with respect to the Waterworks System or certificates thereof then held by the City or the Trustee.

D. The City shall file with the Trustee and each Bond Insurer, if any, forthwith upon becoming aware of any Event of Default or default in the performance by the City of any covenant, agreement or condition contained in the Indenture , a certificate signed by a City Representative and specifying such Event of Default or default and (2) within 150 days after the end of each Water Division Fiscal Year, commencing with the Water Division Fiscal Year commencing June 30, 1994, a certificate signed by an appropriate City Representative stating that, to the best of his knowledge and belief, the City has kept, observed, performed and fulfilled each and every one of its covenants and obligations contained in the Indenture and there does not exist at the date of such certificate any default by the City under the Indenture or any Event of Default or other event which, with the giving of notice or the lapse of time specified in the Indenture , or both, would become an Event of Default, or, if any such default or Event of Default or other event shall so exist, specified the same and the nature and status thereof.

E. The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Indenture shall be available for the inspection of Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request therefor with the City. The City may charge each Bondholder requesting such reports, statement and other documents a reasonable fee to cover reproduction, handling and postage.

Events of Default

If one more of the following events ("Events of Default") shall happen, that is to say:

(A) if default shall be made in the due and punctual payment of the principal of or Redemption Price of any Bond, whether at maturity or by call for redemption, or otherwise, or in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any sinking fund installment therefore when and as such interest installment or sinking fund installment shall become due and payable;

(B) if default shall be made by the City in the performance or observance of the covenants, agreements and conditions on its part as provided in the Indenture ; provided, however, a failure by the City to comply with the covenants in the Indenture shall not constitute an Event of Default under the Indenture if, (i) within four (4) months of the end of the most recently completed Water Division Fiscal Year, the City shall retain the Water Consultant for the purpose of making recommendations with respect to the operations of the Waterworks System and the sufficiency of its rates, fees, and other charges, (ii) the Water Consultant shall make the required recommendations to the City within seven (7) months of the end of such Water Fiscal Year and file same with the Trustee; and (iii) the City shall diligently and in good faith follow the recommendations of the Water Consultant;

(C) if default shall be made by the City in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds and such default shall continue for a period of sixty (60) days after written notice thereof to the City by the Trustee or to the City and to the Trustee by the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds Outstanding; provided, however, that if such failure shall be such that it can be corrected but cannot be corrected within such sixty (60) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected;

(D) if the City shall file a petition seeking a composition of indebtedness under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State of Missouri;

(E) if judgment for the payment of money shall be rendered against the City as the result of the construction, improvement, ownership, control or operation of the Waterworks System, and any such judgment shall not be discharged within twenty-four (24) months after the entry thereof, or an appeal shall not be taken therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, in such manner as to set aside or stay the execution of or levy under such judgment, or order, decree or process or the enforcement thereof; or

(F) if an order or decree shall be entered, with the consent or acquiescence of the City, appointing a receiver or receivers of the Waterworks System or any part thereof, or the Revenues therefrom, or if such order or decree having been entered without the consent or acquiescence of the City, shall not be vacated or discharged, stayed or appealed within ninety (90) days after the entry thereof; then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Trustee may (by notice in writing to the City), and upon written request of the Owners of not less than twenty-five percent (25%) in principal amount of the Bonds Outstanding (by notice in writing to the City and the Trustee) shall, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and

payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Indenture or in any of the Bonds contained to the contrary notwithstanding.

The right of the Trustee to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the City under the Indenture (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the City or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Indenture (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Owners of fifty-one percent (51%) in principal amount of the Bonds Outstanding, by written notice to the City and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Owners of fifty-one percent (51%) in principal amount of the Bonds then Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

For purposes of this Section, all actions required or permitted to be taken under the Indenture by the owners of any Bonds insured by a Bond Insurer may be taken by such Bond Insurer without any action being taken or required to be taken by such owner. Any action taken by such Bond Insurer shall be deemed to be the action taken by such owner.

Application of Revenues and Other Moneys After Default

A. The City covenants that if an Event of Default shall happen and shall not have been remedied, the City, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (1) forthwith, all moneys, securities and Funds then held by the City in any Fund or account under the Indenture, and (2) all Revenues as promptly as practicable after receipt thereof.

B. During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, Funds and Revenues and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable and proper charges and expenses of the Trustee and the reasonable fees of its counsel;

(2) to the payment of the Operation and Maintenance Expenses of the Waterworks System;

(3) to the payment of the interest and principal or Redemption Price then due on the Bonds, subject to the provisions as follows:

(a) unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments maturity on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination of preference except as to any difference in the respective rates of interest specified in the Bonds

C. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the City under the Indenture, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the City, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over the City all moneys, securities, and Funds then remaining unexpended in the hands of the Trustee (except monies, securities, and Funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the City and the Trustee shall be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the City by the Trustee nor such restoration of the City and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Acceleration of Maturity in Event of Default

If an Event of Default shall have occurred and be continuing, the Trustee may, and upon the written request of the Holders of not less than 51% in aggregate principal amount of Bonds then Outstanding, shall, by notice in writing delivered to the City, declare the principal of all Bonds then Outstanding and the interest accrued thereof immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable.

Notwithstanding the foregoing, as long as the Series 1998 Bonds are outstanding and the 1998 Bond Insurer is not in default on the 1998 Bond Insurance Policy, the following paragraph shall apply and be controlling:

Upon the occurrence of an Event of Default the Trustee may, with the consent of the 1998 Bond Insurer, and shall at the direction of the 1998 Bond Insurer or 51% of the Bondholders with the consent of the 1998 Bond Insurer, by written notice to the City and the 1998 Bond Insurer, declare the principal of the Series 1998 Bonds to be immediately due and payable, whereupon that portion of the principal of the Series 1998 Bonds thereby coming due and the interest thereon accrued to the date of payment shall without further action, become and be immediately due and payable, anything in the Second Supplemental Indenture and the Indenture or in the Series 1998 Bonds to the contrary notwithstanding.

If the payment of the Bonds is accelerated under this Section, each Bond shall be payable in the principal amount thereof and accrued interest thereon.

Appointment of Receivers in the Event of Default

If an Event of Default shall have occurred and be continuing, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee or of the Bondholders under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Exercise of Remedies by the Trustee

Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of and interest on the Bonds then Outstanding, and enforce and compel the performance of the duties and obligations of the City as set forth in the Indenture or to enforce or realize upon any of the rights, powers, liens or interests granted by the Indenture to the Trustee. Upon the occurrence of an Event of Default, the Trustee may exercise any of the rights and remedies of a secured party under the Missouri Uniform Commercial Code or other applicable laws and require the City to assemble any collateral covered by the Indenture and make it available to the Trustee at a place to be designated by the Trustee which is reasonably convenient to both parties.

Exercise of Rights and Powers

If an Event of Default shall have occurred and be continuing, and if requested so to do by the Holders of 25% in aggregate principal amount of Bonds then Outstanding and indemnified as provided in the Indenture the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bondholders.

All rights of action under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the of in any trial or other proceedings relating thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Bondholder, and any recovery or judgment shall, subject to the Indenture, be for the equal benefit of all the Registered Owners of the Outstanding Bonds.

Limitation on Exercise of Remedies by Bondholders

No Bondholder shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust under the Indenture or for the appointment of a receiver or any other remedy under the Indenture unless:

(i) a default has occurred of which the Trustee has been notified as provided in the Indenture or of which by said subsection the Trustee is deemed to have notice;

(ii) such default shall have become an Event of Default;

(iii) the Holders of 25 % in aggregate principal amount of Bonds then Outstanding shall have made written request to the Trustee, shall have offered it reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, and shall have provided to the Trustee indemnity as provided in the Indenture; and

(iv) the Trustee shall thereafter fail or refuse to exercise the powers herein granted or to institute such action, suit or proceeding in its own name for a period of thirty (30) days subsequent to such written request;

and such notification, request and provision of indemnity are declared by the Indenture in every case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy under the Indenture, it being understood and intended that no one or more Bondholders shall have any right in any manner whatsoever to affect, disturb or prejudice the Indenture by its, his or their action or to enforce any right under the Indenture except in the manner provided in the Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of the Registered Owners of all Bonds then Outstanding. Nothing in the Indenture contained shall, however, affect or impair the right of any Bondholder to payment of the principal of, and redemption premium, if any, and interest on any Bond at and after its Maturity or the obligation of the City to pay the principal of, and redemption premium, if any, and interest on, each of the Bonds to the respective Registered Owners thereof at the time, place, from the source and in the manner herein and in such Bond expressed.

Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay, from the sources herein specified, at the respective dates of Maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, or any Owners to enforce such payment of such Owner's Bond.

Supplemental Indentures Not Requiring Consent of Bondholders

Subject to the Indenture, the City with the approval of the Bond Insurer, if any, and the Trustee may from time to time, without the consent of or notice to any of the Bondholders, enter into such Supplemental Indenture or Supplemental Indenture s as shall not adversely affect the interests of the Bondholders, for any one or more of the following purposes:

(1) To cure any ambiguity or formal defect or omission in the Indenture or to correct or supplement any provision therein which may be inconsistent with any other provision therein;

(2) To grant to or confer for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders or the Trustee or either of them;

(3) To subject to the Indenture additional revenues, properties or collateral;

(4) To issue the initial Series of Bonds as provided in the Indenture ;

(5) To make any other change which in the sole determination of the Trustee does not materially adversely affect the Bondholders; in making such determination the Trustee may rely on the opinion of such Counsel as it may select; and

(6) To evidence the appointment of a separate trustee or a co-trustee or the succession of a new Trustee.

(7) To close the Indenture against, or provide limitations and restrictions to the limitations and restrictions contained in the Indenture on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;

(8) To add to the limitations and restrictions in the Indenture, other limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(9) To provide for the issuance of bearer Bonds and interest coupons and establish appropriate exchange privileges and notice requirements in connection therewith;

(10) To authorize Bonds of a Series or to determine the terms and details thereof and, specify and determine matters and things relative to such Bonds which are not contrary to or inconsistent with the Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;

(11) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of the Revenues, or of any other moneys, securities or funds;

(12) To modify any of the provisions of the Indenture in any respect whatever, provided that (i) the effective date of such modification shall be, and expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of any Series Outstanding at the date of the adoption of such Supplemental Indenture shall cease to be Outstanding, and (ii) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(13) To insert such provisions clarifying matters or questions arising under the Indenture as are necessary or desirable and are not contrary to or inconsistent with the Indenture theretofore in effect.

Powers of Amendment

Any modification or amendment of the Indenture and of the rights and obligations of the City and of the Owners of the Bonds thereunder, in any particular, may be made by a Supplemental Indenture , with the written consent given as provided (as stated below) of the Owners of at least fifty-one percent (51 %) in principal amount of the Bonds Outstanding at the time such consent is given, or the written consent of the Bond Insurer, if any, is given (provided that the Bond Insurer is not in default under its Bond Insurance Policy and provided that ratings on the Bonds are not below AAA/Aaa) and (B) in case less than all of the several Series of Bonds then Outstanding are affected by the modification of amendment, of the Owners of at least fifty-one (51%) in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given or of the Bond Insurer; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption nor maturity of the principal of any Outstanding Bond or sinking fund installment or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of the Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment of the Indenture and any such determination shall be binding and conclusive on the City and all Owners of Bonds.

Consent of Bondholders

The City may at any time adopt a Supplemental Indenture making a modification or amendment permitted by the provisions stated above, to take effect when and as provided in this Section. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Bondholders or the Bond Insurer for their consent thereto in form satisfactory to the Trustee, shall be mailed by the City to Bondholders. Such Supplemental Indenture shall

not be effective unless and until (A) there shall have been filed with the Trustee (1) the written consents of Owners of the percentages of Outstanding Bonds specified in the Indenture or the Bond Insurer and (2) a Counsel's Opinion stating that such Supplemental Indenture has been duly and lawfully adopted and filed by the City in accordance with the provisions of the Indenture , is authorized or permitted by the Indenture, and is valid and binding upon the City and enforceable in accordance with its terms, and (E) a notice shall have been mailed as provided in this Section. Any such consent shall be binding upon the Owner of the Bonds or the Bond Insurer giving such consent and, upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Owner thereof has notice thereof) unless such consent is revoked in writing by the Owner of such Bonds giving such consent or the Bond Insurer or a subsequent Owner thereof by filing with the Trustee, prior to the time when the written statement of the Trustee provided in this Section for is filed, such revocation. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the City to the effect that no revocation thereof is on file with the Trustee. At any time after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the City and the Trustee a written statement that the Owners of such required percentages of Bonds or the Bond Insurer have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Indenture (which may be referred to as a Supplemental Indenture adopted by the City on a stated date, a copy of which is on file with the Trustee) has been consented to by the Owners of the required percentages of Bonds and will be effective as provided in this Section, may be given to Bondholders or the Bond Insurer by the City by mailing such notice to Bondholders (by failure to mail such notice shall not prevent such Supplemental Indenture from becoming effective and binding as provided in this Section) not more than ninety (90) days after the last of the Owners of the required percentages of Bonds or the Bond Insurer shall have filed their consents to the Supplemental Indenture and the written statement of the Trustee hereinabove provided for its filed. In the event the City has mailed the notice, the City shall file with the Trustee or Paying Agent proof of the mailing of such notice. A record, consisting of the papers required or permitted by this Section to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Indenture making such amendment or modification shall be deemed conclusively binding upon the City, the Fiduciaries and the Owners of all Bonds or the Bond Insurer at the expiration of forty (40) days after the filing with the Trustee of the proof of the mailing of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Indenture in a legal action or equitable proceeding for such purpose commenced within such (40) day period; provided, however, that any Fiduciary and the City during such forty (40) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Indenture as they may deem expedient.

Notwithstanding the foregoing, as long as the Series 1998 Bonds are outstanding and the 1998 Bond Insurer is not in default on the 1998 Bond Insurance Policy, the following paragraph shall apply and be controlling:

Unless otherwise provided in this Section, the 1998 Bond Insurer's consent shall be required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any supplemental indenture; (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) immediately above which requires Bondholder consent.

Modifications by Unanimous Consent

The terms and provisions of the Indenture and the rights and obligations of the City and of the Owners of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the City of a Supplemental Indenture and the consent of the Owners of all the Bonds then Outstanding, such consent to be given as provided above except that no notice to Bondholders by mailing shall be required; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders.

Notwithstanding the foregoing, as long as the Series 1998 Bonds are outstanding and the 1998 Bond Insurer is not in default on the 1998 Bond Insurance Policy, the following paragraph shall apply and be controlling:

Any provision of the Second Supplemental Indenture and the Indenture expressly recognizing or granting rights in or to the 1998 Bond Insurer may not be amended in any manner which affects the rights of the 1998 Bond Insurer hereunder without the prior written consent of the 1998 Bond Insurer.

Consent of Bond Insurers

Notwithstanding anything contained in the Indenture to the contrary, the consent of the Owner of any Bond which is entitled to the benefits of a Bond Insurance Policy issued by a Bond Insurer shall not be effective for purposes of this Article unless the Trustee shall have received the written consent of such Bond Insurer.

As long as the Series 1998 Bonds are outstanding and the 1998 Bond Insurer is not in default on the 1998 Bond Insurance Policy, the following paragraph shall apply and be controlling:

Any reorganization or liquidation plan with respect to the City must be acceptable to the 1998 Bond Insurer. In the event of any reorganization or liquidation, the 1998 Bond Insurer shall have the right to vote on behalf of all bondholders who hold Series 1998 Bond insured by the 1998 Bond Insurer absent a default by the 1998 Bond Insurer under the applicable 1998 Bond Insurance Policy insuring such Series 1998 Bonds.

Anything in the Second Supplemental Indenture and the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined in the Indenture, the 1998 Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under the Second Supplemental Indenture and the Indenture, including, without limitations (i) the right to accelerate the principal of the Series 1998 Bonds as described in the Indenture, and (ii) the right to annul any declaration of acceleration and the 1998 Bond Insurer shall also be entitled to approve all waivers of Events of Default.

Satisfaction and Discharge of the Indenture

A. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Owners of all Bonds the principal, redemption premium and interest due or to become due therein at the times and in the manner stipulated therein and in the Indenture , including the fees and expenses of the Trustee and the Paying Agent to the date of retirement of the Bonds, then the pledge of Net Revenues and other moneys

and securities pledged under the Indenture and the right, title and interest of the Trustee shall thereupon cease, terminate and be void, and thereupon the Trustee shall cancel, discharge and release the lien of the Indenture and shall execute, acknowledge and deliver to the City such instruments of satisfaction and discharge or release as shall be requisite to evidence such release and the satisfaction and discharge of the lien of the Indenture, and the Fiduciaries shall assign and deliver to the City any property and revenues at the time subject to the Indenture that may then be in their possession, except funds or securities in which such funds are invested by the Trustee for the payment of the principal of, and redemption premium, if any, and interest on, the Bonds.

If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the City to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

As between the City and any Bond Insurer, payments of principal or interest on any Bond made by such Bond Insurer under its Bond Insurance Policy to an Owner shall not constitute payments made or caused to have been made by the City to such Owner pursuant to this Section and any such payment made by such Bond Insurer to such Owner shall continue to be due and owing to such Bond Insurer (by subrogation) by the City.

Notwithstanding the foregoing, as long as the Series 1998 Bonds are outstanding and the 1998 Bond Insurer is not in default on the 1998 Bond Insurance Policy, the following paragraph shall apply and be controlling:

Notwithstanding anything in the Second Supplemental Indenture and in the Indenture to the contrary, in the event that the principal and/or interest due on the Series 1998 Bonds shall be paid by the 1998 Bond Insurer pursuant to the 1998 Bond Insurance Policy, the Series 1998 Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the City to the registered owners shall continue to exist and shall run to the benefit of the 1998 Bond Insurer, and the 1998 Bond Insurer shall be subrogated to the rights of such registered owners.

B. Bonds or interest installments for payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the City of funds for such payment or redemption or otherwise) at the maturity or Redemption Date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subsection A of this Section. All Outstanding Bonds of any Series shall prior to the maturity or Redemption Date thereof be deemed to have been paid within the meaning and with the effect expressed in subsection A of this Section if:

(1) in case any of said Bonds are to be redeemed on any date prior to their maturity, the City shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in the Indenture notice of redemption of such Bonds on said date,

(2) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or United States Government Obligations the principal of and the interest on which when due will provide money which, together with the moneys, if any, deposited with the

Trustee at the same time, shall be sufficient, to pay when due the principal or premium, if applicable, and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, and all necessary and proper fees, compensation and expenses of the Trustee and any Paying Agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for the satisfaction of the Trustee and Paying Agents, respectively, as the case may be, and

(3) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the City shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, to the Owners of such Bonds that the deposit required by (2) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

Neither United States Government Obligations nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such United States Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such United States Government Obligations deposited with the Trustee, (a) to the extent such cash will not be required at any time for such purpose, shall be paid over to the City as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Indenture, and (b) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable and legally permissible, be reinvested in United States Government Obligations maturing at times and in amounts sufficient to pay when due the principal or premium, if applicable, and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be.

C. Anything in the Indenture to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge or any of the Bonds which remain unclaimed for seven (7) years after the date which such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for seven (7) years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, unless otherwise provided by law, at the written request of the City, be repaid by the Fiduciary to the City, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the City for the payment of such Bonds; provided, however that before being required to make any such payment to the City, the Fiduciary shall, at the expense of the City, cause to be mailed to the Owner of each unpaid Bond at the address of such Owner as set forth on the Bond Register maintained by the Trustee, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than forty-five (45) days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the City.

D. In the event of an advance refunding, the City shall cause to be delivered a verification report of an independent nationally recognized certified public accountant.

E. Any forward supply agreement with respect to the United States Government Obligations shall be subject to approval by the Bond Insurer which has insured the particular Series of Bonds.

APPENDIX B

INFORMATION REGARDING THE CITY OF ST. LOUIS, MISSOURI

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APPENDIX B

INFORMATION REGARDING THE CITY OF ST. LOUIS

The information contained in this Appendix relates to and has been obtained from The City of St. Louis, Missouri (the "City"). The delivery of this Official Statement will not create any implication that there has been no change in the affairs of the City since the date hereof or that the information contained or incorporated by reference in this Appendix is correct as of any time subsequent to its date.

THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR PROVISION, AND THE TAXING POWER OF THE CITY IS NOT PLEDGED TO THE PAYMENT OF THE BONDS, EITHER AS TO PRINCIPAL, PREMIUM (IF ANY) OR INTEREST.

ORGANIZATION AND GOVERNMENT

General

The City is located on the Mississippi River, the eastern boundary of the State of Missouri, just below its confluence with the Missouri River. The City occupies approximately 61.4 square miles of land, and its area has remained constant since 1876. The City, a constitutional charter city not a part of any county, is organized and exists under and pursuant to its Charter and the Constitution and the laws of the State of Missouri.

The City is popularly known as the "Gateway to the West," due to its central location and historical role in the nation's westward expansion. Commemorating this role is the 630-foot stainless steel Gateway Arch, the world's tallest man-made monument, which is the focal point of the 86-acre Jefferson National Expansion Memorial on the downtown riverfront.

Government

The City's system of government is provided for in its Charter, which first became effective in 1914 and has subsequently been amended from time to time by the City's voters.

The Mayor, elected for a four-year term, is the chief executive officer of the City. The Mayor appoints most department heads, municipal court judges and various members of the City's boards and commissions. The Mayor possesses the executive powers of the City, which are exercised by the boards, commissions, officers and departments of the City under his general supervision and control.

The Comptroller is the City's chief fiscal officer, and is elected at large for a four-year term. The Comptroller is, by Charter, Chairman of the Department of Finance for the City and also has broad investigative audit powers over City departments and agencies. The Comptroller also has administrative responsibility for all of the City's contracts, financial departments and accounting procedures.

The legislative body of the City is the Board of Aldermen. The Board of Aldermen is comprised of 28 Aldermen and a President. One Alderman is elected from each of the City's 28 wards to serve a four-year term, one-half of which wards elects Aldermen bi-annually. The President of the Board of Aldermen is elected at large to serve a four-year term. The President is the presiding officer of the Board of Aldermen.

The Board of Aldermen may adopt bills or ordinances which the Mayor may either approve or veto. Ordinances may be enacted by the Board of Aldermen over the Mayor's veto by a two-thirds vote.

The Board of Estimate and Apportionment is primarily responsible for the finances of the City. The Board of Estimate and Apportionment is comprised of the Mayor, the Comptroller and the President of the Board of Aldermen. For more detailed information regarding the responsibilities of the Board of Estimate and Apportionment, see **"FINANCIAL MANAGEMENT AND EXPENDITURES CONTROLS -- Budget Process"** herein.

While most governmental functions of the City are controlled by the Mayor, the Comptroller, the Board of Estimate and Apportionment and the Board of Aldermen, the appointment of certain officials, whose decisions may also affect the City as a whole, including the members of the Board of Police Commissioners (the "Police Board"), and the Board of Election Commissioners, is made by the Governor of the State of Missouri. The Sheriff, Treasurer, Collector of Revenue, License Collector, Circuit Clerk, Circuit Attorney and Recorder of Deeds of the City are elected independently for four-year terms.

The City provides a wide range of municipal and county services, including police and fire protection, non-commercial refuse collection, park and recreational facilities, forestry services, social services, street and other public lighting, traffic control and street maintenance.

The City operates a water utility and Lambert-St. Louis International Airport, both of which are self-supporting enterprises. All of the airport facilities and portions of the water utility facilities are located in St. Louis County on property owned by the City. Sewage and drainage facilities in the City and in adjacent St. Louis County are operated by The Metropolitan St. Louis Sewer District, a separate taxing authority established under Section 30 of Article VI of the Constitution of Missouri and financed by ad valorem taxes and user fees. Public transportation facilities for the City and much of the surrounding metropolitan area are operated by the Bi-State Development Agency of the Missouri-Illinois Metropolitan District (the "Bi-State Development Agency").

The public school systems within the City are operated under the administration and control of The School District of the City of St. Louis and The Junior College District of St. Louis and St. Louis County. These districts are independent of the City, having their own elected or appointed officials, budgets and administrators. These districts are empowered to levy taxes, separate and distinct from those levied by the City, sufficient to finance the operations of the respective public school system within their jurisdictions.

Local Governmental Commissions and Agencies

There are a number of significant governmental authorities and commissions that provide services within the City.

The Police Department of the City of St. Louis is directed by the Police Board, consisting of the Mayor of the City, ex-officio, and four members appointed by the Governor of the State of Missouri, with the advice and consent of the State Senate. The Board has many duties and powers, including the power to administer oaths, summon witnesses and establish a police force. The level of employment, salaries, holidays, vacations, pensions and other employment benefits of the police force are set by state statute. The Board may provide itself with offices, office furniture, clerks and other staff as needed. On the last day of February each year, the Board must certify in writing an estimate of the amount of money necessary to carry out its duties during the next Fiscal Year. The state statute provides that the City must appropriate the certified amount in the General Revenue Fund budget for that year. However, a decision of the Supreme Court of Missouri, in State ex. rel Sayad v. Zych, 642 S.W.2d 907 (Mo. banc 1982), held that the City need only appropriate an amount equal to the amount appropriated in the 1980-1981 Fiscal Year, the year in which voters approved an amendment to the State Constitution limiting governmental tax and spending powers. After an appropriation has been made for a particular Fiscal Year, the Board is not permitted to

transfer appropriated funds for one line item of such appropriation to any other line item without the approval of the Board of Estimate and Apportionment.

The Bi-State Development Agency ("Bi-State") is a body corporate and politic established by a compact between Missouri and Illinois creating the Bi-State Development Agency and approved by an Act of Congress. The Bi-State Development Agency has authority to issue bonds payable out of revenues collected for the use of facilities leased, owned or operated by it in the City, St. Louis County and Illinois counties within the St. Louis Metropolitan Area. At present there is a special 1/2 cent sales tax authorized by the State of Missouri which is assessed by the City and St. Louis County and is primarily used to pay a portion of the costs of the bus transportation system of the Bi-State Development Agency. In August 1994 an additional 1/4 cent sales tax was approved by the voters for the expansion of the Metro-Link System, a transportation system within the City, St. Louis County and East St. Louis, Illinois. The Bi-State Development Agency operates the Metro-Link System between East St. Louis, Illinois and Lambert-St. Louis International Airport. Construction of the Metro-Link System began in April 1990, operation in late 1993 and extension of service to the Airport in 1994. In October 1996 Bi-State was awarded a full funding grant agreement of $249 million to be matched by a 1/2 cent sales tax increase totaling $95.2 million paid by the taxpayers of St. Clair County for a 17.4 mile eastward expansion and MetroLink to Scott Airforce Base in Illinois, constituting Phase I of a two-phase planned expansion of the system.

The MetroLink system currently consists of 17 miles of primarily double track alignment served by electrically powered multiple unit vehicles running from Lambert-St. Louis International Airport, the region's chief airport, through downtown St. Louis and across the Mississippi River to East St. Louis, Illinois. The system currently serves 19 stations. Scheduled to be completed in 2001, the Phase I Project will be the second addition to the MetroLink light rail system since the system began initial operation in July 1993. The first addition extended the alignment from its original terminus at the North Hanley Station to Lambert-St. Louis International Airport.

The Phase I Project will extend the system further into St. Clair County, Illinois beginning at the current eastern terminus of the MetroLink system - the 5th and Missouri and Station in East St. Louis - and running for 17.4 miles in an easterly to southeasterly direction to the Belleville Area college. The Phase I Project will serve eight new stations: Emerson Park; Hall Park; Washington Park; Fairview Heights; West Belleville/Memorial Hospital; Swansea; Belleville; and Belleville Area college. Besides the track and stations, the Phase I Project will include up to 20 new light rail vehicles, 3,500 new parking spaces at seven park-and-ride lots, and 41 new bus bays at stations. The Phase II Project will continue the extension for another 8.6 miles beyond Belleville Area College to the new Mid-America Airport. It will serve three additional stations: Shiloh, O'Fallon - Scott Air Force Base and Mid-America Airport.

Phase I Project construction began in March 1998. Total cost is estimated to be $339 million, of which approximately $244 million will be funded by federal grants over the six-year period ending in 2002. The Agency's portion of this cost has been financed from the proceeds of a $48,550,000 bond issue. The balance will be funded from other sources, including payments from various local participating public entities. Interim financing pending receipt of the federal grants has been provided by a $112,000,000 bond issue.

The construction of the Phase II Project will be dependent upon the availability of State of Illinois, federal and District monies. Construction of the Phase II Project is not expected to begin until after mid-year 1999 at the earliest.

The City exchanged its MacArthur Bridge over the Mississippi River for the older Eads Bridge owned by a railroad. The City conveyed title to the bridge to the Bi-State Development Agency to be used in the Metro-Link System. Other capital costs were federally financed. If the Metro-Link System should operate at deficit, the City and other nearby jurisdictions may be asked to increase their funding to the Bi-State Development Agency. However,

the City presently has no legal obligation or no present plans to increase its level of funding to the Bi-State Development Agency.

The St. Louis Development Corporation (the "SLDC") is a nonprofit corporation which provides technical expertise, staff and support services to public or civic bodies engaged in improving economic opportunities in the City. The SLDC functions as an umbrella entity for numerous agencies and authorities with a broad variety of functions and powers for the City. There are approximately 110 staff members, including executive, real estate, business development, commercial development, planning, urban design, neighborhood housing, research, communications, legal, finance and administration divisions. The agencies served by the staff of the SLDC include: Land Clearance for Redevelopment Authority; Planned Industrial Expansion Authority; Land Reutilization Authority; Local Development Company (SBA); Industrial Development Authority; Port Authority; and Operation Impact.

Other public bodies and agencies operating in the City include, but are not limited to, the St. Louis Housing Authority, Regional Convention and Visitors Commission, St. Louis Regional Commerce and Growth Association, the East-West Gateway Coordinating Council, the Regional Convention and Sports Complex Authority and Downtown St. Louis, Inc.

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ECONOMIC AND DEMOGRAPHIC DATA

Population and Other Statistics

The City is a part of the St. Louis Consolidated Standard Metropolitan Statistical Area (the "Metropolitan Area") consisting of the City and Franklin, Jefferson, Lincoln, St. Charles, St. Louis and Warren Counties in Missouri and Clinton, Jersey, Madison, Monroe and St. Clair Counties in Illinois. During the past 25 years, there has been a strong population growth in the outermost counties surrounding the City. At the same time, the City has experienced a substantial population loss. The following table sets forth population statistics for the Metropolitan Area for the indicated calendar years:

Calendar Year	City of St. Louis	Metropolitan Area
1960	750,026	2,185,000
1970	622,200	2,456,300
1980	453,100	2,414,000
1990	396,700	2,492,400
1995[1]	372,000	2,532,800
1996[1]	362,000	2,549,700
1997[2]	351,000	2,576,500

[1] Estimate developed by the St. Louis Chapter of the American Statistical Association.
[2] 1997 Estimate as of January 1, 1998, Source: St. Louis Chapter of the American Statistical Association.

Source: U.S. Bureau of Census.

Much of the downtown area of the City has undergone a coordinated improvement and development program over the last five years. This development program has included two expansions of the America's Center Convention Center, including the completion of the 65,000-seat Trans World Dome (home to the St. Louis Rams National Football League team), which creates the nation's largest second-tier convention center, and the completion of the 20,000 seat Kiel Center Arena (home to the St. Louis Blues National Hockey League team). In addition, $300 million was spent on the construction of the Metro-Link light rail system linking downtown St. Louis to Lambert-St. Louis International Airport. Ridership on the Metro-Link System has exceeded all pre-opening projections. In August 1994, voters passed a 1/4 cent sales tax to be used for further expansion of the Metro-Link System. Downtown St. Louis has the single largest concentration of employment in a region of approximately 2.6 million residents with approximately 109,000 employees, or 8.15% of total non-agricultural jobs in the St. Louis Metropolitan Area. It is the largest office center in the region with approximately 38% of its office space and 5,500 hotel rooms.

St. Louis maintains national recognition as a desirable option to live and work. According to a report published by *Fortune Magazine* on November 11, 1996, the St. Louis Metropolitan Area ranks sixth among America's largest cities as a place to live and work. Quality of life issues such as reasonably priced housing, short commuting times, quality public transportation, private and parochial schools, low crime rate and the availability of cultural activities are among its major assets. Additionally, the issue ranked the region as the nation's seventh largest corporate headquarters market with 21 Fortune 1000 corporations located there. The June 2, 1997 issue of the *St. Louis Business Journal* reports a study indicating that the City ranks as the tenth most affordable place to live in the United States, and *Entrepreneur* magazine's October 1996 issue ranks the City second in the country in automobile manufacturing.

The City is negotiating to construct a 1,000 plus room convention headquarters hotel to sit in the core of the Downtown business district directly across from America's Center. The combined renovation and new construction project will boast a 160-unit executive suites hotel and detached 900-room tower. Accordingly, the City would be in a more competitive position to attract some first tier conventioneers who require a substantial number of hotel rooms.

The City and federal government are also anticipating the completion of St. Louis' new federal courthouse which currently is over 80 percent complete. The courthouse is located in Downtown St. Louis, remaining in the heart of the government complex.

In terms of weight shipped or carried through the area, the City ranks as the second largest inland port in the United States. In 1997 Lambert-St. Louis International Airport (the "Airport") was the ninth busiest airport in the nation, tenth in the world for aircraft operations, and fifteenth in the nation and twenty second in the world in total passengers according to the Airport Council International. In 1997 there were approximately 517,000 aircraft operations and approximately 27 million passengers at the Airport, with approximately 1,400 average daily arrivals and departures. St. Louis-based Trans World Airlines, Inc. ("TWA") is a major domestic and international airline that flies to 76 North American and Caribbean destinations and provides service to 10 destinations in Europe and the Middle East. TWA also provides direct air service to Toronto, Canada and Cancun, Mexico. Much of the Airport's activity is attributed to its status as a hub for TWA. TWA's share of enplaned passengers at the Airport was approximately 70% in 1997. Effectively, TWA's plan of reorganization, confirmed by the U.S. Bankruptcy Court for the Eastern District of Missouri (the "Bankruptcy Court") on August 12, 1993, incorporated business strategies that allow the hub operation at the Airport to be maintained. At that time, TWA projected departures at the Airport to grow to 250 flights per day by September 1993. By December 1995 TWA had over 350 flights per day at the Airport and is currently operating 365 flights per day.

In a subsequent bankruptcy proceeding, the Bankruptcy Court confirmed TWA's prepackaged plan of reorganization on August 23, 1995 that decreased the company's outstanding debt by $500 million and reduced the company's interest expense by $50 million per year. The City understands that TWA was operationally restructured. Subsequently, TWA reached long-term labor agreements and completed a refinancing with the goal of reducing operating costs to improve its long-term financial structure.

Employment

The Metropolitan Area and the City are major industrial centers in the Eastern Missouri-Southwestern Illinois area with a broad range of manufacturing enterprises. According to information provided by the Missouri Division of Employment Security, in 1982 manufacturing represented 22.1 % or 217,600 of the total 986,300 non-agricultural jobs in the Metropolitan Area. At the end of 1997, there were approximately 166,200 manufacturing jobs in the Metropolitan Area, representing 16% of 1,038,477 total non-agricultural jobs in the Metropolitan Area. Although manufacturing jobs as a percentage of total jobs in the Metropolitan Area have decreased, there has been an overall increase in total jobs in the Metropolitan Area (1,045,328).

Relocation activities of the Department of Defense's Aviation and Troop Command (ATCOM) were completed December 1997, thus affecting over 3,000 jobs employed at a St. Louis City location. Several employees have elected to remain in the St. Louis area, and it is estimated that they have obtained jobs at 80 to 90 percent of their ATCOM salary.

Since the move, the General Services Administration (GSA) arm of the federal government has been working diligently to fill the one million square feet of space vacated by ATCOM workers. To date, the U.S. Postal Service has set up shop in a significant number of blocks of the facility to house workers committed to their Y2K endeavor. It is estimated that this intermediate stay could last up to five years. As the GSA's goal is to house

employees in the downtown government district, officials are currently considering the marketing plan of a major commercial firm interested in utilizing the entire ATCOM campus.

The following table reflects the City's employment by industry group at the end of 1997:

CITY EMPLOYMENT BY INDUSTRY GROUP
(TOTAL AVERAGE NON-FARM)

Industry Group	Employees
Manufacturing	38,749
Services	81,975
Government	42,007
Retail Trade	27,766
Transportation, Communication and Public Utility	20,708
Finance	21,415
Wholesale Trade	14,591
Construction	6,557
Other	196
Total	253,964

Source: Missouri Department of Labor and Industrial Relations.

While Southwestern Bell's corporation holding company, Southwestern Bell Communications Corporation ("SBC"), had realigned some jobs in the downtown area to Texas and California, the impact has been offset by two major business moves. A new call center near St. Louis County will have approximately 1,500 new employees, and the move of nearly 800 employees from other SBC subsidiaries from leased space in St. Louis County to the downtown old headquarters facility have helped strengthen their presence in the St. Louis Metropolitan Area. According to SBC officials, the influx of jobs to the City will result in little net change to employment numbers in the City. Similarly, key initiatives such as a telecommunity center and investments in technology and scholarships for local colleges punctuate SBC's commitment to have a long-term presence in the City.

Following the 1996 merger of the area's most prominent medical centers, Barnes-Jewish, Children's, Christian Northeast and Northwest Hospitals, and Missouri Baptist Hospital, into the blanket entity, BJC. BJC, which is headquartered in the City, and approved a $350 million campus integration plan to include in- and out-patient care, ambulatory care and a cancer center. According to the Regional Commerce and Growth Association (RCGA), this project once completed will pump an estimated $428 million into the economy, and provide employment for more than 4,700 workers, creating income greater than $145 million. BJC currently reports more than 15,000 jobs paying into the City's payroll taxes resulting from employees who work for the conglomerate.

For the sixth consecutive year, Barnes-Jewish Hospital has made the honor roll of hospitals from around the country as sited by the July 1998 edition of U.S. News and World Report.

Board of Aldermen approval is pending for a three-phase master plan development of the 1.3 million square feet of the historic Arena site proposed by St. Louis Development Corporation. The site is situated in the heart of the City directly across from historic Forest Park. It will include prime office space, restaurants and shops to service both campus workers and park visitors, and a Forest Park Visitor's Center as a cultural anchor. This redeveloped area expects to compete with suburban areas for large, growing firms in the technology and financial services sectors

that rend to opt for such environs. Conversely, the final development will complement rather than compete with Downtown St. Louis by targeting firms that would otherwise locate in outlying suburban areas. It is anticipated that once fully occupied, the office campus and surrounding venues will have added hundreds of jobs to the City's tax rolls, not to mention, real estate and property tax boosts.

Since 1982 total non-farm jobs within the City declined from 308,099 to 253,964 at the end of 1997, reducing its percentage of the region's job base by 7.2%, from 31.2% to 24%. Manufacturing decreased from 68,626 jobs in 1982 to 38,749 by the end of 1997 in the City. Although the City has experienced a decline in the number of jobs and its share of total jobs in the Metropolitan Area, the City has remained a significant source of employment for the region. Job growth in the City has been concentrated in the service sector since the City is growing as a service center and anticipates strong, long-term employment growth in the areas of medical, business and recreational services, as well as in education, and the tourism and convention business. In addition, in 1995 TWA added a total of approximately 1,700 employees to its St. Louis operations.

Relocations to the City in recent years have added jobs. The St. Louis Regional Commerce and Growth Association ("RCGA") was successful in arranging the relocation of 600 Union Pacific Railroad jobs from Denver to downtown St. Louis. The May Company headquarters for its retail division also moved 500 employees to the City over the last several years. In a similar fashion, the recent relocation of TWA's corporate headquarters to the City brought approximately 600 jobs to the downtown area, and an additional 1,100 jobs were gained as a result of TWA's moving its reservations center from St. Louis County to the City. In addition, consolidation of departments resulting from SBC's buy-out of Pacific Telesis will effect the move of several St. Louis jobs to cities in California and Texas; however, other positions in California and Texas will relocate to the City. According to SBC officials, this influx of jobs to the City will cause little net change to employment numbers in the City.

The RCGA also endorsed the relocation of the Rams football team to St. Louis. As a result, gains in business revenues to the Metropolitan Area are projected to be $100 million per year. Of that overall economic projection, the Metropolitan Area realized an estimated direct economic impact of $49 million over the course of eight home games played in 1995 with 65,000 persons attending each event. Contributing to this impact are ticket sales, parking, concessions, and after-game food and beverage consumption. The economic analysis projects gains in personal incomes of $40 million and 1,700 additional jobs. Admissions and restaurant and earning taxes will bring an estimated $5 million to the City annually.

The following table indicates average employment levels for City residents in the calendar years below:

	Average 1998*	**Average 1997**	**Average 1996**	**Average 1995**	**Average 1994**
Labor Force	167,258,925	165,962	172,178	167,843	165,273
Number Employed	154,575,876	154,073	159,307	154,773	152,923
% Unemployed	7.5%	7.2%	7.5%	7.8%	7.5%
% State Unemployed	4.4%	4.2%	4.6%	4.8%	4.9%
% U. S. Unemployed	4.7%	4.9%	5.4%	5.6%	6.1%

*Through August 30,1998

Source: Missouri Department of Labor and Industrial Relations.

Major Employers

The following table presents information relating to the top twenty non-governmental employers in the City based on the average of the fourth quarter payroll tax reports of 1997:

TOP TWENTY NON-GOVERNMENTAL EMPLOYERS - 1997

Company	Employees
BJC Health Systems	11,216
St. Louis University	10,506
Washington University	10,170
Southwestern Bell	6,577
Anheuser Busch, Inc.	6,275
May Department Stores	5,380
Boatmen's Bank[1]	5,239
Deaconess Hospital[2]	3,175
Union Electric	2,506
Mercantile Bank	2,503
A.G. Edwards & Sons, Inc.	2,373
St. Louis Children's Hospital	2,363
Trans World Airlines	2,013
Sigma Chemical	1,861
Ralston Purina Co.	1,790
Edison Brothers Stores	1,717
President Riverboat	1,687
Adams Mark Hotel	1,638
Cardinal Glennon Hospital	1,619
Union Pacific Railroad	1,615

[1] Boatmen's Bank has been purchased by, and is now known as, NationsBank.
[2] These businesses have been purchased by Tenet Healthcare.

Source: City Collector of Revenue.

According to the Collector of Revenue of the City of St. Louis, listed in the top ten public and governmental employers employing in excess of 2,500 employees are the City of St. Louis, the United States Post Office, the Board of Education of the City of St. Louis and the State of Missouri.

Economic Development

Since 1992, there has been more than $1.8 billion of development completed in and around downtown St. Louis. The City is also planning a number of other major new projects to continue development initiatives, including the construction of a new convention headquarters hotel across the street from the America's Center, the development of the site of the St. Louis Arena vacated after the completion of Kiel Center downtown and improvement of the Darst-Webbe housing complex to include mixed-use housing, businesses, etc. A number of neighborhood development projects are also planned or underway. Construction is either underway or soon to begin on over $ 1.1 billion of additional developments.

The following table lists information regarding major development projects totaling over $1.8 billion completed since 1992:

Completed	Project Type	Estimated Cost Of Project	Completion Date
1 Public School	New Construction	$ 7,650,000	1997
515 Olive Office Building	Rehabilitation	10,400,000	1997
A.G. Edwards Office Building	New Construction	30,000,000	1997
Affordable City Homes - West End	New – Apartments	4,500,000	1997
Art Loft Associates	Rehabilitation	5,000,000	1997
Blumeyer Housing Improvements	Rehabilitation	15,041,268	1997
Carr Square Phase I Comp. Mod.	New Construction	6,861,768	1997
Carr Square Village	Rehabilitation	36,000,000	1997
Clinton-Peabody Phase III Housing	Rehabilitation	8,243,615	1997
Cochran Improvements	Rehabilitation	4,179,738	1997
Concordia Publishing Co.	Renovation	2,500,000	1997
Elderly Public Housing ADA Improvements (System Wide)	Rehabilitation	3,120,635	1997
Home Depot	New Construction	10,500,000	1997
International Building	Rehabilitation	3,500,000	1997
KETC Channel Nine	New Construction	6,000,000	1997
Malcolm Bliss State Hospital	New Construction	20,000,000	1997
Missouri Botanical Gardens Resource Center	New Construction	5,000,000	1997
Northview Village	Rehabilitation	3,000,000	1997
Planet Hollywood	Renovation	4,000,000	1997
State Psychiatric Hospital	Rehabilitation	27,500,000	1997
Sverdrup Plaza	Renovation	6,000,000	1997
Terminal Railroad Trestle Reconstruction	New Construction	13,000,000	1997
3 Public Schools	New Construction	22,950,000	1996
AFT Inc. Nursing Home	New Construction	4,500,000	1996
American Cancer Society	New Construction	6,000,000	1996
Clinton-Peabody Phase II	Rehabilitation	8,770,676	1996
Landry's Restaurant	New Construction	2,500,000	1996
Mark Twain Hotel	Rehabilitation	3,000,000	1996
Medium Security Institution	Expansion	11,000,000	1996
Saint Louis University	Renovation/New Construction	200,000,000	1996
18th Street Garage	Rehabilitation	3,500,000	1995
A.G. Edwards Parking Garage	New Construction	5,000,000	1995
Jewish Hospital Garage	New Construction	12,000,000	1995
Stadium/Convention Center	New Construction	298,000,000	1995
A.G. Edwards Trust Co.	New Construction	4,000,000	1994
Admiral Casino	Rehabilitation	5,000,000	1994
Kiel Center & Parking Garage	New Construction	135,000,000	1994
Merck AG. Vet.	New Construction	3,000,000	1994
Pepsi Cola Building (Old GM Plant Area)	New Construction	25,000,000	1994
Veterans Administration Bldg.	New Construction	7,400,000	1994
Blue Cross/Blue Shield	Rehabilitation	15,800,000	1993
Convention Center So. Expansion	New Construction	142,000,000	1993

Equitable Building	Renovation	$3,000,000	1993
Hampden Hall	Rehabilitation	8,000,000	1993
Metro-Link Light Rail	New Construction	300,000,000	1993
Regal Hotel	Rehabilitation	15,000,000	1993
Senate/Congress West	Rehabilitation	3,100,000	1993
CPI Corporate Headquarters	Renovation	14,700,000	1992
Sextro Plaza/Ralston	Rehabilitation	3,500,000	1992
Southwestern Bell Info. Ctr.	New Construction	135,000,000	1992
Southwestern Bell Plaza	Renovation	145,000,000	1992
Union Electric Corp. Hdqrs.	Renovation/New Construction	56,000,000	1992

Source: St. Louis Development Corporation.

The following table lists information regarding major development projects totaling approximately $1.5 billion currently planned or under construction in the City:

Planned or Under Development	Project Type	Estimated Cost Of Project	Completion Date
Murphy Park Apartments-Phase I	New Construction	$17,000,000	1998
Small Business Technology Incubator	Rehabilitation	6,000,000	1998
Sigma Chemical World Headquarters and R & D	New Construction	11,500,000	1999
Sigma Chemical Co.	New Construction	13,000,000	1999
Renaissance Homes	New-Single Family	6,500,000	1999
Martin Luther King Dr and Sarah Shopping Center	New Construction	3,500,000	1999
Lone Star Industries	Expansion	4,500,000	1998
LaSalle Park Apartments	Rehabilitation	3,609,464	1998
Kiel Triangle Park	New Construction	3,000,000	1998
Hilton Pointe Apts. Phase II	New Construction	4,250,000	1999
Harris Stowe State College Library	New Construction	2,000,000	1998
Greater Ville Homes	New – Single Family	3,325,000	1999
Garage Improvements-St. Louis Centre North & East Garages	Renovation	2,000,000	1999
City Plaza Shopping Center Phase I	New Construction	6,000,000	1998
Boxes Inc.	Renovation	7,000,000	1998
Blumeyer Elderly Apts.	Rehabilitation	3,088,125	1998
A.G. Edwards Annex	New Construction	2,000,000	1998
705 Office Building	Renovation	5,000,000	1999
President Casino Complex	Renovation	45,000,000	1999
Multi-Modal Station	New Construction	25,000,000	2000
Maple Acres	New – Single Family	9,000,000	1999
Federal Courthouse	New Construction	180,000,000	1999
FBI Headquarters	New Construction	10,000,000	1999
210 North Tucker Office Building	Renovation	5,000,000	1999
Drury Plaza Fur Exchange Hotel	Renovation	25,000,000	1999
Marquette Apartments	Renovation	20,000,000	2000
Edison Brothers Warehouse Mixed Use	Renovation	50,000,000	2000
Cupples Station Westin Hotel	Renovation	40,000,000	2000
Riverside Apartments	New Construction	25,000,000	2000

1627 Washington Loft Building	Renovation	5,300,000	2000
1324 Washington Loft Building	Renovation	3,570,000	2000
SJI Headquarters	Renovation	4,500,000	2000
Saint Louis University Expansion	New Construction	80,000,000	2000
History Museum	Renovation/Expansion	24,000,000	2000
Justice Center Garage	New Construction	10,000,000	2001
Convention Headquarters Hotel	Renovation/New Construction	190,000,000	2001
Darst-Webbe Mixed Use Development	New Construction	150,000,000	2001
City Plaza Shopping Center Phase II	New Construction	6,000,000	2001
City Justice Center	New Construction	91,000,000	2001
Vashon High School	New Construction	50,000,000	2001
BJC Health Systems Phase I	New/Rehabilitation	225,000,000	2002
Forest Park Restoration	Renovation	86,000,000	2004
St. Louis Art Museum Expansion	Renovation	100,000,000	2005
Harris Stowe State College Expansion Phase II	New Construction	16,000,000	2005

Source: St. Louis Development Corporation.

Major Taxpayers

The following tables set forth information regarding the top payers of earnings tax, payroll tax, real estate tax and personal property tax to the Collector of Revenue for the indicated period:

TOP TWENTY TAXPAYERS
EARNINGS TAX - 1997 CALENDAR YEAR

Anheuser Busch, Inc.	$4,256,673
Southwestern Bell	3,134,355
BJC Health Systems	3,003,212
NationsBank	2,848,209
Washington University	2,743,882
St. Louis University	2,325,012
A.G. Edwards & Sons, Inc.	2,236,383
Union Electric Co.	1,526,007
May Department Stores	1,255,183
Mercantile Bank	1,232,224
Ralston Purina	1,172,208
Sigma Chemical	1,018,178
River City Broadcasting	838,484
Union Pacific Railroad	775,433
Mallinckrodt Inc.	653,049
Laclede Gas. Co.	612,718
A T & T	519,159
S L C Holdings	499,209
Tenet Health Systems	434,330
Pulitzer Publishing Co. Inc.	406,187

Source: City Collector of Revenue.

TOP TWENTY TAXPAYERS
PAYROLL EXPENSE TAX - 1997 CALENDAR YEAR

Anheuser Busch, Inc.	$2,042,467
Southwestern Bell	1,068,557
A.G. Edwards & Sons, Inc.	829,169
NationsBank	660,175
May Department Stores	536,839
Ralston Purina Co.	382,176
Union Electric	333,617
Mercantile Bank	332,429
Union Pacific Railroad	279,585
Sigma Chemical	237,294
Tenet Health Systems	228,208
Mallinckrodt Inc.	214,444
Edison Brothers Stores	200,369
Thompson Coburn	187,611
Laclede Gas Co.	172,573
Rightchoice Managed Care	169,723
Trans World Airlines	156,031
A T & T	155,483
Pulitzer Publishing Co., Inc.	148,214
St. Louis Cardinals LP	138,492

Source: City Collector of Revenue

TOP TWENTY TAXPAYERS
REAL ESTATE TAX - 1997 CALENDAR YEAR

Union Electric	$5,548,526
Anheuser Busch, Inc.	5,357,130
Laclede Gas Co.	3,846,569
Southwestern Bell Telephone	2,769,007
Metropolitan Life Insurance Co.	1,423,492
A. G. Edwards & Sons, Inc.	1,147,467
Seven-Seventeen Redevelopment Corp.	808,032
Mercantile Bank	802,739
Mallinckrodt	676,266
Union Center Redevelopment	625,100
Oscar Woesterman, et al.	517,353
May Department Stores	505,631
Centerre-Equitable Joint Venture	496,151
Mansion House-Day Frey et al.	485,741
Gateway One Office Venture	455,475
Edison Brothers/EBS	451,045
NationsBank	450,060
Heitman Properties	398,939
Gateway Hotel	388,538
Equitable Broadway	357,235

Source: City Collector of Revenue.

TOP TWENTY TAXPAYERS
PERSONAL PROPERTY TAX - 1997 CALENDAR YEAR

Southwestern Bell	$4,332,821
Ralston Purina Co.	1,274,728
President Riverboat Casino	1,249,728
Laclede Gas Co.	1,238,423
Union Electric Co.	915,079
Anheuser Busch, Inc.	913,922
A.G. Edwards & Sons, Inc.	778,552
Cybertel Corp.	587,037
Comdisco Inc.	571,291
Enterprise Leasing Co.	565,558
Ford Motor Credit Co.	560,357
IBM Credit Corporation	550,858
May Department Stores	513,614
NationsBank	490,689
Dan Cushman	464,300
Xtra Lease Inc.	398,058
Union Electric Co.	382,677
Mallinckrodt Chemical Inc.	311,461
Pulitzer Publishing Co. Inc.	301,025
Healthy Alliance Life	278,894

Source: City Collector of Revenue.

Budget and Construction Data

The following table shows trends in the number of building permits and value of housing construction, rehabilitation and commercial construction in the City for the calendar years set forth below:

Calendar Year	Value of Housing New	Value of Housing Rehabilitation	Value of Commercial, Industrial or other Non-Housing	Total Number of Permits	Total Value
1990	$2,672,800	$9,235,034	$265,476,027	3,226	$277,383,861
1991	5,545,348	11,820,524	268,654,733	3,220	286,020,605
1992	3,332,250	14,692,551	221,234,011	3,858	239,258,812
1993	4,364,650	8,500,254	326,532,135	3,201	339,396,039
1994	6,827,000	10,803,927	274,220,690	3,397	291,851,617
1995	12,584,500	21,235,408	263,294,393	3,284	288,114,301
1996	29,105,066	20,792,165	217,504,830	2,968	267,402,061
1997	15,571,647	19,657,159	177,982,816	4,019	213,211,622

Source: City Building Division.

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FINANCIAL MANAGEMENT AND EXPENDITURE CONTROLS

Introduction

Management of the City's finances includes preparation of an annual budget, control of the expenditure of City funds, cash management and the levy and collection of property taxes. This section presents information regarding the City's finances, including the City's accounting and budgeting practices.

Accounting and Reporting Practices

The City maintains its accounting records on the basis of funds and account group.

Governmental-Type Funds - Governmental-Type Funds are used to account for the acquisition, use and balances of the City's financial resources and related liabilities. The measurement focus is upon determination of changes in financial position, rather than net income determination. The following are the City's governmental-type funds:

General Revenue Fund - The General Revenue Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts of major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for acquisition or construction of major facilities (other than those financed by proprietary funds and trust funds).

Proprietary Funds - Proprietary Funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following describes the City's proprietary fund types:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily though user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost reimbursement basis.

Fiduciary Funds - Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The following describes the City's fiduciary fund:

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held in trust or as an agent by the City for others. Expendable funds are accounted for and reported in essentially the same manner as governmental funds. Agency Funds are custodial in nature and are used to account for assets held by the City as an agent for individuals, private organizations, other governmental units and/or other funds.

Account Groups - Account Groups are used to establish accounting control and accountability for the City's General Fixed Assets and General Long-Term Debt. The following describes the City's Account Groups:

General Fixed Assets Account *Group* - This account group is established to account for all fixed assets of the City, other than those accounted for in the proprietary funds.

General Long-Term Debt Account Group - This account group is established to account for all long-term debt of the City except that accounted for in the proprietary funds.

The financial statements of the various funds of the City, other than the Enterprise Funds, are presented, generally, on a modified accrual basis of accounting. An annual audit is made of the accounts and the records of the City. This examination is conducted by an independent certified public accountant, engaged by the Mayor for this purpose.

Budget Process

The Board of Estimate and Apportionment proposes annual operating and capital budgets for the ensuing Fiscal Year, based on information provided by the various City departments (including the Budget Division), commissions and boards.

After internal review and analysis by the Board of Estimate and Apportionment, a proposed budget, which includes a statement showing estimated receipts and expenditure requirements of each department, commission and board, and a comparative statement of receipts and expenses incurred for the previous year, is submitted to the Board of Aldermen.

Under a City Charter Amendment adopted in 1987, the Board of Estimate and Apportionment must submit its proposed budget to the Board of Aldermen no less than 60 days prior to the beginning of the Fiscal Year, July 1.

The budget bill is assigned to the Ways and Means Committee of the Board of Aldermen, which conducts public hearings on segments of the proposed budget prior to taking any action. Thereafter, the proposed budget is reviewed and then considered by the Board of Aldermen.

The Board of Aldermen may reduce the amount of any item in a budget bill, except amounts fixed by statute for the payment of principal of or interest on City debt or for meeting any ordinance obligations. The Board of Aldermen may not increase the amount of the proposed budget nor insert new items. Also under the City Charter, the Board of Estimate and Apportionment submits and recommends to the Board of Aldermen a bill establishing City real property tax rates. Currently, increasing the level of existing taxes or imposing new taxes requires voter approval in accordance with the Missouri Constitution. See the caption **"The Hancock Amendment"** herein.

Should the Board of Estimate and Apportionment not timely submit its proposed budget or tax rate to the Board of Aldermen, the Budget Director is required to submit directly to the Board of Aldermen data, including projected revenues and expenses, necessary to permit the Board of Aldermen to approve an operating budget prior to the beginning of the Fiscal Year.

Should the Board of Aldermen not approve a budget or tax rate by the beginning of a Fiscal Year, the proposed budget or tax rate recommended by the Board of Estimate and Apportionment, or, in its absence, the submission by the Budget Director, is deemed to have been approved by the Board of Aldermen.

Except with respect to the general appropriation bill and bills providing for the payment of principal of or interest on debt, no appropriation may be made from any revenue fund in excess of the credit balance of such fund, and no appropriation may be made for any purpose to which the money is not lawfully applicable. The Board of Estimate and Apportionment may, from time to time, appropriate any accruing, unappropriated City revenue, and whenever an appropriation exceeds the amount required for the purpose for which it was made, the excess or any portion or portions thereof may, by ordinance recommended by the Board of Estimate and Apportionment, be appropriated to any other purpose or purposes. All unexpended appropriated money, not appropriated by special ordinance for a specific purpose, reverts at the end of the then current Fiscal Year to the fund or funds from which the appropriation was made.

Financing Controls

During recent years, the City has implemented significant measures to upgrade its financial reporting systems. This was done in an effort to bring the financial system in line with the requirements of generally accepted accounting principles.

At present, the City utilizes a fully computerized Accounting Information Management System (the "AIM System") which was initiated in 1981. The AIM System is based on a single transaction concept of processing whereby all relevant files and reports are updated from a single input of information. The AIM System provides: (1) integrated general and subsidiary accounting of all funds: (2) appropriation/encumbrance accounting and controls and (3) generation of cost/expenditure data in multiple formats that are useful for budgetary control and other managerial purposes. In developing and evaluating the City's accounting system, consideration was given to the adequacy of internal accounting controls. Internal account controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets.

Through annual appropriations, the City maintains budgetary control at the department level by line item. Cost classifications are categorized in the following groups: personal services, supplies, materials, contractual services and equipment.

Encumbrances are recorded by the Control Section through an on-line budgetary control module before requisitions are sent to the Purchasing Division. If sufficient funds are not available to cover a purchase, the requisition is returned to the originating department for transfer of funds or cancellation. Departments' appropriations are allowed to be adjusted by transfers with the prior approval of the Board of Estimate and Apportionment. The Comptroller is able to control all of the above using the AIM system.

It is the special responsibility of the Comptroller, as set forth in the Charter, to provide City officials and taxpayers with reasonable assurances that public funds and property are adequately safeguarded and that financial transactions are authorized and properly recorded. The internal audit staff of the Office of the Comptroller is responsible for carrying out the Charter and ordinance provisions relating to the audit of records, funds and securities of every person charged with safekeeping of the City's assets. The objective is to evaluate the procedures in effect to conserve and safeguard the City's property. Besides the focus on the collection and recording of receipts, department audits include development of recommended procedures for improvement of internal controls in the maintenance of accounts receivable and properly control records. Audits are conducted on a continuing cycle.

Cash Management

Cash management is handled by the City Treasurer. The Treasurer, an elected official, maintains bank accounts, invests funds and maintains account records.

All cash not restricted by law to specific accounts is pooled into the "General Pooled Cash" and invested by the City Treasurer. The Treasurer provides cash forecasting so that adequate cash is available while investments are maximized. All investments held by the Treasurer as of February 6, 1998 totaled $263,638,354 at cost. Consistent with state law, all investments held by the Treasurer are in direct securities backed by the full faith and credit of the U.S. Government or its agencies and those that may be approved by the State Treasurer, or in time deposits collateralized by those securities.

Cash Management Investment Policy

On March 6, 1998 the City adopted its revised Public Funds Investment Policy through the Funds Committee of the City. The investment policy applies to all financial assets of the City, including the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Internal Service Funds, Enterprise Funds, Trust and Agency Funds and proceeds of bond issues, but does not apply to the City's pension funds. The objectives stated in the policy (in order of priority) are (a) security, (b) liquidity, (c) investment return, (d) local economic benefit and (e) social policy. The policy applies a prudent man standard to management of the overall portfolio, with investments limited to U.S. Government obligations, obligations of any agency or instrumentality of the U.S., bonds of the State of Missouri or the City, certificates of deposit, repurchase agreements maturing within 90 days and deposits with listed institutions. Certificates of deposit, repurchase agreements maturing within 90 days and deposits with listed institutions must be collateralized. The City's revised Public Funds Investment Policy has been approved for certification by the Municipal Treasurers' Association of the United States and Canada. Columbia Capital Consultants, LLC serves as investment consultant to the Treasurer's office.

General Revenue Fund

In accordance with generally established accounting procedures for governmental units, the City records its financial transactions under various funds. The largest is the General Revenue Fund, from which all general operating expenses are paid and to which taxes and all other revenues not specifically allocated by law or contractual agreement to other funds are deposited. Expenditures from the General Revenue Fund are for payments of the payroll, pension, employee benefits and other miscellaneous ordinary operating expenses.

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Table I which follows is the City's combined Statement of Revenues, Expenditures and Changes in Fund Balances for the indicated Fiscal Years.

Table I

CITY OF ST. LOUIS
General Revenue Fund
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Accrual Basis - Fiscal Years Ended June 30
(In Thousands)

	1997	1996	1995	1994	1993
Revenues					
Taxes	$289,466	$281,237	$281,745	$269,293	$249,555
Licenses & Permits	14,965	13,498	13,584	14,952	19,592
Intergovernmental Aid	4,155	4,826	3,035	6,317	7,640
Charges for Services	12,210	11,791	11,592	11,681	11,629
Court Fines & Forfeitures	4,327	6,435	6,365	5,850	6,055
Interest	5,942	6,037	3,984	2,845	2,848
Miscellaneous	7,307	2,917	2,976	2,963	2,757
Total Revenues	$338,372	$326,741	$323,281	$313,901	$300,076
Expenditures					
General Government	$33,037	$31,392	$37,215	$29,342	$30,786
Convention & Tourism	1,035	4,758	1,044	1,360	1,942
Parks and Recreation	15,231	13,833	13,628	12,403	12,112
Judicial	29,233	28,918	28,179	26,329	24,879
Streets	29,136	29,341	28,471	26,112	24,524
Public Safety	63,893	62,534	57,398	52,199	51,322
Health and Welfare	18,392	16,496	16,353	16,297	32,101
Public Services	19,125	18,413	16,928	17,050	15,728
Police (1)	0	0	0	0	84,796
Capital Outlay	464	4	4	1,221	3,636
Debt Service Principal	3,700	3,783	10,336	10,818	6,611
Interest & Fiscal Charge	18,274	14,817	13,473	10,840	14,031
Total Expenditures	$231,520	$224,289	$223,029	$203,971	$302,458

(1) The Police Department became a discretely presented component unit (per Governmental Accounting Standards Board Statement No. 14) beginning in Fiscal Year 1994.

Source: Audited Financial Statements.

(Continued on Next Page)

Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Accrual Basis - Fiscal Years Ended June 30 (Continued)
(In Thousands)

	1997	1996	1995	1994	1993
Excess of Revenues Over (Under) Expenditures	$106,852	$102,452	$100,262	$109,930	$(2,392)
Other Finance Sources/(Uses)					
Proceeds from Capital Leases	11,855	0	0	0	329
Proceeds from Convention Center Refinancing	0	0	0	154,063	0
Proceeds from Notes Payable	0	0	0	0	127
Operating Transfers from Component Units	125	125	125	125	0
Operating Transfers In	15,497	14,381	13,221	7,310	6,686
Operating Transfers Out	(12,386)	(11,782)	(9,520)	(4,287)	(5,273)
Proceeds from Joint Ventures	0	0	0	0	4,988
Payment to Bond Escrow Agent	0	0	0	(150,973)	0
Sales of General Fixed Assets	0	0	0	0	20
Contract Settlement with Airport	0	0	0	0	(435)
Operating Transfers to Component Units	(102,863)	(99,499)	(98,082)	(90,661)	0
Other Finance Sources/Uses	0	0	0	0	0
Total Other Financing Sources (Uses)	$(87,772)	$(96,775)	$(94,256)	$(84,423)	$6,442
Excess of Revenues & Other Finance Sources Over (Under) Expenditures & Other Uses	19,080	5,677	5,996	25,507	4,050
Fund Balances (Beginning of Fiscal Year) (1)	66,479	60,802	54,806	29,581	25,897
Equity Transfers In	0	0	0	0	108
Equity Transfers Out	0	0	0	0	0
Fund Balances (End of Fiscal Year)	$85,559	$66,479	$60,802	$55,088	$30,055

(1) Fund Balances (Beginning of Fiscal Year) at June 30, 1996, 1995 and 1994 differ from Fund Balances (End of Fiscal Year) of the preceding Fiscal Year due to the adoption of GASB No. 14 and other accounting matters.

Source: Audited Financial Statements.

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The table which follows shows General Revenue Fund results on a budgetary (cash) basis for the Fiscal Years set forth below:

Table II

CITY OF ST. LOUIS
General Revenue Fund
Summary of Operations
Cash Basis - Fiscal Years Ended June 30
(In Thousands)

	1998	1997	1996
Revenues			
Taxes	$293,649	$290,786	$281,894
Licenses	15,494	13,912	13,654
Intergovernmental Aid	5,532	4,301	4,904
Charges for services	11,903	11,985	12,140
Court Fines & Forfeitures	4,618	4,327	4,017
Interest	2,948	2,024	2,556
Miscellaneous	2,530	4,914	2,885
Total Revenues	336,674	332,249	322,050
Expenditures			
General Government	$33,908	$30,748	$29,799
Convention & Tourism	2,027	1,034	2,017
Parks & Recreation	13,907	15,196	13,773
Judicial	3,474	28,898	29,359
Streets	28,470	29,955	29,349
Public Safety	73,167	63,523	62,449
Health & Welfare	15,783	18,745	17,668
Public Services	18,535	19,704	18,304
Police	104,934	101,766	97,926
Debt Service	18,128	17,860	16,837
Total Expenditure	340,333	328,429	317,481
Excess of Revenues Over (Under) Expenditures	(3,650)	(3,820)	4,569
Other Financial Sources (Uses):			
Operating Transfers In	20,777	11,669	15,776
Operating Transfers Out	(7,233)	(7,042)	(5,628
Total Other Finance Sources (Uses)	13,544	4,627	10,148
Excess of Revenues & Other Finance Sources Over (Under) Expenditures & Other Finance Uses	$ 9,888	$ 8,447	$14,717
Fund Balances (Beginning of Fiscal Year)	16,393	12,284	17,200
Use Tax Reserve	7,107	--	(14,250)
1/2 Operating Surplus to Capital Improvements Funds	(5,000)	(4,338)	(5,383)
Fund Balances (End of Fiscal Year)	$28,325	$16,393	$12,284

Source: City Comptroller's Office.

General Revenue Fund Receipts by Category

The following table sets forth the percentage of receipts for various categories of the General Revenue Fund for the Fiscal Years set forth below:

	1998	1997	1996	1995	1994
TAXES:					
Earnings	30.82%	31.58%	30.35%	30.43%	31.74%
Franchise	14.03	14.47	14.88	13.98	15.39
Sales	12.96	13.45	13.45	13.73	11.90
Gross Receipts	2.34	2.31	1.92	1.83	2.20
Motor Vehicle Sales Tax	.97	1.01	0.97	0.97	0.97
Motor Fuel	2.38	2.81	2.69	2.69	2.58
Real Estate	6.99	7.38	6.78	7.35	7.44
Personal Property	33.08	3.00	3.05	2.75	2.68
Payroll	8.03	8.17	7.77	7.70	7.87
Local Use Tax	0.00	0.00	1.22	1.56	1.23
Other Taxes	0.14	0.34	0.36	0.10	0.12
Total Taxes	82.14%	84.52%	83.44%	83.09%	84.12%
LICENSE FEES	4.34	4.08	4.04	4.11	4.67
DEPARTMENTAL RECEIPTS	7.66	7.98	7.81	7.80	8.02
27th PAY RESERVE TRANSFERS	0.05	0.03	0.04	1.75	0.05
TRANSFERS	5.81	3.39	4.67	3.25	3.14
	100.00%	100.00%	100.00%	100.00%	100.00%

Source: City Comptroller's Office.

Earnings Tax

The City's Earnings Tax is the most significant single source of General Revenue Fund revenues, representing approximately 31% of the total General Revenue Fund revenues for the Fiscal Year ended June 30, 1997. The Earnings Tax is levied against residents of the City, nonresidents employed within the City and businesses within the City. The Earnings Tax was authorized by State statute in 1954 and was initially set at the rate of one-half of one percent of the gross income of individuals and of net profits of businesses within the City. The current rate of one percent has been in effect since 1959.

Earnings Taxes are withheld by employers and submitted to the City on a quarterly basis, except for employers withholding more than $ 1,500 per month, who remit their taxes monthly. Residents of the City who are employed outside of the City and do not have the Earnings Tax withheld from their pay are required to file a tax return and pay the Earnings Tax on an annual basis.

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The City's Earnings Tax revenue for the Fiscal Years set forth below was as follows:

Year	Earnings Tax
1993	$ 97,753,707
1994	99,270,129
1995	101,685,365
1996	102,519,126
1997	108,662,508
1998	110,144,735

Source: City Comptroller's Office

Franchise Tax

The Franchise Tax of the City is a tax on utilities operating within the City and on certain gross receipts of the Airport. This tax is passed on to the consumers by the utilities. The tax on Laclede Gas Company and Union Electric Company is 10% of the gross receipts from their commercial customers and 4% from their residential customers. Saint Louis Telecommunications, Inc. is taxed on 5% of gross revenues for its City cable franchise. The Southwestern Bell Telephone Company, Trigen Energy Corp. and the Water Division of the City are taxed 10% of their gross receipts from all users and the Lambert-St. Louis International Airport pays to the General Revenue Fund 5% of its gross revenues. Franchise Taxes are collected and paid to the City monthly and/or quarterly.

The City's Franchise Tax revenue for the Fiscal Years set forth below was as follows:

Year	Franchise Tax
1994	$48,141,501
1995	46,713,618
1996	50,279,555
1997	49,784,243
1998	50,166,650

Source: City Comptroller's Office

Sales Tax

A City Sales Tax, which was authorized by the Missouri General Assembly and was approved by voters at an election held in 1969, became effective in 1970 at a rate of one percent of sales within the City. This tax is collected on a monthly basis by the State along with the State sales tax and remitted to the City by the 10th of the following month.

On August 3, 1993, voters approved a three-eighths cent sales tax increase for general operations and a one-half cent sales tax increase for capital improvements. Collection began January 1994. Both approvals were unchallenged and permanent.

The City's General Fund Revenue Sales Tax receipts for the Fiscal Year set forth below were as follows:

Year	Sales Tax
1994	$37,230,389
1995	45,886,571
1996	45,453,050
1997	46,275,033
1998	46,329,812

Source: City Comptroller's Office

Gross Receipts Tax

The City's Gross Receipts Tax is comprised of four components: (1) public garage and parking lots tax; (2) amusements admission tax; (3) one-half cent restaurant tax; and (4) natural gas tax, which began May 1, 1991.

The City's Gross Receipts Tax revenue for the Fiscal Years set forth below was as follows:

Year	Gross Receipts Tax
1994	$6,540,037
1995	5,790,157
1996	6,503,344
1997	7,940,351
1998	8,353,462

Source: City Comptroller's Office

During fiscal year 1998, the natural gas tax was ruled invalid by the Missouri Court of Appeals. The three-judge appellate panel said the City lacked the authority to enact such a fee, reasoning that it is really a use tax for which the city has no power under state law to impose.

Motor Vehicle Sales Tax

The Motor Vehicle Sales Tax is collected by the State in the form of the State sales tax and remitted to the City monthly. A constitutionally-mandated portion of the proceeds of the State sales tax is distributed to local governments, including the City, based on their proportionate share of the State's total population.

The City's Motor Vehicle Sales Tax revenue for the Fiscal Years set forth below was as follows:

Year	Motor Vehicle Sales Tax
1994	$3,030,454
1995	3,230,730
1996	3,273,919
1997	3,467,986
1998	3,484,553

Source: City Comptroller's Office

Motor Fuel Tax

The City receives a share of the State motor fuel tax based upon population. Motor fuel tax is collected by the State on a monthly basis and remitted to the City monthly.

The City's Motor Fuel Tax revenue for the Fiscal Years set forth below was as follows:

Year	Motor Fuel Tax
1994	$8,069,981
1995	8,975,884
1996	9,082,358
1997	9,656,919
1998	9,946,698

Source: City Comptroller's Office

Real and Personal Property Taxes

Taxes are levied on all real and personal property owned as of January 1 in each year. Tax bills are mailed out in November and payment is due by December 31, after which taxes become delinquent. Residential property is currently assessed at 19% of true value, commercial property is assessed at 32% of true value, and agricultural property is assessed at 12% of true value. Real property is reassessed every two years (in odd-numbered years), as required by State law. Reassessments are reflected in the value below for the indicated years. The formula for setting the tax rate does not allow for more than normal growth in tax collections. As a result, there is no "windfall" to the City as a result of the reassessment. During 1995, House Bill 211 changed the assessment of large apartment buildings from commercial to residential classification. The assessment loss for the City was $40 million.

	Real Property[1]		Personal Property[1]			
Calendar Year	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Merchants & Manufacturers Inventory[2]	Total Assessed Value
1994	$1,836,918,398	$7,610,241,195	$770,925,863	$2,315,092,681	$229,034,027	$2,836,878,288
1995	1,791,104,076	7,543,672,762	766,624,918	2,302,176,931	242,496,811	2,800,225,805
1996	1,765,203,352	7,457,159,339	784,576,338	2,356,085,099	294,413,111	2,794,192,801
1997	1,788,721,792	7,539,338,315	795,179,452	2,387,926,282	244,660,432	2,828,561,676
1998	$1,804,665,643	$7,594,277,913	$842,766,603	$2,530,830,740	N/A[3]	2,647,432,246

Source: [1]City Assessor's Office.
[2]City License Collector's Office.
[3]Manufacturers Number N/A for 1998.

The estimated **"MARKET VALUE"** of real property in the City for the last five calendar years is set forth below:

Calendar Year	Commercial	Residential	Total Real Property
1994	$3,007,481,316	$4,602,659,879	$7,610,241,195
1995	2,752,255,778	4,791,316,984	7,543,672,762
1996	2,679,562,134	4,777,597,205	7,457,159,339
1997	2,740,365,478	4,798,972,837	7,539,338,315
1998	2,782,714,150	4,811,563,763	7,594,277,913

Source: City Assessor's Office.

The tax rate levied on real and personal property for the General Revenue Fund of the City during Fiscal Year 1997 was $ 1.40 per $ 100 of assessed valuations. The collection rate for the Fiscal Year 1997 was 89.4% compared to rate of 86.7% for the Fiscal Year 1998. Tax receipts paid in protest are distributed to the City after the normal due date for real property taxes. Consequently, the rate of collection as a percentage of current amounts due is understated.

The City's Real and Personal Property Tax revenue for the Fiscal Years set forth below, on a cash basis, was as follows:

Fiscal Year	Real Property	Personal Property
1994	$22,691,370	$ 8,381,257
1995	23,926,761	9,204,677
1996	22,886,867	10,302,884
1997	25,211,126	10,342,221
1998	24,448,938	11,004,557

Source: City Comptroller's Office

Payroll Tax

In an election held in 1988, voters approved a Payroll Tax. The Payroll Tax is one-half of one percent of total compensation paid by a business to its employees for work in the City. The tax is not applicable to not-for-profit, charitable, civic organizations or hospitals. The Payroll Tax is administered by the Collector of Revenue and is payable quarterly on the last day of January, April, July and October for the preceding calendar quarter.

The City's Payroll Tax revenue for the Fiscal Years set forth below, on a cash basis, was as follows:

Fiscal Year	Payroll Taxes
1994	$24,602,678
1995	25,724,069
1996	26,238,336
1997	28,098,389
1998	28,717,504

Source: City Comptroller's Office

Other Taxes

Other taxes collected by the City include the intangible tax, land tax suits, manufacturers tax, commercial property surcharge and county stock insurance tax. The City's other tax revenue for the Fiscal Years set forth below, on a cash basis, was as follows:

Fiscal Year	Other Taxes
1994	$1,324,493
1995	1,296,038
1996	1,239,282
1997	1,178,702
1998	1,041,480

Source: City Comptroller's Office

License Fees

License Fees are collected by the City for the use or sale of or conduct of business in the following categories: automobiles, cigarettes, liquor, business, contractors and certain miscellaneous items. (Prior to Fiscal Year 1991, amusements and public parking were included in the License Fees.) A variety of business license and inspection fees were replaced with the Graduated Business License Tax and the Payroll Tax in 1988 by voter approval. The Graduated Business License Tax is a flat rate, depending on the number of St. Louis employees in the previous calendar year. The tax ranges from $150 for employers with two or fewer employees to $25,000 for employers with greater than 500 employees. The issuing of business licenses and the collection of the new License Fees is administered by the License Collector's Office. The first collection of the Graduated Business License Tax was due on July I, 1989. The license covers the period from July 1 through June 30. An ordinance was passed in 1993 to change the period covered to June 1 through May 31, becoming delinquent by June 30. The increase of License Fees in Fiscal Years 1993 is largely due to this date change.

The City's License Fee revenue for the Fiscal Years set forth below, on a cash basis, was as follows:

Fiscal Year	License Fees
1994	$14,602,910
1995	13,732,682
1996	13,653,290
1997	13,912,180
1998	15,494,049

Source: City Comptroller's Office

Departmental Receipts

Several City departments generate revenues from fees and charges. Those revenue-producing departments include the Department of Parks and Recreation and Forestry, the Public Safety Department, the Street Department, the Public Utilities Department, the Department of Health and Hospitals, Recorder of Deeds, Circuit Court, Juvenile Detention Center, Sheriff, Medical Examiner, Probate Court and the City Courts.

The City's Departmental Receipts revenue for the Fiscal Years set forth below, on a cash basis, was as follows:

Fiscal Year	Departmental Receipts
1994	$22,804,017
1995	23,544,003
1996	26,698,596
1997	27,452,870
1998	27,530,903

Source: City Comptroller's Office

Operating Transfers

A major source of transferred funds is from other Special Revenue Funds. Other Special Revenue Funds consist of Child Support Unit-Circuit Attorney Fund and Columbia Bottoms Fund. Remaining transfers represent funds which by law must first be deposited in a fund, other than the General Revenue Fund, which, after a determination by the Comptroller that such deposits are a surplus, are transferred to the General Revenue Fund. The City's Operating Transfers for Fiscal Years set forth below, on a cash basis, was as follows:

Fiscal Year	Operating Transfers[1]
1994	$12,270,554
1995	13,609,398
1996	15,776,408
1997	11,669,013
1998	20,776,765

[1] Figures do not include transfers related to certain employment reserves.

Source: City Comptroller's Office

General Revenue Fund Expenditures

General Revenue Fund Revenues, Expenditures and Changes in Fund Balances are shown on an accrual basis for the past five Fiscal Years in **Table I** above. **Table II** above shows a General Revenue Fund Summary of Operations on a budgetary (cash) basis for the Fiscal Years ended June 30, 1998, June 30, 1997 and June 30, 1996.

The City provides funding for several significant municipal services which are not subject to direct City management and control. These are the St. Louis Regional Health Care Corporation and the Police Department. Each is discussed below.

St. Louis Regional Health Care Corporation

Effective September 30, 1985, the City entered into an agreement with St. Louis Regional Health Care Corporation ("RHCC") to provide hospital services to medically indigent inhabitants of the City over a period of ten years. Under the terms of the agreement, the City was obligated to make periodic payments to RHCC for services provided to certified City patients according to a formula. At expiration of the agreement, all debt of RHCC had been retired.

Pursuant to the terms of an agreement reached on July 15, 1997, in connection with litigation relating to RHCC, the City agreed to pay for transition costs of up to $8.3 million (which finally totalled $5.21 million) incurred by RHCC during a ninety-day transition period whereby the provision of health care services to the indigent citizens of the City would be provided by RHCC. After such period, indigent health care services would be provided by a nonprofit corporation created to provide such services. The costs to the City are not expected to exceed $3.2 million, and the Comptroller of the City has the authority to audit all costs during the transition period. See **"Litigation"** herein.

The Board of Police Commissioners

The Board of Police Commissioners of the City of St. Louis, Missouri (the "Police Board") was established by Chapter 84 of the Revised Statutes of Missouri to provide the police force for the City. The Police Board employs the police force, administers the police department and provides offices, police stations and equipment of the police department.

Although the Police Board is not subject to direct City management and control, it derives almost all of its revenue from the City and has no power to levy taxes for any purpose. The Police Board does receive from time to time special grants and proceeds from asset forfeitures that amount in total to approximately 5% of their budget. The Police Board is required by law to prepare on or before the last day of February of each year a written estimate of the amount which will be necessary for the upcoming Fiscal Year to enable the Police Board to discharge its duties and meet the expenses of the police department and to certify the amount to the Board of Aldermen of the City. See the caption **"The Hancock Amendment"** herein.

The Board of Aldermen of the City is required by State statute to make the necessary appropriation for the amount certified, payable out of revenues of the City after deducting the amount necessary to make the City's indebtedness payments, and to pay City hospital, health department and lighting expenses, but it has been held that the Board of Aldermen is not required under the statute to appropriate for the Board for any Fiscal Year a sum in excess of $66,634,713, which was the amount of the budget certified as of the effective date of the amendment to the Constitution of Missouri commonly known as the "Hancock Amendment," which became effective on December 4, 1980. See the caption **"The Hancock Amendment"** herein.

Although the Board of Aldermen is not required to do so, it may appropriate sums for the Police Board in excess of $66,634,713 per Fiscal Year, and the Board of Aldermen has done so for each of the past ten Fiscal Years. The Board of Aldermen, however, did not approve the entire amount of the initial budget submitted for each of those Fiscal Years. The budget as approved by the Board of Aldermen for Fiscal Year 1996 was $97,485,189, for Fiscal Year 1997 was $101,926,606 and for Fiscal Year 1998 was $106,399,288. The Police Board entered into a lease agreement in August 1988 in connection with the $12,890,000 Missouri Industrial Development Board's Capital Improvement and Refunding Leasehold Revenue Bonds, Series 1988 (Board of Police Commissioners of the City of St. Louis, Missouri, Lessee). The proceeds of the financing were used to purchase, construct and equip three new police stations. The lease was refinanced in June 1994 for $13,725,000. The additional proceeds generated were used for further capital improvements. The lease obligation will be financed by a portion of the 1/4 cent sales tax earmarked for this purpose. The payments under the lease average $1,423,000 per annum and have been herein included in the section **"DEBT OF THE CITY - Capital Leases."**

The amount budgeted by the Board of Aldermen for the Police Board is included in the budget for the City's General Revenue Fund. **See "FINANCIAL MANAGEMENT AND EXPENDITURE CONTROLS – Budget Process"** herein. The budget of the Police Board is prepared under the cash basis of accounting and any unexpended appropriations lapse and are resumed to the City.

The Hancock Amendment

An amendment of the Missouri Constitution limiting taxation and government spending was approved by Missouri voters on November 4, 1980. The amendment (popularly known as the Hancock Amendment) limits the rate of increase and the total amount of taxes which may be imposed in any Fiscal Year, and the limit may not be exceeded without voter approval. Provisions are included in the amendment for rolling back tax rates to produce an amount of revenues equal to that of the previous year if the definition of tax base is changed or if property is reassessed. The tax levy on the assessed valuation of new construction is exempt from this limitation. The limitation on local governmental units does not apply to taxes imposed for the payment of principal of and interest on general obligation bonds approved by the requisite percentage of voters.

The Hancock Amendment also requires political subdivisions of the State to obtain voter approval in order to increase any "tax, license or fee." The precise meaning and application of the phrase "tax, license or fee" is unclear, but recent decisions of the Supreme Court have indicated that it does not apply to traditionally set fees. The limitations imposed by the Hancock Amendment restrict the City's ability to increase many but not all taxes, licenses and certain fees without obtaining voter approval.

DEBT OF THE CITY

General

The City is authorized to issue general obligation bonds payable from unlimited ad valorem taxes upon a two-thirds (2/3) majority vote of the qualified voters voting on the specific proposition. In August 1988, Missouri voters approved an amendment to the Missouri Constitution. The amendment reduced the majority vote required for the incurring of debt for various public purposes by local government and other political subdivisions from two-thirds (2/3) to four-sevenths (4/7) at elections on the general municipal election days or the state primary or general election days. Because the City Charter presently requires a two-thirds (2/3) vote for the issuance of bonds of the City, voter approval of a Charter amendment is needed to reduce the majority requirements as authorized by the State constitutional amendment. Such a Charter amendment was submitted to City voters in August and November 1988; at each election the proposal received more than a majority of the votes cast, but less that the required 60%. The Missouri Constitution provides that the amount of bonds payable out of tax receipts (which includes bonds payable from the special assessments) will not exceed 10% of the total assessed valuation of the taxable property of the City. The Constitution permits the City to become indebted for an additional 10% of the value of the taxable tangible property for the purpose of acquiring a right-of-way, construction, extending and improving a sanitary or storm sewer system.

The City is also authorized to issue revenue bonds to finance capital improvements to its water system, sewer system and Airport facilities. These types of revenue bonds require a two-thirds vote of the qualified electorate voting on the specific proposition. All revenue bonds issued by the City are payable solely out of the revenue derived from the operation of the facility that is financed from the proceeds of such bonds. Revenue bonds do not constitute a pledge of the full faith and credit of the City and are not considered in determining the legal debt margins resulting from the limitations described herein.

Likewise, the City is authorized by statute to issue "Tax Increment Financing" obligations pertaining to development projects. In July 1991, the City issued $15,000,000 of Tax Increment Revenue Bonds (Scullin Redevelopment Area), Series 1991A, for the St. Louis Marketplace project. Such obligations are secured by increments of revenues attributable to property and other taxes generated by improvements to the project area, and may also be secured by annual appropriations from the City's General Revenue Fund. As part of the St. Louis Marketplace financing, the City covenanted to request annual appropriations from the General Revenue Fund beginning in Fiscal Year 1993 to cover any shortfalls in the payment of debt service on these bonds until such time as the aforementioned incremental revenues are at least equal to 150% of the annual debt service payments on said

bonds for five consecutive years. According to the Comptroller's office, the City has not covered any shortfalls to date; however there can be no assurances that they will not be called upon to do so in the future.

Short-Term Borrowing

The City first issued Tax and Revenue Anticipation Notes ("TRANs") during the Fiscal Year 1984. The following table sets forth certain information concerning the issuance of the most recent five years of TRANs.:

Fiscal Year[1]	TRANs Issued During Fiscal Year	As a Percent of General Fund Revenues[1]
1995	$56,000,000	16.76%
1996	41,000,000	12.14%
1997	37,000,000	10.76%
1998	32,000,000	9.00%
1999	38,000,000	11.20%[2]

[1] The percent is based on cash, rather than modified accrual revenues. Revenue also includes transfers from other funds.

[2] Based on estimated General Fund Revenues.

Source: City Comptroller's Office.

Outstanding Debt

The following table sets forth the principal amount of all bonds, other than the above mentioned Tax Increment Financing obligations, issued by the City which were outstanding as of June 30, 1998:

Bonds	Amount Outstanding
General Obligation Bonds	$ 2,000,000
Water Revenue Bonds	45,255,000
Parking Revenue Bonds	33,645,000
Airport Revenue Bonds	455,785,000
Total	$536,685,000

Source: City Comptroller's Office.

An additional $65,000,000 of general obligation bonds have been authorized for police, fire and improvements, but have not yet been issued.

Capital Leases

The City has outstanding a number of lease-purchase agreements which can be characterized as capital leases. The major agreements of this type are listed below:

Description	Amount Outstanding June 30, 1998	Remaining Term in Years	Issue Date
Convention and Sports Facility	$ 60,760,000	22.0	Feb. 97
Project and Refunding Bonds[1]	144,217,205	18.0	Jun. 93
Convention Center - 1993	9,500,000	24.0	Dec. 90
Police Board Lease	11,470,000	10.0	Jun. 94
Justice Center	108,540,000	21.0	Aug. 96
Civil Courts Improvements	29,155,000	16.0	Jun. 94
Forest Park Revenue Improvement	18,780,000	24.0	Mar. 97
Kiel Site	13,605,000	18.0	Sept. 97
Firemen's Retirement System	28,695,000	11.0	Apr. 98
	$426,997,205		

[1] This pertains to the lease financing by the City, St. Louis County, and the State of Missouri, of an east expansion of the Convention Center. The Bonds for the east expansion were issued by the regional Convention and Sports Complex Authority, an entity created by State law. In addition to lease payments to pay debt service on the Bonds, the City has agreed to pay the Authority $1,000,000/per annum during the term of the Bonds to pay for renovations and repairs to the facility.

Source: City Comptroller's Office.

Direct and Overlapping Debt

The direct and overlapping general obligation debt of the City as of June 30, 1998 is set forth below:

	General Obligation Bonds Outstanding	Percent Applicable to St. Louis	City's Direct and Overlapping Debt
The City of St. Louis	$ 2,000,000	100.00%	$ 2,000,000
The Metropolitan St. Louis Sewer District-Mississippi River Subdistrict	9,150,000	31.60%	2,891,400
Board of Education of the City of St. Louis	152,099,454	100.00%	152,099,454
Total	$163,249,454		$156,990,854

Source: City Comptroller's Office

Debt Ratios

The following table sets forth the City's direct and overlapping general obligation debt ratios as of June 30, 1998. These figures do not include lease agreements.

	Amount	Per Capita[1]	Ratio to Assessed Value
Total Direct Debt	$ 2,000,000	$ 5.04	.08%
Total Direct and Overlapping Debt	$156,990,854	$395.76	4.29%

[1] Based on Population from U.S. Census, 1990 (396,685).

Source: City Comptroller's Office.

Legal Debt Margin

The following table sets forth the City's Legal Debt Margin as of June 30, 1998.

	City Purposes Basic Limit	Streets and Sewers Additional Limit
1997 Assessed Value	$2,828,561,576	$2,828,561,676
Debt limit - 10% of assessed value	282,856,168	282,556,168
Less: General Obligation Bonds	2,000,000	-
Legal Debt Margin	$ 280,856,168	$ 282,556,168

Source: Office of the Comptroller, City of St. Louis.

Principal and Interest Requirements on Direct Debt

The following table sets forth the principal and interest requirements on the City's general obligation indebtedness as of June 30, 1998:

Fiscal Year	Principal	Interest	Total
1998-1999	$2,000,000	$122,000	$2,122,000

Source: City Comptroller's Office.

EMPLOYEES AND EMPLOYEE RELATIONS

The City currently employees approximately 6,600 persons who are paid from the City's General Revenue Fund, approximately 2,300 of whom are employees of the police department.

Under State law, employees of the City, including those of the police department, do not have the authority to bargain collectively. The salaries of employees of the police department are established by the Board of Police Commissioners within the maximum established by the General Assembly, with the provision that the City need not appropriate sums in excess of the limit established by the Hancock Amendment. Section 84.160 R.S. Mo. (1994, as amended). All employees, other than the commissioned employees of the police department, have "meet and confer" rights which means that they have the right to meet and confer with their employers to discuss salaries, benefits and other similar issues. The City is obliged to discuss these issues in good faith with its employees, although the discussions are not binding. City police officers have no such rights. No City employee has the right to strike. The City considers its employee relations to be excellent.

RETIREMENT SYSTEMS

The City maintains three retirement plans covering substantially all full-time employees. The plans are The Employees' Retirement System, The Firemen's Retirement System, and The Police Retirement System. For each of the plans, liabilities for benefits are not limited to pension fund assets and are a statutory obligation of the City.

Contributions to all plans for the Fiscal Year ended June 30, 1998, totaled $9,438,834 from the City's General Revenue Fund.

	Plan Benefits	Plan Assets	(In Thousands) Plan Assets in Excess of (Unfunded) Plan Benefits
Employee's Retirement System	$381,346	$415,346	$34,000
Police Retirement System	572,172	615,114	$42,942
Firemen's Retirement System	363,323	376,824	$13,501

Source: City Comptroller's Office.

INSURANCE AND LITIGATION

During the past three years, the City has utilized a combination of insurance and self-insurance for risk protection. Certain coverage has been obtained for high risk activities or as required by law. In the case of possible damage to City property, repair or replacement costs, if excessive in nature, would have to be made from the operating budget, or possibly, bond funds. All liability claims not covered by insurance are handled by the City Counselor's Office. The City's staff of attorneys attempts to settle or defend all claims which may be made. Each year an appropriation is made to a judgment account, which is segregated and reserved in a non-profit corporation from which all judgments or settlements are paid. Expenditures during the last five Fiscal Years were:

Fiscal Year	Expenditures
1994	$2,086,672
1995	2,826,285
1996	1,963,802
1997	3,463,703
1998	1,782,545

Source: City Comptroller's Office.

During Fiscal Year 1992, the City turned the administration of all workers' compensation responsibilities over to the Public Facilities Protection Corporation. A third party administrator was contracted to process all claims and make recommendations regarding workers' compensation concerns. The utilization of a third party administrator working with improved City safety efforts has resulted in a reduction of numbers and severity of workers' compensation claims. This has also enabled the City to process claims and payments more timely as well as provide more timely and accurate statistical data.

In May 1991, the City with voter approval imposed a natural gas transportation license tax upon consumers of 11% upon the purchase price of natural gas and methane purchased from suppliers outside the City and transported into the City for commercial and industrial use. The annual proceeds from this tax are now estimated to be $1,450,000. Two lawsuits, *Alumax Foils, Inc. et al. v. City of St. Louis, et al.*, and *Warner-Jenkinson, Inc. v. City of St. Louis,* were filed by certain large volume gas consumers challenging this tax. On March 21, 1995, the Circuit Court of the City of St. Louis upheld the validity of the tax in the *Alumax* consolidated matter. The plaintiffs filed an appeal of the Circuit Court's decision to the Supreme Court. After oral argument on the case, the Supreme Court transferred the appeal to the Missouri Court of Appeals, Eastern District, holding that the case did not fall within the Supreme Court's exclusive jurisdiction. On November 4, 1997 the Court of Appeals handed down an opinion in which it held that the City did not have statutory or constitutional authority to impose the tax. That decision is now final, and the City has refunded the amounts held in escrow, except for approximately $150,000 which is still subject to dispute.

In a decision handed down on March 26, 1996, *Associated Industries of Missouri v. Director of Revenue,* the Missouri Supreme Court held that the Missouri Local Use Tax is invalid. In a case in which the City of St. Louis intervened, the Circuit Court of Cole County in *St. Charles County v. Lohman* held that taxpayers were entitled to refunds of local use taxes previously paid and that the Director of Revenue had the authority to withhold funds from local government distributions amounts necessary to provide funds for such refunds. The City of St. Louis and the other local government entities included in this suit, as well as the Director of Revenue, appealed the decision to the Missouri Supreme Court. On January 27, 1998 the Missouri Supreme Court rendered an opinion in which it held that refunds were due and that the Department of Revenue could withhold funds from local governments' sales tax revenues to pay such refunds. However, the Supreme Court held that the vast majority of these claims were governed by a two (2) year statute of limitations rather than a three (3) year statute, and further that such refunds were to be without interest, reducing the City's total liability from approximately $14.3 million to $7.1 million. The City has refunded the amount of its liability to taxpayers and anticipates that it may be entitled to a small rebate with respect to such payments.

The City had a written contract with St. Louis Regional Health Care Corporation ("RHCC") under which RHCC provided indigent health care services. The contract expired in December 1995, but RHCC continued to provide health care services to the poor. On July 15, 1997, the City and RHCC reached an agreement whereby the parties would mutually dismiss all claims and counterclaims filed in connection with a previously filed lawsuit. Pursuant to the terms of the agreement, the City agreed to pay for transition costs of up to $8.3 million incurred by

RHCC during a ninety-day transition period during which RHCC agreed to provide health care services to uninsured or underinsured citizens of the City who have little or no ability to obtain adequate insurance coverage. After such period, indigent health care services would be provided by a nonprofit corporation created to provide such services. The costs to the City are not expected to exceed $3.2 million, and the Comptroller of the City has the authority to audit all costs during the transition period. See **"FINANCIAL MANAGEMENT AND EXPENDITURE CONTROLS - St. Louis Regional Health care Corporation"** herein.

In a decision rendered on December 22, 1997, in a case styled *Conlon Group v. City of St. Louis,* the circuit court of the City of St. Louis awarded a property owner the sum of $4.2 million against the City in an action for inverse condemnation. The plaintiff contended that it was deprived of any viable use of its property by virtue of the City's refusal to grant it a permit to demolish the structure on the property and convert the property to a surface parking lot. The City contended that the property owner had entered into a development agreement with the city under which it agreed to rehabilitate the existing structure. The decision of the Circuit Court was reversed on appeal and the plaintiff's motion for rehearing or transfer to the Missouri Supreme Court was denied by the Court of Appeals. The property owner has subsequently filed motions for rehearing or transfer with the Missouri Supreme Court.

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APPENDIX C

Audited Financial Statements of the Water Division
as of June 30, 1996 and 1997

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Mayor and
Board of Aldermen
City of St. Louis, Missouri

We have audited the financial statements of the Water Division of the City of St. Louis (an enterprise fund of the City of St. Louis, Missouri) as of and for the years ended June 30, 1997 and 1996, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the City of St. Louis, Missouri. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in note A1, the financial statements referred to above include only the financial activities of the Water Division of the City of St. Louis and are not intended to present fairly the financial position and results of operations of the City of St. Louis, Missouri, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Division of the City of St. Louis (an enterprise fund of the City of St. Louis, Missouri) at June 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in the relation to the basic financial statements taken as a whole.

Lopata, Flegel, Hoffman & Company LLP

St. Louis, Missouri
October 3, 1997

Member American Institute of Certified Public Accountants

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

BALANCE SHEETS

June 30, 1997 and 1996

ASSETS	1997	1996
CURRENT ASSETS		
Cash and cash equivalents	$ 4,554,000	$ 6,383,000
Unrestricted investments, at cost	2,031,000	5,000,000
Customer and other accounts receivable, less allowance for doubtful accounts of $1,515,000 in 1997 and $1,160,000 in 1996	1,339,000	1,373,000
Flood cost reimbursement receivable	30,000	30,000
Due from City of St. Louis	714,000	240,000
Unbilled water revenue	4,985,000	4,663,000
Inventories of materials and supplies, net	2,032,000	1,781,000
Accrued interest receivable	25,000	285,000
Total current assets	15,710,000	19,755,000
UTILITY PLANT		
Plant in service	153,281,000	153,007,000
Less accumulated depreciation	78,971,000	77,904,000
	74,310,000	75,103,000
Construction in progress	23,225,000	7,331,000
	97,535,000	82,434,000
OTHER NONCURRENT ASSETS		
Restricted cash	17,560,000	5,882,000
Restricted investments, at cost	41,893,000	54,613,000
Deferred charges and other assets	873,000	1,082,000
	60,326,000	61,577,000
Total assets	$173,571,000	$163,766,000

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

BALANCE SHEETS - CONTINUED

June 30, 1997 and 1996

LIABILITIES AND FUND EQUITY	1997	1996
CURRENT LIABILITIES		
Current maturities of revenue bonds	$ 1,615,000	$ 1,540,000
Accounts and wages payable	3,377,000	2,253,000
Due to City of St. Louis	1,336,000	863,000
Accrued interest payable	1,463,000	1,500,000
Deferred revenue	1,727,000	1,982,000
Other accrued liabilities	2,822,000	1,541,000
Total current liabilities	12,340,000	9,679,000
LONG-TERM OBLIGATIONS		
Customer deposits	1,166,000	1,073,000
Other	818,000	870,000
Water revenue bonds	46,950,000	48,565,000
Less unamortized discounts	748,000	822,000
Less deferred amount on refunding	51,000	104,000
	48,135,000	49,582,000
Total liabilities	60,475,000	59,261,000
FUND EQUITY		
Contributions in aid of construction	5,748,000	5,775,000
Retained earnings		
Reserve for revenue bond requirements	8,183,000	8,284,000
Unreserved	99,165,000	90,446,000
Total fund equity	113,096,000	104,505,000
Total liabilities and fund equity	$173,571,000	$163,766,000

The accompanying notes are an integral part of these statements.

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

STATEMENTS OF REVENUES AND EXPENSES

Years ended June 30, 1997 and 1996

	1997	1996
Operating revenues		
Metered	**$20,859,000**	$19,832,000
Flat rate	**16,892,000**	15,770,000
Wholesale	**1,835,000**	1,912,000
Other	**1,527,000**	1,456,000
Total operating revenue	**41,113,000**	38,970,000
Operating expenses		
Supply and purification	**9,146,000**	9,153,000
Power and pumping	**5,082,000**	5,074,000
Transmission and distribution	**7,038,000**	7,170,000
Customer accounting	**2,661,000**	2,768,000
Administrative and general	**1,524,000**	1,649,000
Collector of revenue's fee	**518,000**	404,000
Cost of community service	**27,000**	31,000
Services rendered by other City of St. Louis departments	**890,000**	855,000
Gross receipts tax	**2,580,000**	2,519,000
Depreciation	**2,355,000**	1,999,000
Total operating expenses	**31,821,000**	31,622,000
Operating income	**9,292,000**	7,348,000
Nonoperating revenues (expenses)		
Interest expense on long-term obligations	**(3,075,000)**	(2,656,000)
Interest expense on customer deposits	**(17,000)**	(16,000)
Interest income	**3,368,000**	3,149,000
Loss on disposal of utility plant assets	**(1,123,000)**	(1,288,000)
Miscellaneous, net	**43,000**	36,000
Total non-operating expenses, net	**(804,000)**	(775,000)
NET INCOME	**$ 8,488,000**	$ 6,573,000

The accompanying notes are an integral part of these statements.

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

STATEMENT OF CHANGES IN FUND EQUITY

Years ended June 30, 1997 and 1996

		Retained Earnings		
	Contributions in Aid of Construction	Reserve for Revenue Bond Requirements	Unreserved	Total Fund Equity
Balance at June 30, 1995	$5,739,000	$8,191,000	$83,838,000	$ 97,768,000
Net income	-	-	6,573,000	6,573,000
Depreciation on contributed assets	(128,000)	-	128,000	-
Contributed assets	164,000	-	-	164,000
Change in reserve for revenue bond requirements	-	93,000	(93,000)	-
Balance at June 30, 1996	5,775,000	8,284,000	90,446,000	104,505,000
Net income	-	-	8,488,000	8,488,000
Depreciation on contributed assets	(130,000)	-	130,000	-
Contributed assets	103,000	-	-	103,000
Change in reserve for revenue bond requirements	-	(101,000)	101,000	-
Balance at June 30, 1997	$5,748,000	$8,183,000	$99,165,000	$113,096,000

The accompanying notes are an integral part of this statement.

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

STATEMENTS OF CASH FLOWS

Years ended June 30, 1997 and 1996

Increase (Decrease) in Cash and Cash Equivalents	1997	1996
Cash flows from operating activities:		
Operating income	$ 9,292,000	$ 7,348,000
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	2,870,000	2,467,000
Changes in assets and liabilities:		
Customer and other accounts receivable	34,000	(195,000)
Flood cost reimbursement	-	93,000
Due from City of St. Louis	(474,000)	(75,000)
Unbilled water revenue	(322,000)	(461,000)
Inventories of materials and supplies, net	(251,000)	146,000
Accounts and wages payable	1,124,000	6,000
Due to City of St. Louis	473,000	1,000
Deferred revenue	(202,000)	(67,000)
Other accrued liabilities	1,229,000	23,000
Customer deposits	77,000	(14,000)
Other	169,000	188,000
Net cash provided by operating activities	14,019,000	9,460,000
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(19,094,000)	(5,276,000)
Principal paid on revenue bonds	(1,540,000)	(1,465,000)
Interest paid on revenue bonds	(2,903,000)	(2,475,000)
Contributed capital	103,000	164,000
Net cash used in capital and related financing activities	(23,434,000)	(9,052,000)

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended June 30, 1997 and 1996

	1997	1996
Cash flows from investing activities:		
Purchases of investment securities	**$(120,458,000)**	$(56,324,000)
Proceeds from maturities of investments	**136,147,000**	53,298,000
Interest received on cash and investments	**3,575,000**	3,389,000
Deferred interest received on forward purchase agreement	**-**	941,000
Net cash provided by investing activities	**19,264,000**	1,304,000
Net increase in cash and cash equivalents	**9,849,000**	1,712,000
Cash and cash equivalents at beginning of year	**12,265,000**	10,553,000
Cash and cash equivalents at end of year	**$22,114,000**	$12,265,000

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The financial statements include only the Water Division of the City of St. Louis, Missouri (Water Division). The Water Division represents a separate enterprise fund of the City of St. Louis, Missouri (City) and, therefore, the financial statements of the Water Division are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. Governmental enterprise funds are used to account for operations that are financed and operated in a manner similar to commercial enterprises--where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. Basis of Accounting

The Water Division prepares its financial statements in accordance with generally accepted accounting principles for governmental enterprise funds which are similar to those for commercial enterprises. Accordingly, expenses are recorded when incurred and revenues when earned. Unbilled service revenues are accrued based on estimated billings for service provided through the end of the current year.

3. Investments

Investments are stated at cost or amortized cost, which approximates market.

4. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

5. Utility Plant

Utility plant was originally recorded in the accounts in April, 1958, and was based on an engineering study of the historical cost of properties constructed by employees of the Water Division. Accumulated provisions for depreciation at the date the assets were recorded were established after a review by a consulting firm.

Additions to utility plant subsequent to April, 1958 are recorded at cost. Provisions for depreciation of the utility plant are computed on a straight-line basis over the estimated useful lives of the assets. Such amounts are charged to depreciation or other operating expenses. The estimated useful lives of depreciable assets are as follows:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

	Years
Buildings and structures	44-50
Pumping equipment	28-44
Hydrants, transmission mains, and lines	50-100
Meters	33
Other equipment	5-25

Net interest costs on funds borrowed to finance the construction of utility plant are capitalized and depreciated over the life of the related asset for the proprietary fund type.

6. Amortization

Bond discount and bond issuance costs are amortized over the term of the related revenue bond issued using the bonds outstanding method.

7. Unbilled Water Revenue

The Water Division records the estimated amount of accrued, but unbilled, water revenue. This is the result of the Water Division billing its metered customers after the three-month billing cycle of water usage. At June 30, 1997 and 1996, unbilled water revenue amounted to $4,985,000 and $4,663,000.

8. Inventories

Inventories of materials and supplies are valued using a moving average cost.

9. Contributions in Aid of Construction

Contributions in aid of construction are received from customer and government agencies and are generally recognized when the expenditure is made and amounts become subject to claim for reimbursement. Depreciation recorded on utility plant assets (principally hydrants, transmission mains and lines) acquired with contributed funds, is charged to operations and reclassified to contributions in aid of construction.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Deferred Revenue

The Water Division recognizes revenue associated with a service line maintenance surcharge in the period the related costs are incurred. Accordingly, the Water Division recognized surcharge revenue of $625,000 and $610,000 during the years ended June 30, 1997 and 1996, respectively. Deferred service line maintenance revenue was $578,000 and $851,000 as of June 30, 1997 and 1996, respectively.

The Water Division maintains a restricted cash account for amounts collected for service line maintenance. Interest earned is recorded in this cash account and the account balance is restricted solely for service line maintenance.

The Water Division records deferred revenue for amounts billed but not yet earned. This is the result of the Water Division billing its flat rate customers in advance of actual water usage. Revenue billed but not yet earned amounted to $1,149,000 and $1,131,000 at June 30, 1997 and 1996.

11. Refunding of Debt

The Water Division accounts for refunding of debt in accordance with Statement of Governmental Accounting Standards No. 23. The statement provides for the deferral of the difference between the reacquisition price and the net carrying amount of the old debt. This amount is included in revenue bonds payable on the financial statements and will be amortized over the remaining life of the defeased bonds.

12. Statement of Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents is defined as all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

13. Customer Deposits

The Water Division requires that metered customers deposit an amount approximately equal to an estimated billing for one cycle. These deposits are refunded to the customer, along with accrued interest on the deposits, when certain criteria have been met. The Water Division also holds deposits for construction-related work which are applied against the billing for work performed.

NOTE B - UTILITY PLANT

Property, plant and equipment and the related accumulated depreciation balances at June 30, 1997 and the net property at June 30, 1996 were:

	June 30, 1997			June 30, 1996
	Gross Property	Accumulated Depreciation	Net Property	Net Property
Land	$ 1,254,000	$ -	$ 1,254,000	$ 1,254,000
Building and structures	29,266,000	16,689,000	12,577,000	11,243,000
Reservoirs	7,283,000	2,124,000	5,159,000	6,432,000
Boiler plant equipment	659,000	589,000	70,000	73,000
Pumping equipment	8,121,000	6,284,000	1,837,000	1,983,000
Purification basins and equipment	10,076,000	6,707,000	3,369,000	3,487,000
Water mains, lines, and accessories	81,519,000	37,874,000	43,645,000	44,470,000
Equipment	8,274,000	5,008,000	3,266,000	3,256,000
Motor vehicle equipment	6,829,000	3,696,000	3,133,000	2,905,000
	$153,281,000	$78,971,000	$74,310,000	$75,103,000

NOTE C - CASH AND INVESTMENTS

The City Treasurer manages all cash and investments of the Water Division.

While certificates of deposit are defined as investments for balance sheet classification and cash flow purposes, for proper risk disclosure they are shown here as deposits. These amounted to $3,175,000 at June 30, 1997. In addition, money market mutual funds are classified as cash deposits on the balance sheet, but as investments for risk disclosure. These amounted to $21,662,000 at June 30, 1997.

At June 30, 1997 the carrying amount of the Water Division's cash deposits was $3,627,000 and the bank balances were $3,627,000. Of the bank balances $100,000 was insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with securities held by the financial institutions, City or its agent in the City's name, and $3,527,000 was covered by collateral held by the pledging bank's trust department or agent in the City's name. The City does not have authorized written collateral agreements with all of the respective banks, and under the provisions of the Financial Institution Reform, Recovery and Enforcement Act of 1989 (FIRREA), the absence of such written agreements could jeopardize the City's rights to the pledged collateral. The City is in the process of obtaining the necessary written agreements to comply fully with the provisions of FIRREA.

NOTE C - CASH AND INVESTMENTS (Continued)

State statutes and City investment policies authorize the deposit of funds in financial institutions and trust companies or the investment of funds in obligations of the United States Government or any agency or instrumentality thereof; bonds of the State of Missouri, the City of St. Louis, or any city within the state with a population of 400,000 inhabitants or more; or time certificates of deposit; provided however, that no such investment shall be purchased at a price in excess of par. In addition, the City may enter into repurchase agreements maturing and becoming payable within 90 days, secured by United States Treasury obligations or obligations of the United States Government agencies or instrumentalities of any maturity as provided by law. City funds in the form of cash on deposit or time certificates of deposit are required to be insured or collateralized by authorized investments held in the City's name. Actual investment decisions are made by the City Treasurer, and the City's agents.

The Water Division's investments are categorized below to give an indication of the level of risk assumed at June 30, 1997. Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty, or by its trust department or agent, but not in the City's name.

	June 30, 1997				
	Category			Carrying	Market
	1	2	3	Value	Value
Investments:					
U.S. Government agency securities	$ -	$ -	$40,749,000	$40,749,000	$40,634,000
Money Market Mutual Funds				21,662,000	21,662,000
				$62,411,000	$62,296,000

NOTE D - RESTRICTED CASH AND INVESTMENTS

Cash and investments restricted in accordance with City ordinances at June 30, 1997 and 1996 are as follows:

	1997	1996
Bond funds:		
Waterworks Bond and Interest Account	$ 3,045,000	$ 3,008,000
Water Revenue Bond Reserve Account	4,438,000	4,438,000
Water Replacement and Improvement Account	700,000	700,000
Total bond funds	8,183,000	8,146,000
Service line maintenance account	1,174,000	1,417,000
Construction funds	50,096,000	50,932,000
Total restricted cash and investments	$59,453,000	$60,495,000

City ordinances require that revenues derived from the operation of the Waterworks System be deposited in the Waterworks Revenue Fund. From this fund, the following allocations are made on the first business day of each month in the following order or priority:

1. To the unrestricted Waterworks Operations and Maintenance Account, an amount sufficient to pay the estimated operation and maintenance expenses during the next month.

2. To the Waterworks Bond and Interest Account, an amount at least equal to one-sixth of the amount of interest that will come due on the next interest payment date, plus an amount at least equal to one-twelfth of the aggregate principal amount of bonds that will come due on the next bond maturity date. This account shall be used only for the payment of bond principal and interest as the same shall become due.

3. To the Water Revenue Bond Reserve Account, a sum equal to the maximum principal and interest coming due in any fiscal year on the bonds.

4. To the Water Replacement and Improvement Account, an amount equal to $25,000 per month until the account balance aggregates $700,000. This account shall be used for making replacements, extensions, and improvements to the Waterworks System, and for the purpose of meeting unforeseen contingencies and emergencies arising in the operation of the Waterworks System of the City.

NOTE D - RESTRICTED CASH AND INVESTMENTS (Continued)

5. The remaining balance in the Waterworks Revenue Fund shall be deposited into the unrestricted Water Contingent Account. This account shall be used for paying the cost of the operation, maintenance, and repair of the Waterworks System; paying the cost of extending, improving, or making replacements to the Waterworks System; preventing default in, anticipating payments into, or increasing the amounts in the other accounts; paying any gross receipts tax now or hereafter levied by the City; paying the principal or the interest on any subordinate or junior lien bonds; paying any redemption premium due on the bonds, or any other lawful purpose for use by the Waterworks System.

In accordance with a City ordinance, the Water Division collects a $1.00 per quarter surcharge from flat rate and metered residential customers having six or less dwelling units. These funds are deposited in the service line maintenance account. This account, including interest earned, is used to pay for the repair of certain portions of the water lines for these customers.

City ordinances also provide that the principal proceeds from the sale of Series 1994 Revenue Bonds and amounts appropriated from the Water Contingent Account shall be held in the Construction Fund from which they shall be disbursed for the purposes contemplated in these ordinances.

NOTE E - RETIREMENT PLAN

1. Plan Description

All employees of the Water Division are covered by the Employees' Retirement System of the City of St. Louis (the System), a cost-sharing multiple-employer defined benefit retirement plan. The plan is administered by a separate Board of Trustees as provided by Missouri state statute and implemented by applicable City ordinance. All employees become members upon employment, with the exception of employees hired after attaining age 60.

The Water Division's payroll for employees covered by the System for the plan year ended September 30, 1996 and 1995 was $11,911,000 and $11,797,000, respectively, and the Water Division's total payroll was $13,095,000 and $12,643,000 for the same period. The City's payroll for employees covered by the System as a whole for the plan year ended September 30, 1996 and September 30, 1995 was $170,078,000 and $161,158,000, and the City's total payroll was $238,649,000 and $237,585,000 for the same period.

NOTE E - RETIREMENT PLAN (Continued)

The System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon years of creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the System after the employee has attained five years of creditable service. The Board of Trustees approves all withdrawals, benefits, and termination refunds from the System's assets. Normal retirement is at age 65 or if the total of the employee's age and creditable service equals or exceeds 85. Early retirement is at age 60, with no minimum years of creditable service; age 55, with 20 years of creditable services, or at any age, after 30 years of creditable service.

Employer contribution rates are established annually by the Board of Trustees based on an actuarial study. In May, 1987 and in each successive fiscal year through 1995, the Board of Trustees elected to reduce the required employer contribution rate to zero as a result of the System's overfunded status.

Employees who became members of the System prior to October 14, 1977 may make voluntary contributions to the System equal to 3% of the employee's compensation until the employee's compensation equals the maximum annual taxable earnings under the Federal Social Security Act in effect on January 1 of the calendar year. Thereafter, voluntary contributions may be made equal to 6% of employee compensation. These voluntary contributions vest immediately.

2. Inducement Bonuses

In June 1990, the Board of Aldermen passed Ordinance 61976 (the Ordinance) which provided for a cash supplement of $500 multiplied by creditable service years for members of the System meeting certain minimum conditions who applied for retirement within 90 days of the Ordinance's effective date. To be eligible for the cash supplement, the sum of the member's age and years of creditable service had to total 80 or more at the time of application or the member was otherwise eligible for early retirement.

The member had the option of receiving the cash supplement in a lump sum or in monthly installments for a designated period of up to 120 months. The aggregate cash supplement for the plan as a whole for members who elected to retire under the provisions of this Ordinance was $2,613,000. As of September 30, 1996 and 1995, $2,568,000 and $2,544,000, respectively, of this amount had been paid from the plan assets. Members who elect to retire under the provisions of the Ordinance and later return to work will have their subsequent retirement benefit reduced by the actuarial value of any cash supplement payment received.

NOTE E - RETIREMENT PLAN (Continued)

3. Related Party Transactions

During the plan's 1996 and 1995 fiscal years, the plan held no securities issued by the City or any other related parties.

4. Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation was computed as a part of the actuarial valuation performed as of October 1, 1996.

Significant actuarial assumptions used in the valuation for the retirement plan are as follows:

- The rate of return on present and future investments is 7-3/4%, compounded annually, net of administrative expenses.
- Projected salary increases, due to merit, dependent on age, ranging from 5-3/4% to 8% annually.
- A 5% per year cost of living increase, with a maximum cumulative increase of 25%.

NOTE E - RETIREMENT PLAN (Continued)

The System does not make separate measurements of assets or the pension benefit obligation for individual funds of the City. Accordingly, assets and pension benefit obligations specifically related to the Water Division cannot be determined. Total unfunded pension benefit obligation for the System as a whole, as determined through actuarial valuations as of October 1, 1996 and 1995, are as follows:

	1996	1995
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	**$191,089,000**	$181,266,000
Current employees:		
Accumulated employee contributions, including allocated investment income	**1,884,000**	1,651,000
Employer-financed:		
Vested	**161,852,000**	153,340,000
Nonvested	**4,359,000**	4,005,000
Total pension benefit obligation	**359,184,000**	340,262,000
Net assets available for benefits, at cost (market value of $389,508,000 and $367,768,000, respectively)	**357,126,000**	330,057,000
Unfunded pension benefit obligation	**$ 2,058,000**	$ 10,205,000

Actuarial assumptions, benefit provisions, actuarial funding methods, and other significant factors used to determine the pension benefit obligation are the same as in the previous year.

5. Contributions Required and Contributions Made

The System's funding policy provides for actuarially determined periodic contributions at rates that increase gradually over time so that sufficient assets will be available to pay benefits when due. Periodic employer contributions to the pension plan are determined on an actuarial basis using the Projected Unit Credit Actuarial Cost Method.

NOTE E - RETIREMENT PLAN (Continued)

The City's required contributions for the system's fiscal year ended September 30, 1996 is payable during the City's fiscal year ended June 30, 1997. Any shortfall between the required contribution and the aggregate contribution actually made is included as an unfunded pension cost in the City's general long-term debt account group. The System does not make separate measurements of contribution requirements for individual funds of the City. It is the City's policy to make contributions as needed for the normal cost and to provide for the benefits payable by the System. City and employee contributions actually made during the plan year ended September 30, 1996 and 1995 and as a percentage of covered payroll are as follows:

	1996		1995	
	Contributions	As a Percentage of Covered Payroll	Contributions	As a Percentage of Covered Payroll
Contributions to the System:				
By the City	**$1,277,000**	**.8%**	$354,000	.2%
By the employees	**15,000**	**-**	15,000	-
Total current contributions	**$1,292,000**	**.8%**	$369,000	.2%

The actuarially determined contribution requirements for the plan are as follows:

	1996		1995	
	Contributions	As a Percentage of Covered Payroll	Contributions	As a Percentage of Covered Payroll
Contribution requirement from prior year	**$ -**	**- %**	$ 354,000	.2%
Current year contribution requirement - normal cost	**10,025,000**	**5.9**	8,980,000	5.6
Amortization of overfunded actuarially accrued liability	**(8,733,000)**	**(5.1)**	(8,965,000)	(5.6)
Total current contributions	**$ 1,292,000**	**.8%**	$ 369,000	.2%

NOTE E - RETIREMENT PLAN (Continued)

Actuarial assumptions, benefit provisions, actuarial funding method and other significant factors used to determine the pension contribution requirement were the same as those used in the previous year.

6. Trend Information

Ten-year historical trend information for the System, as a whole, is presented in the City's June 30, 1997 and 1996 Comprehensive Annual Financial Report to help readers assess the plan's funding status on a going-concern basis and assess progress being made in accumulating assets to pay benefits when due.

NOTE F - WATER REVENUE BONDS

Revenue bonds outstanding at June 30, 1997 and 1996 are payable solely from, and secured by, a pledge of net revenues from the operation of the Water Division and are summarized as follows:

	1997	1996
Series 1994 Revenue Bonds, 5.0%-7.0%, payable in varying amounts through 2014	**$48,565,000**	$50,105,000
Less:		
Unamortized discounts	**748,000**	822,000
Deferred amount on refunding	**51,000**	104,000
	799,000	926,000
	$47,766,000	$49,179,000

In April, 1994 the Water Division issued $51,570,000 in revenue refunding and improvement bonds (Series 1994 Bonds). The Series 1994 Bonds are payable solely from and secured by the revenues of the Waterworks System. The Series 1994 Bonds were issued as part of the $170,000,000 of bonds approved by voters at an election held April 6, 1993. The Series 1994 Bond proceeds will be principally used to finance the construction of improvements to the Waterworks System, to refund and defease all of the outstanding Series 1985 Bonds and pay the costs of the Bonds' issuance. Proceeds of the Series 1994 Bonds were also used to pay the premiums of a municipal bond insurance policy issued by Financial Guaranty Insurance Company. This policy which guarantees the payment of principal and interest on the Series 1994 Bonds, is non-cancelable and extends for the term of the Series 1994 Bonds. The Water Division is subject to certain covenants under the Series 1994 Bonds.

NOTE F - WATER REVENUE BONDS (Continued)

As noted above, a portion of the Series 1994 Bond proceeds will fund the construction of certain improvements to the Waterworks System. These projects are: (1) improvements to the Chain of Rocks treatment plant sedimentation basin; (2) the rehabilitation of the 60-inch Conduit No. 1 from the Howard Bend treatment plant; (3) chlorination system improvements at the Howard Bend and Chain of Rocks plants; and (4) the improvement of the Compton Hill Reservoir. These projects respond to changing environmental regulations and maintaining the integrity and reliability of the Waterworks System. The estimated costs for the engineering and construction of these projects are $45,350,000. The four projects are expected to be completed by the Water Division's fiscal year ending June 30, 1999.

During 1996, the Water Division began construction on the Compton Hill Reservoir. The improvements to the reservoir will replace the existing reservoir structure. At this time improvements to one side of the reservoir have been completed and is operational, and the other side of the reservoir is undergoing construction and is not operational. As of June 30, 1996 one-half of the original reservoir had been demolished resulting in a 1996 write-off of $1,288,000. As of June 30, 1997, the remainder of the original reservoir was deemed non-operational, resulting in a 1997 write-off of $1,123,000. The total cost of the improvements are estimated to be approximately $20,500,000. The amount of costs in construction-in-process associated with the above project was approximately $9,616,000 and $1,350,000 at June 30, 1997 and 1996, respectively.

The construction projects relating to the Chain of Rocks treatment plant sedimentation basin and the 60-inch Conduit No. 1 from the Howard Bend treatment plant are not replacing existing Water Division assets. Therefore, there are no fixed asset retirements related to these projects. The engineering studies related to the chlorination system improvements are not completed. Accordingly, management cannot determine the amount of fixed assets, which are reflected in the accompanying financial statements, that will be retired. However, management does not believe that the fixed asset retirements will be material.

Debt service requirements to maturity of the Bonds follow:

Year ending June 30	Principal	Interest	Total
1998	$ 1,615,000	$ 2,819,000	$ 4,434,000
1999	1,695,000	2,735,000	4,430,000
2000	1,785,000	2,643,000	4,428,000
2001	1,880,000	2,545,000	4,425,000
2002	1,980,000	2,440,000	4,420,000
Thereafter	39,610,000	17,369,000	56,979,000
	$48,565,000	$30,551,000	$79,116,000

NOTE F - WATER REVENUE BONDS (Continued)

Interest payments are due semiannually on January 1 and July 1.

During the fiscal year ended June 30, 1997, the Water Division paid $1,540,000 in principal payments and paid $2,898,000 in interest on its Series 1994 Water Revenue Bonds. Interest on the construction projects is capitalized based on the cumulative costs associated with borrowing the funds. As of June 30, 1997, approximately $250,000 of the interest costs to date have been capitalized.

During the fiscal year ended June 30, 1996, the Water Division paid $1,465,000 in principal payments and paid $2,973,000 in interest on its Series 1994 Bonds.

During the fiscal year ended June 30, 1994, the Water Division defeased $4,820,000 of 1985 Water Revenue Bonds by placing $5,065,000 of the proceeds of the Series 1994 Bonds in an irrevocable trust to provide for all future debt service payments on the 1985 bonds. During the fiscal year ended June 30, 1995, the Series 1985 Water Revenue Bonds were called. In prior years, the Water Division defeased $11,905,000 of Water Revenue Bonds by placing the proceeds of the Series 1985 Water Revenue Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. At June 30, 1997 and 1996, $450,000 and $915,000 of old bonds are still outstanding and are considered defeased. The trust account assets and the liability for the defeased bonds are not included in the Water Division's financial statements.

NOTE G - OTHER LONG-TERM LIABILITIES

In 1996, the Water Division entered into a forward purchase agreement with a financial institution. Under this agreement, the Water Division received a lump-sum interest payment of $941,000 (present value of future interest earnings based on an interest rate of 6.20%) and deposited it into the Waterworks revenue account. In exchange, the Water Division has contracted to buy qualified eligible (as defined in the agreement) securities from this institution on the 10th of every month until the water revenue bonds mature, are called or are refinanced. The institution, in turn, receives the actual interest earned on the Water Division securities purchased every month.

The Water Division's obligation under the forward purchase agreement was recorded in Other Liabilities to reflect the long-term and short-term portions of $818,000 and $53,000, respectively, at June 30, 1997.

At June 30, 1996, the Water Division's obligation under the forward purchase agreement was recorded in Other Liabilities to reflect the long-term and short-term portions of $870,000 and $53,000, respectively.

NOTE H - TRANSACTIONS WITH THE CITY

During the years ended June 30, 1997 and 1996, the City charged the Water Division $890,000 and $855,000 for services rendered by various City departments. This amount is included in the Water Division's operating expenses. Charges for such services will be recurring and are not necessarily related to the actual time spent by the employees of these City departments or to materials furnished in providing such services. In addition, throughout the year, the Collector of Revenue of the City of St. Louis (Collector) deducts a 4% gross receipts charge from collections made on behalf of the Water Division. Each March 30, the Collector computes actual costs incurred relating to services that it provided to the Water Division, and refunds any excess deduction. During the years ended June 30, 1997 and 1996, the Water Division paid $428,000 and $404,000 net of refunds, to the Collector for services rendered.

The Water Division also pays a 6% tax on monthly gross receipts, which is applicable to all public utilities. During the years ended June 30, 1997 and 1996, the Water Division recorded amounts accrued or paid to the City of $2,580,000 and $2,519,000. No payment in lieu of property taxes is made.

The Water Division provides construction and other related community services to certain City departments at no charge. During the fiscal years ended June 30, 1997 and 1996, the Water Division incurred estimated expenses of $27,000 and $30,000 for these services. The Water Division also furnishes water to the fire department and other departments of the City at no charge; however, the related cost cannot be determined, since water provided is not metered.

As of June 30, 1997, the Collector of Revenue had not remitted customer payments of approximately $564,000. The amount is reflected in the accompanying financial statements as a receivable from the City.

NOTE I - CONTINGENCIES

Pending Litigation

The Water Division reimburses the City for any settlements paid by the City arising out of personal injury and property damage claims applicable to the operations of the Water Division. At June 30, 1997, the City is subject to a variety of suits and proceedings arising out of its ordinary course of operations, some of which may be adjudicated adversely. In the opinion of the Office of the City Counselor, there is no litigation pending against the City which if determined adversely would have a material adverse effect on the financial condition or operations of the Water Division.

NOTE I - CONTINGENCIES (Continued)

Insurance

Except for federally required flood insurance, no insurance is carried by the Water Division. This is in accordance with an established policy of the City. In the opinion of officials of the Water division, this practice is normally followed by municipally owned water works systems in municipalities of similar population.

Asbestos Removal

The Water Division has identified certain of its structures as having asbestos in place. As part of its continuing process of upgrading facilities, the costs for removal of the asbestos material and restoration or replacement of the affected areas are being included in budgets for capital projects. No mandatory time requirement is in effect. The removal plan would be accelerated by changes in plans for remodeling, if any.

NOTE J - WATER RATES

Effective July 1, 1994, new rates for water service will be implemented by City Ordinance. The Rate Ordinance includes provisions for the following rate increases and effective dates:

Effective Date	Rate Increase
July 1, 1994	22%
July 1, 1995	13%
July 1, 1996	7%

The increased revenue generated by the above increases will be used to service debt requirements and cover increasing operating costs.

NOTE K - WHOLESALE WATER CONTRACTS

The Water Division has entered into contracts for the sale of water to the cities of St. Charles, Missouri and St. Peters, Missouri (Purchasers). The Purchasers have agreed to pay for water at a rate based on certain costs incurred at the Howard Bend Water Treatment Plant and Stacy Park Reservoir.

In 1996, the Water Division entered into a new contract with the Public Water Supply District No. 2 of St. Charles County, Missouri. Water sales to this wholesale customer are not expected to begin until fiscal year 1999.

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SUPPLEMENTAL INFORMATION

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

SUMMARY OF UTILITY PLANT ACCOUNTS

Year ended June 30, 1997

	Balance, July 1, 1996	Additions	Transfers	Deletions	Balance, June 30, 1997
Utility plant:					
Plant in service:					
Land	$ 1,254,000	$ -	$ -	$ -	$ 1,254,000
Buildings and structures	27,564,000	12,000	1,716,000	(26,000)	29,266,000
Reservoirs	9,801,000	-	-	(2,518,000)	7,283,000
Boiler plant equipment	659,000	-	-	-	659,000
Pumping equipment	8,121,000	-	-	-	8,121,000
Purification basins and equipment	10,020,000	43,000	13,000	-	10,076,000
Water mains, lines, and accessories	81,288,000	233,000	1,000	(3,000)	81,519,000
Equipment	7,808,000	466,000	-	-	8,274,000
Motor vehicle equipment	6,492,000	767,000	-	(430,000)	6,829,000
Total plant in service	153,007,000	1,521,000	1,730,000	(2,977,000)	153,281,000
Construction in progress	7,331,000	17,880,000	(1,730,000)	(256,000)	23,225,000
Total utility plant	$160,338,000	$19,401,000	$ -	$(3,233,000)	$176,506,000

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

SUMMARY OF UTILITY PLANT ACCOUNTS

Year ended June 30, 1996

	Balance, July 1, 1995	Additions	Transfers	Deletions	Balance, June 30, 1996
Utility plant:					
Plant in service:					
Land	$ 1,254,000	$ -	$ -	$ -	$ 1,254,000
Buildings and structures	26,580,000	76,000	908,000	-	27,564,000
Reservoirs	11,306,000	-	-	(1,505,000)	9,801,000
Boiler plant equipment	659,000	-	-	-	659,000
Pumping equipment	8,121,000	-	-	-	8,121,000
Purification basins and equipment	9,930,000	26,000	64,000	-	10,020,000
Water mains, lines, and accessories	80,946,000	359,000	-	(17,000)	81,288,000
Equipment	7,523,000	285,000	-	-	7,808,000
Motor vehicle equipment	6,169,000	582,000	-	(259,000)	6,492,000
Total plant in service	152,488,000	1,328,000	972,000	(1,781,000)	153,007,000
Construction in progress	4,319,000	3,996,000	(972,000)	(12,000)	7,331,000
Total utility plant	$156,807,000	$5,324,000	$ -	$(1,793,000)	$160,338,000

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

DETAILS OF CERTAIN OPERATING EXPENSES

Years ended June 30,

	1997	1996
Supply and purification		
Salaries and wages	$2,700,000	$2,726,000
Chemicals	3,250,000	3,213,000
Support services	2,351,000	2,421,000
Other services	570,000	555,000
Materials and supplies	178,000	232,000
Depreciation	166,000	145,000
	9,215,000	9,292,000
Less: Amounts capitalized or allocated to other accounts	69,000	139,000
	$9,146,000	$9,153,000
Power and pumping		
Salaries and wages	$1,429,000	$1,367,000
Support services	815,000	893,000
Other services	336,000	239,000
Materials and supplies	111,000	83,000
Purchased power	2,344,000	2,459,000
Depreciation	47,000	36,000
	5,082,000	5,077,000
Less: Amounts capitalized or allocated to other amounts	-	3,000
	$5,082,000	$5,074,000
Transmission and distribution		
Salaries and wages	$3,494,000	$3,524,000
Support services	1,256,000	1,419,000
Other services	991,000	1,179,000
Materials and supplies	1,234,000	1,070,000
Cost of service line maintenance	625,000	611,000
Depreciation	235,000	225,000
	7,835,000	8,028,000
Less: Amounts capitalized or allocated to other accounts	797,000	858,000
	$7,038,000	$7,170,000

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

DETAILS OF CERTAIN OPERATING EXPENSES - CONTINUED

Years ended June 30,

	1997	1996
Customer accounting		
Salaries and wages	$1,808,000	$1,919,000
Support services	463,000	433,000
Other services	183,000	183,000
Materials and supplies	195,000	227,000
Depreciation	61,000	56,000
	2,710,000	2,818,000
Less: Amounts capitalized or allocated to other accounts	49,000	50,000
	$2,661,000	$2,768,000
Administrative and general		
Salaries and wages	$ 714,000	$ 844,000
Support services	152,000	126,000
Other services	265,000	329,000
Materials and supplies	8,000	8,000
Bad debts	379,000	336,000
Depreciation	6,000	6,000
	$1,524,000	$1,649,000

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

SCHEDULE OF WATER REVENUE BOND MATURITIES

June 30, 1997

Bond Issue of April, 1994

Maturity Date	Interest Rate	Principal Amount
July 1, 1997	5.00%	$ 1,615,000
July 1, 1998	5.20%	1,695,000
July 1, 1999	5.30%	1,785,000
July 1, 2000	5.40%	1,880,000
July 1, 2001	5.50%	1,980,000
July 1, 2002	7.00%	2,090,000
July 1, 2003	5.70%	2,235,000
July 1, 2004	5.80%	2,365,000
July 1, 2005	5.85%	2,500,000
July 1, 2006	5.95%	2,645,000
July 1, 2007	6.00%	2,805,000
July 1, 2008	6.05%	2,970,000
July 1, 2009	6.10%	3,150,000
July 1, 2010	6.00%	3,345,000
July 1, 2011	6.00%	3,545,000
July 1, 2012	6.00%	3,755,000
July 1, 2013	6.00%	3,985,000
July 1, 2014	6.00%	4,220,000
		$48,565,000

Water Division of the City of St. Louis
(an enterprise fund of the City of St. Louis, Missouri)

SCHEDULE OF COSTS FOR HOWARD BEND WATER SALES

Years ended June 30,

		1997	1996
I.	**Direct Costs of Supply and Purification - Howard Bend**		
	Labor	$1,188,000	$1,120,000
	Support services	848,000	870,000
	Chemicals	1,016,000	1,124,000
	Other materials and services	424,000	399,000
		$3,476,000	$3,513,000
II.	**Direct Costs of Power and Pumping - Howard Bend**		
	Labor	$ 381,000	$ 379,000
	Support services	206,000	255,000
	Power	912,000	1,028,000
	Other materials and services	125,000	142,000
		$1,624,000	$1,804,000
III.	**General Office Expenses - Power and Pumping**	$ 462,000	$ 433,000
IV.	**General Office Expenses - Supply and Purification**	$ 749,000	$ 857,000
V.	**Reservoir Maintenance Expense**	$ 11,000	$ 13,000
VI.	**Administration and Finance Costs**		
	Labor	$ 713,000	$ 844,000
	Support services	152,000	126,000
	City services	890,000	855,000
	Other services and miscellaneous	182,000	170,000
		$1,937,000	$1,995,000
VII.	**Specified Labor Costs**		
	Supply and purification	$2,700,000	$2,726,000
	Power and pumping	1,429,000	1,367,000
	Transmission and distribution	3,494,000	3,524,000
	Customer accounting	1,808,000	1,919,000
		$9,431,000	$9,536,000

Note: The Water Division of the City of St. Louis, Missouri has entered into contracts for the sale of water to the cities of St. Charles, Missouri, and St. Peters, Missouri (Purchasers). Under the terms of the agreement, the Purchasers have agreed to pay for water at a rate based on certain costs incurred by the Water Division at its Howard Bend Water Treatment Plant and Stacy Park Reservoir. This information is presented in accordance with the requirements of the contracts and is included for use by the Purchasers in determining the accuracy of water rates charged.

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APPENDIX D

Form of Bond Insurance Policy

APPENDIX D

Ambac

Municipal Bond Insurance Policy

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Ambac will make such payments to the Insurance Trustee within one (1) business day following notification to Ambac of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's right to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of Ambac or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to Ambac all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancellable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy

Authorized Officer

SPECIMEN

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APPENDIX E

[FORM OF OPINION OF BOND COUNSEL]

[On the date of delivery of the Series 1998 Bonds, Bond Counsel will deliver its approving opinion substantially in the form set forth below]

December ___, 1998

City of St. Louis, Missouri
St. Louis, Missouri

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance by the City of St. Louis, Missouri (the "City") of its Water Revenue Refunding Bonds, Series 1998 in the aggregate principal amount of $29,225,000 (the "Bonds").

The Bonds have been issued under and pursuant to the Constitution and statutes of the State of Missouri, including, particularly, Chapters 108.140 and 108.170, Missouri Revised Statutes, as amended and pursuant to an Indenture of Trust (the "Indenture of Trust"), dated as of April 1, 1994 between the City and Mark Twain Bank, St. Louis, Missouri as trustee, as amended and supplemented by a Second Supplemental Indenture of Trust (the "Second Supplemental Indenture" and collectively with the Indenture of Trust, as amended and supplemented, from time to time, hereinafter referred to as the "Indenture") dated as of December 1, 1998, by and between the City and BNY Trust Company of Missouri (successor-in-interest to Mark Twain Bank), as trustee (the "Trustee") and Ordinance No. 63150 duly adopted by the Board of Alderman of the City on December ____, 1998 and approved by the Mayor of the City on December 16, 1998 (the "Ordinance") for the purpose of providing funds to (i) advance refund and redeem on July 1, 2004 a portion of the City's Water Refunding and Improvement Revenue Bonds, Series 1994 of the City (the "Series 1994 Bonds") and (ii) pay the cost and expense related to the issuance, sale and delivery of the Bonds.

The Bonds are issued in registered form only in the denomination of $5,000 or any integral multiple thereof, are dated December 1, 1998 and bear interest, payable semi-annually on January 1

and July 1 of each year, commencing July 1, 1999 and mature, subject to prior redemption, as follows:

Maturing July 1,	Principal Amount	Interest Rate	Maturing July 1,	Principal Amount	Interest Rate
1999	$ 50,000	3.150%	2011	$3,740,000	4.400%
2007	2,850,000	4.100	2012	3,905,000	4.500
2008	3,300,000	4.150	2013	4,085,000	4.625
2009	3,440,000	4.250	2014	4,270,000	4.750
2010	3,585,000	4.300			

The City reserves the right to issue additional bonds upon the terms and conditions and for the purposes stated in the Indenture. Under the provisions of the Indenture, all such bonds will rank equally as to security and payment with the Bonds.

We are of the opinion that:

(1) The City has the right and power under the Constitution of the State of Missouri, the laws of the State of Missouri and the Charter of the City, all as amended, to adopt the Ordinance and execute, deliver and perform its obligations under the Ordinance.

(2) The Ordinance has been duly and lawfully adopted by the City, is in full force, effect and is valid and binding upon the City.

(3) The Indenture has been duly and lawfully executed and delivered by the City, is in full force and effect, is valid and binding upon the City and is enforceable in accordance with its terms and no other authorization for the Indenture is required.

(4) The Indenture creates the valid pledge which it purports to create of the moneys, securities and funds held or set aside under the Indenture and of all Revenues (as defined in the Indenture), subject to the application thereof to the purposes and on the conditions permitted by the Indenture.

(5) The Bonds are valid and binding limited obligations of the City payable solely from the revenues and funds pledged therefor as provided in the Indenture, are enforceable in accordance with their terms and the terms of the Indenture and are entitled to the benefits of the Indenture, and such Bonds have been duly and validly authorized and issued in accordance with the Constitution of the State of Missouri, the laws of the State of Missouri and the Charter of the City, all as amended, and in accordance with the Indenture.

(6) Interest on the Bonds will not be includable for federal income tax purposes in the gross income of the owners thereof pursuant to Section 103 of the Code and will not constitute a tax preference item under Section 57 of the Code for purposes of the alternative minimum tax.

The adjustment for "Adjusted current earnings" set forth in Section 56(g) of the Code is required in determining a corporation's alternative minimum taxable income. Alternative minimum taxable is increased by seventy-five percent (75%) of the excess (if any) of (i) the "adjusted current earnings" of a corporation over (ii) the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Bonds, would generally be included in computing a corporation's "adjusted current earnings". Accordingly, a portion of the interest on the Bonds received or accrued by a corporation that owns the Bonds will be included in computing such corporation's alternative minimum taxable income for such year.

Section 884 of the Code imposes on certain foreign corporations a branch profits tax equal to thirty percent (30%) of the "dividend equivalent amount" for the taxable year. Interest on the Bonds received or accrued by a foreign corporation subject to the branch profits tax will be included in computing the "dividend equivalent amount" of such corporation.

In addition, passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for any S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent (25%) of the gross receipts of such S corporation is passive investment income.

In rendering this opinion, we have assumed continuing compliance by the City with the covenants contained in the Resolution and set forth in the Non-Arbitrage Certificate, that it will comply with the applicable requirements of the Code, including requirements relating to, *inter alia*, the use and investment of proceeds of the Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the City to comply with such covenants could result in the interest on the Bonds being subject to federal income tax from the date of issue. We have not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date hereof that may affect the tax-exempt status of the interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess net passive income, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits and individuals who otherwise qualify for the earned income credit. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds $2,200, increased by the cost of living

adjustments provided by Section 32(j) of the Code. Interest on the Bonds will constitute disqualified income for this purpose. The Code also provides that the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Bonds will be included in determining the modified adjusted gross income of the taxpayer for the tax years beginning after December 31, 1997.

In addition, attention is called to the fact that Section 265(b)(1) of the Code eliminates the interest deduction otherwise allowable with respect to indebtedness deemed incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations acquired after August 7, 1986 other than "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code. The Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(1) of the Code.

Owners of the Bonds should consult their own tax advisers as to the applicability and effect on their federal income taxes of the alternative minimum tax, the branch profits tax and the tax on passive investment income of corporations, as well as the applicability and effect of any other collateral federal income tax consequences.

(7) Under existing statutes and regulations promulgated thereunder, interest on the Bonds is exempt from all income taxation imposed by the State of Missouri under Chapter 143 of the Revised Statutes of Missouri, except that no opinion is expressed as to the applicability of the tax imposed by Chapter 148 of the Revised Statutes of Missouri on financial institutions.

In providing the opinion expressed in paragraph 6 above, we have relied, in part, upon the written verification report provided by Deloitte & Touche LLP, certified public accountants, regarding the computation of the yield on the Bonds and certain investments made with the proceeds of the Bonds.

We have examined one of the Bonds, and, in our opinion, the form of said Bond and its execution are regular and proper.

The opinions set forth above are qualified to the extent that the enforceability of the Indenture and the Bonds may be limited by any applicable bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws or equitable principles affecting creditors' rights generally or as to the availability of any particular remedy.

Very truly yours,

DO NOT STAPLE THIS FORM

98146

MSRB

FORM G-36(OS) - FOR OFFICIAL STATEMENTS

SECTION I - MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. ☒ A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)

   (a) DATE RECEIVED FROM ISSUER: 12/22/98 (b) DATE SENT TO MSRB: 12/23/98

2. ☐ AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

   (a) DATE RECEIVED FROM ISSUER: _____ (b) DATE SENT TO MSRB: _____

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary official statement a wrap, even if physically attached). PLEASE CHECK HERE: ☐

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED. PLEASE CHECK HERE include copy of original Form G-36(OS)): ☐

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed seperately. If more space is needed to list additional issues, please include on seperate sheet and check here: ☐

A. NAME OF ISSUER: The City of St. Louis, Missouri STATE: Missouri

DESCRIPTION OF ISSUE: Water Revenue Refunding Bonds Series 1998 DATED DATE: 12/ 1/98

B. NAME OF ISSUER: _____ STATE: _____

DESCRIPTION OF ISSUE: _____ DATED DATE: _____

C. NAME OF ISSUER: _____ STATE: _____

DESCRIPTION OF ISSUE: _____ DATED DATE: _____

SECTION III - TRANSACTION INFORMATION

LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 7/ 1/14

DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 12/17/98

ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 12/23/98

IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: ☐

A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITING ASSESSMENT INFORMATIO

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offring. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

MANAGING UNDERWRITER: M◆R◆ Beal & Company SEC REG. 839528

TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING: $ 29,225,000

PAR AMOUNT UNDERWRITTEN (if different from amount shown in item B above): $ 29,225,000

CHECK ALL THAT APPLY

1. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

2. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption o purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated age

3. ☐ This offering is exempt from SEC rule 15c2 under section (d)(1) of that rule. Section (d)(1) of SEC rule 15c2-12 states that an offering is exempt from requirements of the rule if the securities offered have authorized denomina- tions of $100,000 or more and are sold to no more than 35 persons each of the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities

SECTION V – CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
7/1/99	791706EW0				
7/1/07	791706EX8				
7/1/08	791706EY6				
7/1/09	791706EZ3				
7/1/10	791706FA7				
7/1/11	791706FB5				
7/1/12	791706FC3				
7/1/13	791706FD1				
7/1/14	791706FE9				

B IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9". CHECK HERE AND LIST THEM BELOW: ☐
(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: _____

State the reason why such securities have not been assigned a "CUSIP-9" _____

C IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: ☐

State the reason why such securities are ineligible for CUSIP number assignment: _____

SECTION VI – MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.

Rec'd MSRB
12-28-98

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considered sent to the MSRB within the meaning of rule G-36.
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