

Management's Discussion and Analysis



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's Comprehensive Annual Financial Report presents an easily readable analysis of the City of St. Louis' financial activities based on currently known facts, decisions and conditions. Due to the fact this is the first year the current financial reporting model has been used, comparisons with the previous year are limited. For a comprehensive understanding of the financial statements, please review the transmittal letter at the front of this report along with the City's financial statements, including the footnotes that follow the Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS (excluding Discretely Presented Component Units)

- On a government-wide basis the City's total assets exceeded its liabilities for the most recent fiscal year by \$1.4 billion. Of this amount \$41.2 million is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities and business-type activities had net assets of \$425.0 million and \$1.0 billion, respectively.
- On a government-wide basis during the year, the City's total expenses were \$62.3 million less than the \$864.3 million revenue generated in charges for services, grants, taxes, and other revenues.
- The cost of the City's governmental activities was \$596.0 million in fiscal year 2002.
- As of June 30, 2002, the City's governmental funds reported combined ending fund balances of \$276.6 million. Of this amount, \$133.1 million is unreserved fund balance and available for spending at the City's discretion.
- The unreserved fund balance for the general fund was \$58.2 million or 14.7% of total general fund expenditures.
- The general fund revenues were lower than original budget estimates. The events of September 11, 2001 and the changing economy had an impact on the economically sensitive and travel/tourism related revenue such as sales tax, restaurant tax, and franchise taxes received from Lambert-St. Louis International Airport, an enterprise fund of the City.
- In fiscal year 2002, the City issued \$84 million in debt to finance projects and refund debt. Outstanding bond debt of \$58 million was advance refunded and defeased. There was a net decrease of \$13 million or .8% in bond debt during the current fiscal year.
- The resources available were \$10.0 million less than budget for the general fund. However, we kept expenditures within spending limits primarily through a decrease in transfers from the general fund and a reduction in planned departmental spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) *Government-wide financial statements*, 2) *Fund financial statements*, and 3) *Notes to the financial statements*.

Government-wide Financial Statements

The first set of financial statements are the government-wide statements which report information about the City as a whole using accounting methods similar to those used by private-sector companies. The two government-wide statements, **Statement of Net Assets** and **Statement of Activities**, report the City's net assets and how they have changed. In the government-wide statements, a distinction is made between governmental-type activities and business-type activities. Governmental-type activities are those one normally associates with the operation of a government such as, public safety, parks, and streets. Business-type activities are those activities of the government that are designed to be self-supporting.

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Increases and decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating. The statement of net assets also provides information on unrestricted and restricted net assets and net assets invested in capital assets, net of related debt.

The **Statement of Activities** presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of the timing of related cash flows.

The Statement of Activities presents the various functions of the City and the degree to which they are supported by charges for services, federal and state grants and contributions, tax revenues, and investment income.

The governmental activities of the City include general government, convention and tourism, parks and recreation, judicial, streets, public safety (fire, police, other), health and welfare, public service, community development as well as interest and fiscal charges. The business-type activities of the City include an airport, water division, and parking facilities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate redevelopment agency, a legally separate police department for which the City is financially accountable, a not-for-profit skilled nursing facility supported by the City, and a legally separate corporation that owns and leases the downtown steam loop. Financial information for these component units is reported separately from the financial information presented for the primary government.

The government-wide financial statements also include blended component units within the primary government because of their governance. Included within the governmental activities of the government-wide financial statements are the operations of the Public Facilities Protection Corporation (PFPC), St. Louis Municipal Finance Corporation and St. Louis Municipal Finance Corporation II.

Fund Financial Statements

The second set of statements are fund financial statements which provide information about groupings of related accounts which are used to maintain control over resources for specific activities or objectives. The City uses fund accounting to demonstrate compliance with finance-related legal requirements. The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. The funds of the City can be divided into the following three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

1. *Governmental Funds*. Governmental funds tell how general government services were financed in the short term as well as what financial resources remain available for future spending to finance City programs.

The City maintains several individual governmental funds according to their type (general, special revenue, debt service, and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund and grants fund, which are considered to be major funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements.

2. *Proprietary Funds*. Proprietary funds offer short-term and long-term financial information about services for which the City charges customers, both external customers, and internal departments of the City. The City maintains the following two types of proprietary funds:

- *Enterprise Funds* are used to report information similar to business-type activities in the government-wide financial statements. The City uses the enterprise funds to account for the operations of the Lambert-St. Louis International Airport, Water Division, and the Parking Division.
- *Internal Service Funds* are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its mail handling services, for payment of workers' compensation and various other claims, and health insurance.

3. *Fiduciary Funds*. Fiduciary funds are used to account for resources held for the benefit of individuals or units outside of the City. The City is the trustee or fiduciary responsible for assets which can be used only for the trust beneficiaries per trust arrangements. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The City's pension trust funds and agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and notes to the financial statements, this report presents required supplementary information concerning the City's budgetary comparisons for the general fund and required supplementary information pertaining to pension trust funds.

Combining Statements

The combining statements provide fund level detail for all non-major governmental funds, internal service funds, pension trust funds, and agency funds.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Because this reporting model significantly changes both the recording and presentation of financial data, the City has not restated prior fiscal years for the purpose of providing comparative information for the Management's Discussion & Analysis. In future years when prior-year information is available, a comparative analysis of government-wide data will be included in this report.

Net assets. The City's combined net assets were approximately \$1.4 billion. Looking at the net assets of governmental and business-type activities separately provides additional information.

City of St. Louis, Missouri
Schedule of Net Assets
June 30, 2002
(dollars in thousands)

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Assets:			
Current and other assets	430,885	804,325	1,235,210
Capital assets	693,521	1,268,497	1,962,018
Total assets	1,124,406	2,072,822	3,197,228
Liabilities:			
Long-term debt outstanding	628,360	990,234	1,618,594
Other liabilities	71,009	58,070	129,079
Total liabilities	699,369	1,048,304	1,747,673
Net assets:			
Invested in capital assets, Net of related debt	321,159	696,850	1,018,009
Restricted	114,510	275,838	390,348
Unrestricted	(10,632)	51,830	41,198
Total net assets	425,037	1,024,518	1,449,555

ANALYSIS OF NET ASSETS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$1.4 billion at the close of the current year.

The largest portion of the City's net assets, 78.6 percent, reflects its investment of \$1.0 billion in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Included in the City's total net assets is \$390.3 million which represents resources that are subject to external restrictions on how they may be used. The remaining balance of total net assets, \$41.2 million, are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

All net assets generated by governmental activities are either externally restricted or invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted governmental activities net assets showed a \$10.6 million deficit at the end of this year. This deficit does not mean the City does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than currently available resources. For example, the City policy and practice is to budget for certain long-term expenses as they come due. Specifically, the City did not include in past annual budgets the full amounts needed to finance future liabilities arising from property and casualty claims and amounts to pay for unused employee vacation and sick days. The City will continue to include these amounts in future years' budgets as they come due.

In addition, the deficit in unrestricted governmental net assets was affected by two particular features of the City's recent financial activity. These activities over the past several years reflect debt to provide development stimulus for which the City received no offsetting asset.

- Section 108 loan agreements, \$60 million.
- Joint venture financing agreement for the expansion of the convention center, \$80 million.

Although the net assets of the business-type activities increased by 8.5 percent to \$1.0 billion, these resources cannot be used to make up for the unrestricted net asset deficit in governmental activities. The City generally can only use these net assets to finance the continuing operations of the airport, water, and parking operations.

Changes in net assets. The City's total revenue on a government-wide basis was \$864.3 million. Taxes represent 47.9 percent of the City's revenue. Another 32.7 percent comes from fees charged for services, and the remainder is state and federal aid, interest earnings, gain on sale of capital assets and miscellaneous revenues.

The total cost of all programs and services was \$802.0 million. The City's expenses cover a range of typical city/county services. The largest program was the airport. The program with the largest burden on general revenues was public safety in the amount of \$220.9 million.

City of St. Louis
Schedule of Changes in Net Assets
June 30, 2002
(dollars in thousands)

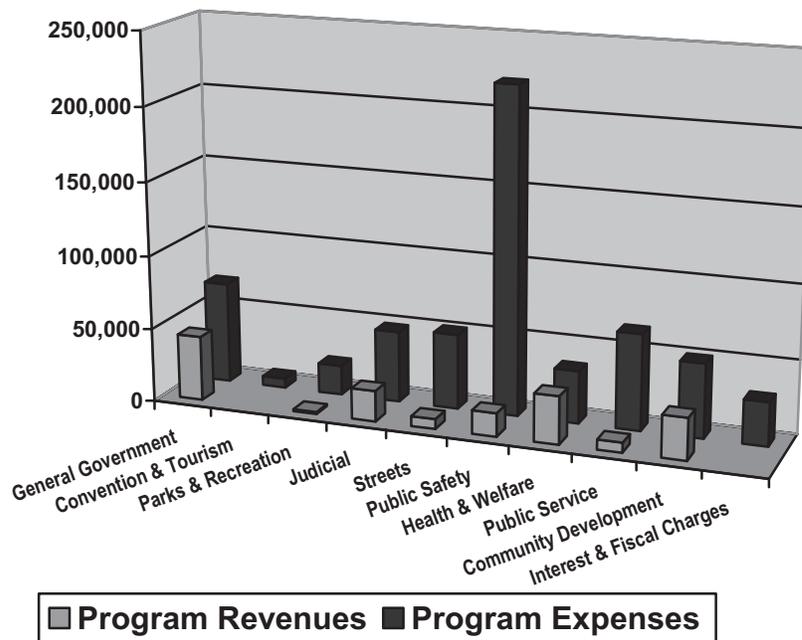
	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	71,708	211,240	282,948
Federal & state grants	84,552	40,384	124,936
General revenues:			
Taxes	414,035		414,035
Investment Income	6,720	32,811	39,531
Total revenues	577,015	284,435	861,450
Expenses:			
General government	68,853		68,853
Convention and tourism	6,188		6,188
Parks and recreation	20,066		20,066
Judicial	48,382		48,382
Streets	51,056		51,056
Public Safety:			
Fire	54,000		54,000
Police	125,331		125,331
Other	41,523		41,523
Health and welfare	35,563		35,563
Public service	65,202		65,202
Community Development	50,280		50,280
Interest on long-term debt	29,601		29,601
Airport		151,590	151,590
Water Division		43,458	43,458
Parking Division		10,859	10,859
Total expenses	596,045	205,907	801,952
Gain on sale		2,830	2,830
Transfers	7,033	(7,033)	
Increase in net assets	(11,997)	74,325	62,328
Ending net assets	425,037	1,024,518	1,449,555

Governmental activities. Governmental activities decreased the City's net assets by \$12.0 million. Since this is the first year for government-wide reporting, detailed changes from last year to this cannot be reported. However, general key factors influencing this increase are as follows:

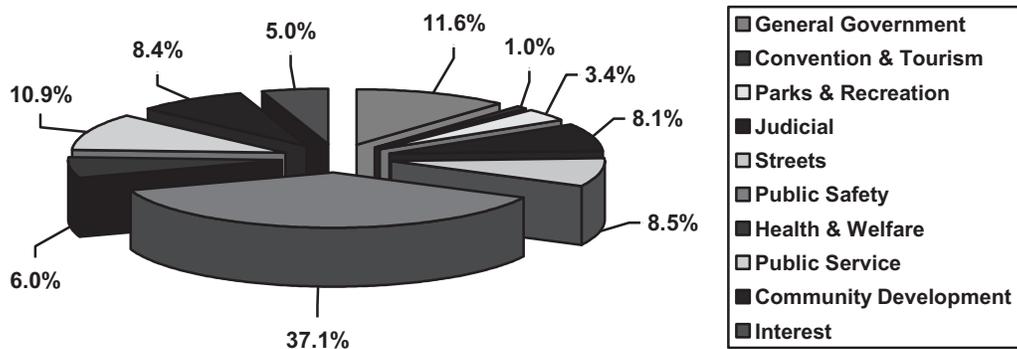
- Economically sensitive revenues such as earnings tax, payroll tax, and sales tax reflected a decrease in activity in the City due to the changing economy experienced throughout the nation. Even prior to the catastrophe of September 11, there were indications of a decrease in economically sensitive revenues causing the City to institute immediate cost containment and cost reduction efforts.

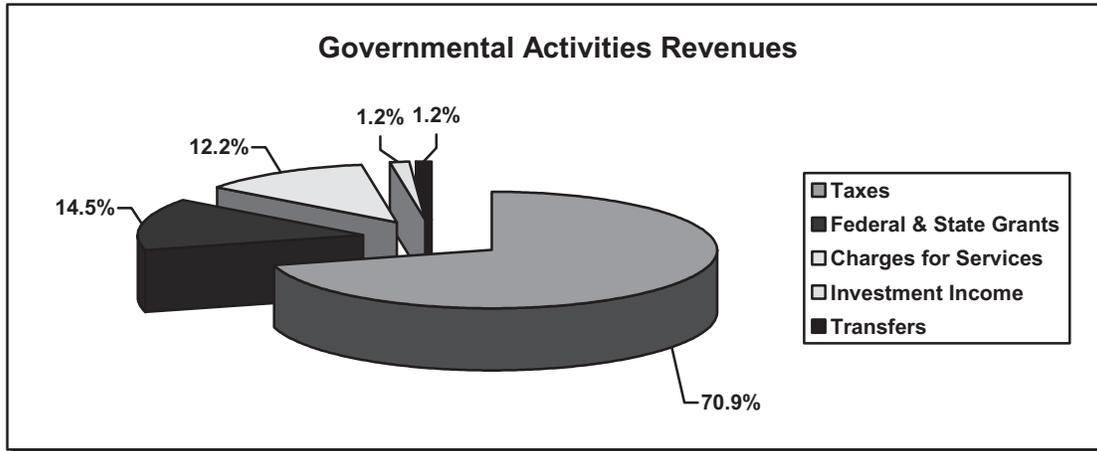
- The City voters passed a use tax in April 2001. The first revenues of this tax were received in September 2001. Total collections in fiscal year 2002 were \$23.4 million. The tax was segregated by ordinance in a special revenue fund to be used for affordable housing and health care. In November 2002, the voters approved the tax be repealed and reissued in order to allow the tax proceeds to be used for additional functions.

Program Revenues and Expenses



Governmental Activities Program Expenses





The charts above illustrate a comparison of the City’s governmental program revenues and expenses, and a breakdown of expenses by function and revenues by source. As shown, public safety is the largest function in expense (37.1%). General revenues such as property, earnings, payroll and sales taxes are not shown by program, but are included in the governmental activities revenue chart to show their significance. The taxes are effectively used to support program activities citywide.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

The focus of the City’s governmental funds is to provide information on inflows and balances of resources that are available for spending. An unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year the unreserved fund balance of the general fund was \$58.2 million, while the total fund balance was \$87.9 million. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved fund balance represents 14.3% of total general fund expenditures and transfers out of \$405.9 million, while total fund balance represents 21.7% of total general fund expenditures and transfers out.

The fund balance in the City’s general fund decreased by \$8.2 million or 8.5% from the prior year fund balance. The change of the current fiscal year’s fund balance is mainly due to:

- 1) Economically sensitive revenues such as earnings tax, payroll tax, and sales tax reflected the slowing economy experienced throughout the nation.
- 2) Lower interest rates had a mixed effect on the general fund. On one hand, the lower rates decreased the City’s earnings on investments. On the other hand, the lower rates stimulated homeowners to refinance causing an increase in revenue from the Recorder of Deeds.
- 3) Renovation costs for the Carnahan Building increased normal repair and maintenance expenses.
- 4) Costs for the final preparation for the opening of the new Justice Center Facility also increased normal repair and maintenance expenses.
- 5) The Employees’ Retirement System required a \$5.2 million contribution from the general fund. In the prior year no contribution was required.

The capital projects fund ended the fiscal year with an unreserved fund balance of \$29.8 million and a total fund balance of \$131.2 million.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for Lambert-International Airport were \$35.5 million, the Water Division \$17.2 million, and the Parking Division was a negative \$0.3 million. The internal service funds which are used to account for certain governmental activities also had a negative \$7.5 million in unrestricted net assets. The total growth in net assets for the proprietary funds was \$74.0 million. Factors contributing to the finances of these funds have been addressed earlier in this Management's Discussion and Analysis of the City's business-type activities.

Fiduciary Funds

The City maintains fiduciary funds for the assets of the pension trust funds for the Firemen's System, Police System, and Employees' System. As of the end of the current fiscal year 2002, the net assets of the pension funds totaled \$1.5 billion, representing a decrease of \$211.5 million in total net assets since June 30, 2001. The change is primarily related to decreases in the market value of the pension funds' investments.

The City is the custodian of the agency funds and the most common use of agency funds is for pass-through activity. Since, by definition, all assets of the agency funds are held for the benefit of other entities, there are no net assets to discuss. As of the end of the current fiscal year, the combined gross assets of the agency funds totaled \$48.4 million. This amount is comprised of activity from the Collector of Revenue, Property Tax Escrow, General Insurance, Bail Bonds, License Collector, and the Circuit Clerk.

General Fund Budgetary Highlights

The final budget for the City's general fund represents the original budget plus any previously appropriated funds set aside for the purpose of honoring legally incurred obligations (prior year encumbrances and commitments) plus any additional supplemental appropriations that may occur during the fiscal year. In fiscal year 2002, a total of \$7.0 million had been set aside for prior year encumbrances and commitments and there were no supplemental appropriations to the General Fund.

Excluding the \$7.0 million prior year encumbrance and commitment appropriation, the original general fund budget for fiscal year 2002 was \$403.3 million, which includes a projected transfer to a component unit of \$124.2 million. General revenues and other resources were originally estimated at \$403.4 million. However, during the fiscal year, actual revenues and other resources fell short of original estimates by \$10.0 million. In response to the revenue shortfall, a number of actions were taken to reduce expenditures. Significant budget actions included:

- \$1.2 million supplemental appropriation in the health care fund that allowed certain general fund expenses of the Health Department to be charged to that fund. The source of revenue for this supplemental appropriation was the Use Tax which went into effect in fiscal year 2002.

- \$1.6 million in net personal service account savings from a slowdown in hiring and maintenance of vacant positions.
- \$3.4 million in reduced non-personal service account spending through mid-year restrictions on discretionary accounts and the deferral of certain commitments to fiscal year 2003.
- \$4.5 million reduction in required transfers from the General Fund. These reductions consisted of:
 - \$1.8 million in Justice Center debt service appropriation released with the refinancing of the Justice Center
 - \$1.6 million in deferred capital projects
 - \$0.8 million in deferred contribution to the 27th pay reserve
 - \$0.3 million in miscellaneous debt service adjustments allowed due to higher than expected interest earnings on various bond funds

As a result, the General Fund ended the year with an operating surplus of \$0.4 million. As of June 30, 2002, the unreserved fund balance of the General Fund was \$29.2 million on a cash basis. Of this amount, ½ of the previous operating surplus, or \$0.2 million is required to be transferred to the Capital Fund and \$3.5 million is set aside for prior year encumbrances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City had invested \$2.0 billion in a broad range of capital assets, including fire equipment, park facilities, roads, bridges, runways and water systems. (See Table A-1) This amount represents a net increase for the current fiscal year (including additions and deductions) of \$264.4 million, or 15.6 percent, over last year.

Table A-1
City of St. Louis, Missouri
Schedule of Changes in Capital Assets,
Net of Depreciation
(dollars in thousands)

	Governmental Activities	Business-type Activities	Total
	2002	2002	
Land	77,332	710,956	788,288
Construction in progress	153,676	95,177	248,853
Works of art	2,211		2,211
Buildings and improvements	217,958	213,480	431,438
Equipment	60,906	62,843	123,749
Infrastructure	181,438		181,438
Pavings		105,291	105,291
Reservoirs		25,847	25,847
Water mains, line, and accessories		54,903	54,903
Total	693,521	1,268,497	1,962,018

This year's major capital asset additions included:

- \$194.5 million land additions at the Airport
- \$ 64.8 million construction work in progress addition in governmental activities
- \$ 32.3 million construction work in progress addition at the Airport

For government-wide financial presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

Long-Term Debt

At the end of fiscal year 2002, the City had outstanding long-term debt obligations for governmental activities in the amount of \$580.5 million compared to \$554.8 million in fiscal year 2001. Of this amount, \$57.5 million are general obligation bonds and \$11.0 million are tax increment financing bonds. Lease revenue obligations outstanding totaled \$334.2 million. The 4.6% increase in the City's long-term debt obligations reflects the issuance, of \$21.7 million Carnahan Courthouse leasehold revenue bonds by the St. Louis Municipal Finance Corporation and \$25.0 million in Section 108 loan guarantee assistance programs. The City's governmental activities debt is detailed below:

City of St. Louis, Missouri
Outstanding Long-Term Debt Obligations – Governmental Activities
(dollars in thousands)

	Fiscal Year 2002	Fiscal Year 2001	% Change
General obligation bonds	57,525	60,250	(4.5)
Tax increment financing bonds	11,002	11,748	(6.4)
Lease revenue obligations	334,197	321,127	4.1
Section 108 loan guarantee assistance	78,840	55,000	43.3
Federal financing bank advances	875	900	(2.8)
Capital lease	5,706	7,400	(22.9)
Master note purchase agreement	890	1,198	(25.7)
Obligations under capital leases with component units	12,175	12,530	(2.8)
Joint venture financing agreement	79,324	82,044	(3.3)
MTFC direct loan agreement		636	(100.0)
Note payable		1,964	(100.0)
Total	580,533	554,797	4.6

During September 2001, the City issued \$62.2 million in Justice Center Leasehold Refunding Bonds, Series 2001A. The proceeds were used to advance refund and defease a portion of the Series 1996A bonds in order to take advantage of favorable interest rates.

In November 2001, the City and the Federal Mortgage Association (Fannie Mae) entered into an Amended and restated Master Note Purchase Agreement in the amount of \$0.5 million. The unreserved balance of the 2000 Master Note Purchase Agreement of \$0.7 million was used to prepay a portion of the amount due on the Series 2000 note.

Outstanding revenue bonds of the business-type activities of the City as of June 30, 2002 were \$980.0 million compared to \$1.0 billion as of June 30, 2001. This reflects a net total decrease of 4.0%. This amount includes Airport bonds of \$896.6 million, Water Division bonds of \$41.0 million, and Parking Division bonds of \$42.4 million.

City of St. Louis, Missouri
Outstanding Long-Term Debt Obligations – Business Type Activities
(dollars in thousands)

	Fiscal Year 2002	Fiscal Year 2001	% Change
Airport	896,600	934,975	(4.1)
Water Division	41,010	42,990	(4.6)
Parking Division	42,445	43,335	(2.1)
Total	980,055	1,021,300	(4.0)

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The City's authorized debt limit for calendar year 2001 was \$326.4 million. The City's effective legal debt margin as of June 30, 2002 was \$268.9 million.

The City's underlying general obligation credit ratings remained unchanged for fiscal year 2002. The City ratings on uninsured general obligation bonds as of June 30, 2002 were:

Moody's Investor's Service, Inc.	A3
Standard and Poor's Corporation	A-
Fitch IBCA, Inc. Ratings	A-

Economic Factors and Next Year's Budget

- The fiscal year 2003 annual operating budget allocates \$826.7 million.
- The fiscal year 2003 general fund budget is \$415.2 million, an increase of 2.6% over that of fiscal year 2002.
- The City appropriated \$4 million from the unreserved general fund balance for spending in fiscal year 2003.
- The City expects a decrease in real estate and personal property tax assessments by \$87 million for the calendar year 2002. This is a 3% decrease. The decrease is due to a change of policy regarding personal property in the Assessor's Office. If a taxpayer does not file a return, his account is dropped from the roles. Previously, the account was maintained using the previous year's data. As it becomes necessary for the taxpayer to obtain his State license, he must reopen the account with a 25% penalty for not filing.
- Due to the changing economy, the City's unemployment rate has increased from 7.4% to 8.2%. This compares with the state's rate of 4.9% and the national rate of 5.8%.
- In September 2002, the Parking Division issued \$21,005 in subordinated parking revenue bonds to fund two new parking facilities located in the City's downtown area.

- In December 2002, the Airport issued \$100,950 in revenue bonds and \$17,035 in revenue refunding bonds. The revenue bonds will be used to finance the cost of capital improvements at the Airport. The revenue refunding bonds will be used to refund the Series 1992 Bonds.
- In September 2002, the City entered into a capital lease agreement in the amount of \$2,953 to fund new rolling stock and computer needs.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives.

If you have any questions about this report or need additional information, please contact the Office of the Comptroller of the City of St. Louis, c/o Deputy Comptroller, 1200 Market, Room 311, Saint Louis, Missouri 63103.

