

SUMMARY AND OVERVIEW

FY2002 GENERAL FUND BUDGET

The FY2002 proposed general fund budget is \$403.3 million, an increase of 4.0% over that of FY2001. The allocation of these funds has been developed in such a way as to maintain existing services and properly fund all fixed obligations, while accommodating the changing dynamics among the market forces that ultimately drive the budget process. The proposed allocation scheme continues to place emphasis on Neighborhood Stabilization and Public Safety as its primary focus areas. Additionally, the proposal accommodates all fixed obligations, including debt service costs, mandated costs imposed by state statutes, and contractual commitments. Remaining resources have been allocated across departments in a manner designed to encourage operational efficiencies in the delivery of services and to begin to put the City in a position to fund the necessary changes to the way certain services will be delivered in the future.

The general fund allocation for Police services is \$123.6 million and represents slightly

more than 30% of the entire budget. The allocated amount is based on a constant minimum staffing level of 1,457 commissioned officers and two recruit classes. Building on the success of the program of enhanced neighborhood police patrols initiated in the previous years budget, the allocation for Police services includes funds to expand the program by increasing the funding for overtime. The budget proposal also includes \$44.6 million for Fire and Emergency Medical services. While no new Fire Department services are contemplated, the proposed allocation represents an increase of 4.0%, and continues the practice of operating 30 firehouses throughout the City.

In recent budget proposals, the City has implemented new programs aimed at enhancing the stability of its neighborhoods. In addition to responding to actual and perceived problems related to public safety, new programs designed to improve the attractiveness of the neighborhoods were funded. These include a program to enhance street lighting in residential neighborhoods, the District Debris program to clean up and maintain vacant and abandoned property, and the Trash Task Force to reduce

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and ultimately eliminate illegal dumping. Each of these programs has met with initial success and funds to continue these efforts have been incorporated into the operating budget proposal for FY2002.

Operational changes are proposed for FY2002 to make more efficient use of existing personnel and equipment employed by the Equipment Services Division of the Department of Public Services. The effect of these changes is the closing of the downtown vehicle repair site and consolidation of all passenger vehicle service at the Hampton Avenue location. The Corrections Division will continue to provide inmate housing by contract with St. Louis County during the construction stage of the City's new Justice Center. With construction expected to be substantially complete by the end of the 2002 fiscal year, this budget anticipates the planning necessary to open the new facility in FY03. The FY2002 proposal also accommodates the City's recent acquisition of the nearby federal courthouse and includes transitional funding to facilitate the occupation of this facility.

In the FY2002 budget proposal, the practice of allocating general fund revenues to finance and maintain public improvements is continued. This includes \$1.0 million to retire debt associated with the Kiel Center, \$5.0 million to retire debt on the TWA Dome, and \$12.4 for debt on the Convention Center. Aside from these debt service payments, \$1.0 million and \$2.0 million allocations are included to preserve the assets at the TWA Dome and Convention Center respectively. In addition to these direct payments from the general fund budget, a total of \$11.7 million will be transferred to the Capital Improvements Fund to offset debt service requirements on the Justice Center and Civil Courts Building and to provide matching funds for major road and bridge repairs.

Fixed increases accommodated in the FY2002 budget include the impact of the final year of a pay plan for civil service and at will employees that will provide for a 3% cost of living increase. For commissioned police officers and firefighters, the budget proposal provides for a cost of living increase of either 3% or 5% depending on length of service. Increases included in the budget estimates of the Circuit

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Court require the City to budget for new programs, new employees, and repairs to city owned buildings. These increases are funded as a result of statutory requirements to leave unaltered any budget estimates submitted by the Circuit Court. Negotiations between the City and the Circuit Court during the budget review process, produced some reductions from the original request accounting for the restoration of previously considered budget cuts in other areas.

The proposed budget increases are funded by increases in recurring revenues, decreases in some operating costs, and use of previously unappropriated fund balances. New and recurring revenues include state reimbursement for juvenile court operations and previously approved increases in fines for ordinance violations. Operating cost decreases, include elimination of the subsidy to the St. Louis Development Corporation, and a decrease in the number and cost of citywide elections. The aforementioned unappropriated fund balances refers to the current year's general fund operating surplus, as well as any excess over the City's goal of maintaining a reserve equal to 5% of the general fund budget.

Major changes in the FY2002 General Fund Budget include:

- Merit and cost-of-living increases for all employees at a cost of \$11.6 million
- Increase in Retirement System contributions of \$5.8 million
- First year costs of federal courthouse operation at \$2.6 million
- Employee health insurance increase of \$0.8 million
- \$124,000 for two additional animal control crews

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- \$800,000 increase in heating service costs
- \$165,000 increase in Street Division to replenish salt/snow chemical supplies
- Elimination of a \$550,000 General Fund subsidy to St. Louis Development Corporation, with a reduced subsidy made available from a transfer in FY01 funds.
- Net reduction in general fund City workforce of 19 positions.

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- **FY2002 GENERAL FUND REVENUES**

Revenues available to support the budget for general operations are forecast at \$403.4 million.

These recurring revenues are generated by a variety of sources, the most significant being taxes on employment. Other major revenue sources include taxes on property and retail sales, along with various business license fees and intergovernmental revenues from the State of Missouri. The remaining general fund revenues are comprised of departmental receipts for services rendered and fines resulting from ordinance violations.

Employment based taxes, a category which includes the earnings tax, payroll expense tax, and the graduated business license fee provide the largest share of general fund revenues. In FY2002, this group is expected to provide 42% of all general fund revenues and is forecast to grow at a rate of 3.2% over the revised estimate for FY2001. Of this group, the earnings tax applied to individual's earnings and business profits is the most significant and is forecast to generate \$126.6 million in FY2002. The payroll expense tax, a function of total wages paid for

work performed in the City, and the graduated business license fee, which is based on the number of full time equivalent workers in the City, are both key indicators of employment trends in the City. Together these two revenue sources are forecast to generate \$43.3 million in FY2002.

All of the forecasted increase is expected to come from the payroll expense tax, as the graduated business license fee has remained constant at \$8.1million per year.

Property tax revenues are forecast to increase by 1.7% to \$41.6 million based on the expectation that the assessed value of both real and personal property will continue to increase. Retail sales taxes are expected to generate \$51.2 million, an amount that is nearly 3% higher than the current year's revised estimate and which is based on analysis of the most recent quarterly trends in collections. Franchise taxes, a category which includes a gross receipts tax on privately owned utility companies and the City-owned Airport and Water Division, should provide \$53.2 million, a decrease from the current year's revised estimate. During FY2001, unexpected increases in the price of natural gas resulted in an increase of 70% in general fund revenues from this source.

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Natural gas prices have since declined and the record high prices are factored out of the estimate for FY2002. While there are no rate increases incorporated into the forecast, the City will continue to benefit from an expansion of taxable services provided by telephone utilities. As in past years, the estimated receipts from the sale of electricity is based on existing rates and average usage, with extreme weather conditions being factored out.

Revenues from sources associated with the hospitality and entertainment industry are also projected to be higher. As a group, these services which include the amusement, restaurant, parking and hotel taxes are expected to provide \$21.3 million. In addition to the underlying growth in these sources, FY2002 will benefit from the addition of new hotel rooms in the downtown area. Intergovernmental revenue will be slightly higher due to a modest increase in the state automobile sales tax and higher reimbursement from Juvenile Court services. Departmental user fees will increase by nearly 3%, mainly due to fee increases imposed in the current year along with increasing efficiency in collection activity. The following chart depicts the

allocation of revenue sources supporting the general revenue budget for FY2002.

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Earnings and Payroll Tax

Employment-based tax revenue, i.e., earnings and payroll taxes, continue to grow and provide the largest share of the City's general revenue. The concentration of metropolitan area jobs in the downtown St. Louis area and the stable outlook for employment throughout the area are the basis for our expectation of continued growth from these sources. The FY2002 revenue estimate projects growth of 2.9% for earnings tax and 3.7% for payroll tax, both of which are consistent with the recent trend. Earnings and payroll taxes are projected to provide \$126.6 and \$35.2 million, respectively. Together, these account for more than 40% of the City's general fund revenues.

Tourism and Amusement Tax

Convention and tourism based revenues such as restaurant and hotel taxes are projected to provide \$11.5 million, an increase from the current year's level of \$10.9 million. Actual growth in hotel and restaurant receipts is expected to average about 3%. Previously collected revenues, which have been

accumulating in a special fund, will be transferred in FY2002 accounting for the increase of nearly 6% to the general fund. Amusement tax revenues, which are a function of the prices paid for tickets purchased for sports events are expected to increase due to ticket price hikes and growing popularity evidenced by attendance figures. In FY2002 amusement taxes are projected to be \$7.2 million, up from \$6.9 million in FY2001, an increase of 4.3%. This increase incorporates the estimated impact of previously announced hikes in the prices of tickets.

Sales Tax

Local sales tax revenues will account for approximately \$51.2 million based on the local tax rate of 1.375%. Sales tax revenue growth has increased in the last three-quarters and will surpass the original estimate. The FY2002 estimate calls for revenues to increase at a rate of slightly less than 3%, consistent with the recent established pattern.

Property Tax

Property tax revenues, which will account for

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more than 10% of the general fund in FY2002, continue to provide an important piece of the general revenue pie. The forecast for next year recognizes the growth in the real estate assessments and the statutory prohibition against the realization of a revenue windfall resulting from reassessment of real property. Revenue from real property is allowed an increase limited to an accepted inflation index, plus any increases resulting from new construction. FY2002 revenues reflect the continued growth on a reduced tax base resulting from impact of transferring large apartment buildings from commercial to the residential real estate class that was implemented in FY1997.

Franchise Tax

Revenues from franchise taxes are forecast to decrease to \$53.2 million. Because a majority of these revenues are based on the gross receipts of utility companies, they are to a great extent dependent on changes in weather patterns, and to a lesser extent on regulatory agency actions. The decrease in receipts forecast for FY2002 is due to an expected decline in natural gas prices, following on unprecedented price hikes during the current year.

License and Permits

License and permit revenue is expected to increase from the current year's level, by approximately 1.1% with increases in gross receipts based licenses such as the ones levied on parking garages, sporting events, and building and occupancy permits. Some of the increase will be offset by an expected decrease in revenue from the cigarette license tax. Others, such as liquor, graduated business, and automobile licenses are forecast to remain at the current year's level.

Intergovernmental Revenues.

Revenues received from the State include the motor vehicle sales tax and a gasoline tax, both of which are imposed statewide and distributed to local jurisdictions based on a statutory or constitutional formula. Because of increased automobile sales statewide, the distribution to the City of motor vehicle sales tax has been growing. This growth is projected to continue in FY2002. The distribution of gasoline tax revenues now includes a county portion for the City of St. Louis. The value of the county distribution is

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approximately \$500,000 per year. This category also includes state reimbursements for the cost of housing pre-trial inmates and placements of juvenile offenders. A state-funded increase of approximately \$500,000 for juvenile placements is factored into the FY2002 estimate.