
SAMPLE MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Sample City's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2002. Please read it in conjunction with the transmittal letter on page X and the City's financial statements, which begin on page A-1.

FINANCIAL HIGHLIGHTS

- ✓ The City's assets remained virtually unchanged as a result of this year's operations. While net assets of our business-type activities increased by \$3.2 million, or nearly 4 percent, net assets invested in governmental activities *decreased* by \$3.1 million, or nearly 2.5 percent.
- ✓ During the year, the City had expenses that were \$6.3 million more than the \$99.5 million generated in tax and other revenues for governmental programs (before special items). This compares to last year, however, when expenses exceeded revenues by \$8.9 million.
- ✓ In the City's business-type activities, revenues increased to \$15 million (or 5.6 percent) while expenses decreased by 1.7 percent.
- ✓ Total cost of all the City's programs was virtually unchanged (increasing by \$800,000, or less than 1 percent) with no new programs added this year.
- ✓ The General Fund reported a deficit this year of \$1.3 million despite the one-time proceeds of \$3.5 million from the sale of some of our park land.
- ✓ The resources available for appropriation were \$1.1 million less than budgeted for the General Fund. However, we kept expenditures within spending limits primarily through a midyear hiring and overtime freeze and our continuing staff restructuring efforts.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages A-1 and B-1) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 16. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page J. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's

activities?” The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City’s *net assets* and changes in them. You can think of the City’s net assets—the difference between assets and liabilities—as one way to measure the City’s financial health, or *financial* position. Over time, increases or decreases in the City’s net assets are one indicator of whether its *financial* health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City’s property tax base and the condition of the City’s roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities we divide the City into three kinds of activities:

- **Governmental activities**—Most of the City’s basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost certain services it provides. The City’s water and sewer system and parking facilities are reported here.
- **Component units**—The City includes two separate legal entities—the City School District and City Landfill Authority. Although legally separate, these “component units” are important because the City is financially accountable for them.

Reporting the City’s Most Significant Funds

Fund Financial Statements

Our analysis of the City’s major funds begins on page I. The fund financial statements begin on page C-1 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes (like the Route 7 Reconstruction project) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the U.S. Department of Housing and Urban Development). The City’s two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

- **Governmental funds**—Most of the City’s basic services are reported in governmental funds, which focus on how many flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities and governmental *funds* in reconciliation at the bottom of the fund financial statements.

- *Proprietary funds*—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City’s other programs and activities—such as the City’s telecommunications fund.

The City as Trustee

Reporting the City’s Fiduciary Responsibilities

The City is the trustee, or *fiduciary*, for its employees’ pension plans. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. All of the City’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages E-1 and E-2. We exclude these activities from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

The City’s *combined* net assets were virtually unchanged from a year ago—*increasing* from \$209.0 million to \$209.1 million. In contrast, last year net assets *decreased* by \$6.2 million. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City’s governmental and business-type activities.

Table 1
Net Assets of Governmental and Business-type Activities
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Current and other assets	\$ 54.3	\$ 49.0	\$ 13.8	\$ 15.7	\$ 68.1	\$ 64.7
Capital assets	<u>170.0</u>	<u>162.1</u>	<u>151.4</u>	<u>147.6</u>	<u>321.4</u>	<u>309.7</u>
Total assets	<u>224.3</u>	<u>211.1</u>	<u>165.2</u>	<u>163.3</u>	<u>389.5</u>	<u>374.4</u>
Long-term debt outstanding	(79.3)	(61.8)	(78.3)	(77.3)	(157.6)	(139.1)
Other liabilities	(21.4)	(22.6)	<u>(1.4)</u>	<u>(3.7)</u>	<u>(22.8)</u>	<u>(26.3)</u>
Total liabilities	<u>(100.7)</u>	<u>(84.4)</u>	<u>(79.7)</u>	<u>(81.0)</u>	<u>(180.4)</u>	<u>(165.4)</u>
Net assets:						
Invested in capital assets, net of debt	103.7	100.3	73.1	71.6	176.8	171.9
Restricted	22.8	27.1	1.4	2.8	24.2	29.9
Unrestricted (deficit)	<u>(2.9)</u>	<u>(0.7)</u>	<u>11.0</u>	<u>7.9</u>	<u>8.1</u>	<u>7.2</u>
Total net assets	<u>\$ 123.6</u>	<u>\$ 126.7</u>	<u>\$ 85.5</u>	<u>\$ 82.3</u>	<u>\$ 209.1</u>	<u>\$ 209.0</u>

Net assets of the City's governmental activities decreased by 2.5 percent (\$123.6 million compared to \$126.7 million). *Unrestricted* net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—charged from a \$700,000 deficit at December 31, 2001 to a \$2.9 million deficit at the end of this year.

This deficit in unrestricted governmental net assets arose primarily because of three factors. First, the City did not include in past annual budgets the amounts needed to fully finance liabilities arising from property and casualty claims. The City does not purchase commercial insurance to cover these claims. The City also did not include amounts needed to pay for unused employee vacation and sick days. The City will need to include these amounts in future years' budgets as they come due. Second, during the past two years, tax revenues and State grants have fallen short of amount originally anticipated. Finally, the City Council decided to draw down accumulated cash balances to delay the need to approve new tax increases. These factors are discussed in greater detail below.

The net assets of our business-type activities increased by 3.9 percent (\$85.5 million compared to \$82.3 million) in 2002. This increase, however, cannot be used to make up for the *decrease* reported in governmental activities. The City generally can only use these net assets to finance the continuing operations of the water and sewer and parking operations.

Table 2
Changes in Net Assets of
Governmental and Business-type Activities
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenues:						
Program revenues:	\$ 15.8	\$ 14.6	\$ 12.7	\$ 11.9	\$ 28.5	\$ 26.5
Charges for services	2.5	2.4	1.6	1.5	4.1	3.9
Federal grants	7.5	8.3	-	-	7.5	8.3
State grants and entitlements	-	-	-	-	-	-
General revenues:						
Property taxes	56.1	53.6	-	-	56.1	53.6
Other taxes	13.3	13.0	-	-	13.3	13.0
Federal entitlements	1.5	1.4	-	-	1.5	1.4
Other general revenues	<u>2.8</u>	<u>2.6</u>	<u>0.7</u>	<u>0.8</u>	<u>3.5</u>	<u>3.4</u>
Total revenues	<u>99.5</u>	<u>95.9</u>	<u>15.0</u>	<u>14.2</u>	<u>114.5</u>	<u>110.1</u>
Program expenses:						
General government	9.6	9.3	-	-	9.6	9.3
Public safety	34.9	33.8	-	-	34.9	33.8
Public works	10.1	10.5	-	-	10.1	10.5
Engineering services	1.3	1.4	-	-	1.3	1.4
Health and sanitation	6.7	6.5	-	-	6.7	6.5
Cemetery	0.7	0.5	-	-	0.7	0.5
Culture and recreation	11.5	11.9	-	-	11.5	11.9
Community development	3.0	3.3	-	-	3.0	3.3
Education	21.9	21.3	-	-	21.9	21.3
Interest on long-term debt	6.1	6.3	-	-	6.1	6.3
Water	-	-	3.6	3.7	3.6	3.7
Sewer	-	-	4.9	4.8	4.9	4.8
Parking facilities	<u>-</u>	<u>-</u>	<u>2.8</u>	<u>3.0</u>	<u>2.8</u>	<u>3.0</u>
Total expenses	<u>105.8</u>	<u>104.8</u>	<u>11.3</u>	<u>11.5</u>	<u>117.1</u>	<u>116.3</u>
Excess (deficiency) before special items and transfers	(6.3)	(8.9)	3.7	2.7	(2.6)	(6.2)
Special items—Park land sale	2.7	-	-	-	2.7	-
Transfers	<u>0.5</u>	<u>(0.4)</u>	<u>(0.5)</u>	<u>0.4</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ (3.1)</u>	<u>\$ (9.3)</u>	<u>\$ 3.2</u>	<u>\$ 3.1</u>	<u>\$ 0.1</u>	<u>\$ (6.2)</u>

The City's total revenues (excluding special items) increased by 4 percent (\$4.4 million). The total cost of all programs and services also was virtually unchanged (increasing by \$800,000 or less than 1 percent) with no new programs added this year. Even with this low growth in expenses and the sale of 1,170 acres of park land on the City's south side for a gain of \$2.7 million, the City still did not cover this year's costs. The factors that led to the accumulated deficit also were the primary reasons for this year's shortfall. Our analysis below considers separately the operations of governmental and business-type activities.

Governmental Activities

Revenues (excluding the sale of park land) for the City's governmental activities increased by 3.8 percent (\$3.6 million), while total expenses increased just under 1 percent (\$1 million). With the gain on the sale of park land, the decrease in net assets for governmental activities was narrowed to \$3.1 million in 2002. This compares to a \$9.3 million decrease in net assets in 2001.

The City's management took three major rates by actions this year to avoid the level of deficit reported last year. Two of these actions increased revenues and the third reduced expenses:

- The City increased property tax rates by an average of 5 percent. This increase, the first in four years, raised the City's tax revenues by \$2.5 million in 2002. Based on increases in the total assessed valuation, property tax revenues are budgeted to increase by an additional \$2.8 million next year.
- The City sold three parcels of park land for \$3.5 million, giving the City a gain (net of the \$823,000 originally paid for the land) of \$2.7 million. This was a one-time special item. Although this property has been added back to the tax rolls, the tax revenues it may generate are not expected to increase resources in any single year to the same level we recognized from selling the land.
- The City announced a hiring and overtime freeze in midyear (excluding the City's police, fire, and sanitation departments) that resulted in approximately a \$2.2 million savings in wages and related benefits expenses reported in 2002 compared to 2001. This freeze, plus cost savings of \$500,000 from our continuing staff restructuring efforts, held down the increase in expenses.

Despite the rate increase, property tax revenues lagged by \$680,000 compared to the final budget estimates because delays in several major commercial and residential developments precluded adding them to this year's tax rolls. More than half of the City's other revenue sources also fell short of the final budget estimates. These shortfalls include franchise fee revenues, which vary based on sales generated by businesses operated within the City. The fire at the State Street Mall affected many retail businesses in the City, as discussed on page K. In addition, grant revenues were lower than expected because of overall state cutbacks.

The cost of all *governmental* activities this year was \$105.8 million compared to \$104.8 million last year. However, as shown in the Statement of Activities on B-1, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$80 million because some of the cost was paid by those who directly benefited from the programs (\$15.8 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10.0 million). Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, increased in 2002 from \$25.3 million to \$25.8 million, principally based on increases in fees charged for services. The City paid for the remaining "public benefit" portion of governmental activities with \$69.4 million in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

Table 3 presents the cost of each of the City's five largest programs—police, fire, public works, education, and parks and recreation—as well as each program's *net* cost (total cost less revenues,

generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Table 3

(in millions)	Governmental Activities			
	(in millions)			
	Total Cost of Services		Net Cost of Services	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Police department	20.3	19.7	19.5	19.1
Fire department	9.4	9.2	8.7	8.4
Public works	10.1	10.5	7.0	7.3
Education	21.9	21.3	21.9	21.3
Parks and recreation	9.9	9.7	4.4	4.6
All others	<u>34.2</u>	<u>34.4</u>	<u>18.5</u>	<u>18.3</u>
Totals	<u>\$105.8</u>	<u>\$104.8</u>	<u>\$80.0</u>	<u>\$79.0</u>

Business-Type Activities

Revenues of the City's business-type activities increased by 5.6 percent (\$15 million in 2002 compared to \$14.2 million in 2001) and expenses *decreased* by 1.7 percent. The factors driving these results included:

- ❖ The City water and sewer system, benefiting from growth in hook-ups by residential customers who are converting from septic systems, saw its operating revenues climb 10 percent to \$11.3 million, but operating expenses rose only 4 percent, to \$6.9 million. High maintenance costs—caused by the harsh winter months in 2001—did not occur this year.
- ❖ The City parking facilities, however, continued to operate at a deficit (by \$1.4 million this year versus \$1.3 million in 2001). In both years, this decrease is attributable primarily to the largest of the three City—owned garages, located on State Street. This year, the garage had to be closed for two extended periods due to ruptured gas lines beneath nearby streets, which now have been repaired, and the State Street mall fire. These closings stopped revenues from being generated by the garage for two months, while only slightly reducing expenses.

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a *combined* fund balance of \$34.9 million, which is slightly below last year's total of \$35.0 million. Included in this year's total change in fund balance, however, is a deficit of \$1.3 million in the City's General Fund. Furthermore, without the cash from the sale of park land, fund balances would be \$3.5 million lower. The primary reasons for the General Fund's deficit mirror the governmental activities analysis highlighted on pages I and J. In addition, these other changes in fund balances should be noted:

- ❖ \$11.3 million was spent this year on the Route 7 Reconstruction project, reducing the beginning fund balance in that capital projects fund by the same amount. This reduction was expected as capital fund balances at the beginning of this year included the proceeds of general obligation bonds issued last year to finance that project. Although these and other capital expenditures reduce available fund balances, they create new assets for the City as reported in the Statement of Net Assets and as discussed in Note 1 to the financial statements.

- ❖ In the same way, the fund balances of the Community Redevelopment Fund increased by \$17.5 million this year when community redevelopment housing bonds were issued. By year-end only \$2.2 million of the debt proceeds had been used for construction of new housing units and \$2.3 million was transferred to the Debt Service Fund. Overall, fund balances in the Community Redevelopment Funds increased by \$13.1 million.
- ❖ Each year, the state provides the City with a portion of the gasoline tax revenues it collects. This money can only be used to replace, maintain, or improve the City's roads. This year, \$3 million of these resources, including \$1.7 million accumulated in previous years, was used primarily on ten major repaving projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year to reflect the actual beginning balances (versus the amounts we estimated in October 2001). The second category includes changes that the Council made during the third quarter to take into account the midyear hiring and overtime freeze and some of the City's staff restructuring efforts. The principal amendment in this case was to eliminate the original budget contingency appropriation used in the past to cover employee overtime and charges associated with staff turnover. In addition, the Council revised its estimated resources to reflect its decision to sell an additional parcel of park land. Finally, the Council approved several increases to prevent budget overruns.

Even with these adjustments, the actual charges to appropriations were \$1.3 million below the final budgeted amount. The most significant positive variance (\$534,646) occurred in the City's general government account where the staff restructuring and hiring freeze resulted in a 10 percent reduction of the general administration workforce.

On the other hand, resources available for appropriation were \$1.1 million below the final budgeted amount. As we noted earlier, property and franchise taxes collections were less than expected. Reductions in State funding also affected grant resources available for appropriation. These shortfalls were partially offset by an increase in public service taxes. This increase resulted from a 15 percent increase in utility and cable television taxes, which was approved by the City Council in the third quarter.

The City's General Fund balance of \$1.7 million reported on page 17 differs from the General Fund's *budgetary* fund balance of \$1.4 million reported in the budgetary comparison schedule on page 43. This is principally because *budgetary* fund balance excludes \$182,821 of supplies inventories that are reported as expenditures for budgetary purposes when they are purchased and \$40,292 of encumbrances reported as expenditures for budgetary purposes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2002, the City had \$321 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See Table 4) This amount represents a net increase (including additions and deductions) of just under \$12 million, or 3.8 percent, over last year.

Table 4
Capital Assets at Year-end
(net of depreciation, in millions)

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Land	\$ 27.1	\$ 29.4	\$ 3.8	\$ 3.7	\$ 30.9	\$ 33.1
Buildings and Improvements	30.2	30.5	115.5	113.6	145.7	144.1
Equipment	21.2	22.9	1.2	1.0	22.4	23.9
Infrastructure	<u>91.5</u>	<u>79.3</u>	<u>30.9</u>	<u>29.3</u>	<u>122.4</u>	<u>108.6</u>
Totals	<u>\$170.0</u>	<u>\$162.1</u>	<u>\$151.4</u>	<u>\$147.6</u>	<u>\$321.4</u>	<u>\$309.7</u>

This year's major additions included (in millions):

Route 7 reconstruction project, paid for with proceeds of general obligation bonds issued last year	\$11.3
Replacement of older segments of the wastewater collection system and treatment facilities, paid for with proceeds from a revenue note issued last year	3.2
Redevelopment housing construction, paid for with revenue bonds issued this year	2.2
Land acquired through the City's power of eminent domain, paid for with General Fund resources	2.0
Water distribution mains, hydrants, and meters, paid for with water and sewer revenue bonds issued this year	<u>1.6</u>
	<u>\$20.3</u>

The City's fiscal year 2003 capital budget calls for it to spend another \$16 million for capital projects, principally for the completion of its Route 7 Reconstruction project and to create housing units in the City's new community redevelopment housing program. The City has no plans to issue additional debt to finance these projects. Rather, we will use bond proceeds from the community redevelopment bonds issued this year and resources on hand in the City's Gas Tax Fund. More detailed information about the City's capital assets is presented in Note 1 to the financial statements.

Debt

At year-end, the City had \$158 million bonds and notes outstanding versus \$141 million last year—an increase of 12 percent—as shown in Table 5.

Table 5
Outstanding Debt, at Year-End
(in millions)

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
General obligation Bonds (backed by the City)	\$32.6	\$32.7	\$ ---	\$ ---	\$ 32.6	\$32.7

Revenue bonds and

Notes (backed by
specific tax and fee
revenues)

	<u>46.7</u>	<u>30.7</u>	<u>78.3</u>	<u>77.3</u>	<u>125.0</u>	<u>108.0</u>
Totals	<u>\$79.3</u>	<u>\$63.4</u>	<u>\$78.3</u>	<u>\$77.3</u>	<u>\$157.6</u>	<u>\$140.7</u>

New debt resulted mainly from issuing revenue bonds for two new projects—\$18 million of community redevelopment housing bonds and \$3.6 million of water system improvement bonds. In addition, to improve cash flow and to take advantage of lower interest rates, the City management decided to refinance nearly \$43 million of two general obligation debt issues and one revenue bond issue by issuing refunding bonds. By refinancing the debt, the City will save \$2.3 million in principal and interest over the next 15 years.

The City's general obligation bond rating continues to carry the fourth highest rating possible, a rating that has been assigned by national rating agencies to the City's debt since 1995. All of the City's other debt—principally, revenue bonds and notes—carries the next highest rating. The State limits the amount of general obligation debt that cities can issue to 3 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below this \$134 million state-imposed limit.

As noted earlier, the City did not previously purchase commercial insurance for property and casualty claims and has claims and judgements of \$7.9 million outstanding at year-end compared with \$8.1 million last year. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in Note 2 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed official and citizens considered many factors when setting the 2003 fiscal year budget, tax rates, and the fees that will be charged for the business-type activities. One of those factors is the economy. The City's nonagricultural employment growth has mirrored its population growth during 1998-2002, averaging per year gains of 4.2 percent. Unemployment in the City now stands at 3.9 percent versus 4.1 percent a year ago. This compares with the State's unemployment rate of 4.4 percent and the national rate of 4.9 percent.

Inflation in the metropolitan area continues to be somewhat higher than the national Consumer Price Index increase. The City's CPI increase was 3.2 percent for fiscal year 2002 compared with the average U.S. city rate of 3 percent and the national rate of 2.8 percent. Inflation has been higher here due in part to residential housing market and energy price increases in 2001-2002.

These indicators were taken into account when adopting the General Fund budget for 2003. Amounts available for appropriation in the General Fund budget are \$96.4 million, an increase of 4 percent over the final 2002 budget of \$92.7 million. Property taxes (benefiting from the 2002 rate increases and increases in assessed valuations), public service taxes (with rate increases discussed below), and grant revenue (Boosted by increased State funding in several of our current programs) are expected to lead this increase. The City will use these increases in revenues to finance programs we currently offer and the effect that we expect inflation to have on program costs. Budgeted expenditures are expected to rise nearly 4 percent, to \$95.9 million from \$92.2 million in 2002. Increased wage and cost-of-living adjustments, based on agreements reached with the police, fire, and sanitation department unions in 2002 of roughly \$0.8 million are the largest increments. The City has added no major new programs or initiatives to the 2003 budget.

If these estimates are realized, the City's budgetary General Fund balance is expected to modestly increase by the close of 2003. More importantly, however, this will have been accomplished without selling capital assets or restructuring long-term debt to alleviate cash flow pressures, both actions needed

in the current year. In addition, the City recently purchase commercial insurance for all property and casualty claims incurred after December 31, 2002.

As for the City's business-type activities, we expect that the 2003 results will also improve based on these recent rate decisions:

- The Public Service Commission approved a 2 percent rate increase for all water customers effective January 1. Sewer charges will not change.
- The City Council authorized a 15 percent increase in parking fees, both at the City—owned garages and for on-street meters.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Controller's Office, at City, 1501 Coolidge Avenue, City, State.