

MANAGEMENT'S DISCUSSION AND ANALYSIS

As Finance Director of the City of St. Petersburg (City), I offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2003. The information presented here should be considered in conjunction with the letter of transmittal and the financial statements.

FINANCIAL HIGHLIGHTS

- The City's assets exceed its liabilities at the close of this fiscal year by \$1.09 billion (net assets) which is an increase over the prior year of \$7.9 million. Of the net asset amount, \$270.3 million is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The governmental activities revenue totaled \$250.7 million, or a .2% decrease over the prior year and expense totaled \$243.9 million, or a 9.7% increase over the prior year. The results of these activities produced an increase in governmental net assets of \$15.2 million.
- The business-type activities revenue totaled by \$129.8 million, or a 1.9% increase over the prior year and expenses totaled \$129.2 million, or a 7.6% increase over last year. The results of these activities produced a decrease in business-type net assets of \$8.9 million.
- As of the close of the fiscal year, the City of St. Petersburg's governmental activities reported combined ending net assets of \$531.5 million, an increase of \$16.4 million in comparison with the prior year. Of the \$531.5 million in net assets, \$118.6 million was unrestricted.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Accordingly, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, community and economic development, public works, public safety and recreation and culture. The business-type activities of the City include a Water and Wastewater Utility, Stormwater Utility, Sanitation, Airport, Port, Marina, Golf Courses, and the Jamestown Housing Complex.

The City has four component units that are, for all practical purposes, treated as part of the primary government. The data from these component units are blended with the data from the City. These blended component units are the St. Petersburg Redevelopment Agency, Round Lake Dependent Special District, Old Northeast Dependent District, and Crescent Lake Dependent District. The St. Petersburg Health Facilities Authority, an additional component unit, has more autonomy than the blended component units and is presented separately in the financial statements.

The government-wide financial statements can be found on pages C-1 and C-2 of this report.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The focus of governmental funds is narrower than that of the government-wide financial statements so it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, one may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains forty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, the Utility Tax Fund, the Local Option Tax Fund, Excise Tax Fund, Local Option Sales Surtax Improvement Fund, and the Grants Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements following page F-1 of the report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement, page D6, has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages D-1 through D-7 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities, as noted above in the government-wide financial statements section. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for Equipment Maintenance, Facilities Maintenance, Engineering, Print Shop, Information and Communications Services, Billing and Collection Services, Consolidated Inventory, and Insurance Services. These services predominantly benefit governmental rather than business-type functions so they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Wastewater Utility, Stormwater Utility, and Sanitation funds. The remaining enterprise funds are combined into a single aggregated presentation in the proprietary fund financial statements. Conversely, all internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the proprietary funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages D-8 through D-11.

Fiduciary Funds

The fiduciary fund financial statements include the pension plans and agency funds of the City. These funds represent trust responsibilities of the government and are restricted in purpose. Accordingly, they do not represent discretionary assets of the City and are not presented as part of the government-wide financial statements.

The basic fiduciary fund financial statements can be found on pages D-12 and D-13.

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. The notes to the financial statements can be found on pages following D-14 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information related to funding pension obligations. The required supplementary information can be found beginning on page E-1.

The combining statements referred to earlier in connection with non-major governmental funds, enterprise funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages F-1 through F-37.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. As stated earlier, the City's assets exceeded the liabilities by \$1.09 billion at the close of fiscal year 2003, an increase of approximately \$7.9 million over fiscal year 2002.

The largest portion of the City's net assets, 65.3%, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. 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 used to liquidate these liabilities.

The City’s net assets for the past two fiscal years are summarized, in thousands, as follows:

	Net Assets					
	Governmental Activities		Business - Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 243,202	\$ 255,989	\$243,959	\$227,598	\$ 487,161	\$ 483,587
Capital assets	<u>562,673</u>	<u>562,867</u>	<u>488,567</u>	<u>469,934</u>	<u>1,051,240</u>	<u>1,032,801</u>
Total assets	<u>805,875</u>	<u>818,856</u>	<u>732,526</u>	<u>697,532</u>	<u>1,538,401</u>	<u>1,516,388</u>
Long-term liabilities	247,672	259,405	159,093	115,249	406,765	374,654
Other liabilities	<u>26,722</u>	<u>44,405</u>	<u>15,414</u>	<u>15,314</u>	<u>42,136</u>	<u>59,719</u>
Total liabilities	<u>274,394</u>	<u>303,810</u>	<u>174,507</u>	<u>130,563</u>	<u>448,901</u>	<u>434,373</u>
Invested in capital assets, net of related debt	344,966	329,658	366,764	357,200	711,730	686,858
Restricted	67,964	34,867	39,493	35,662	107,457	70,529
Unrestricted	<u>118,551</u>	<u>150,521</u>	<u>151,762</u>	<u>174,107</u>	<u>270,313</u>	<u>324,628</u>
Total net assets	<u>\$ 531,481</u>	<u>\$ 515,046</u>	<u>\$558,019</u>	<u>\$566,969</u>	<u>\$1,089,500</u>	<u>\$1,082,015</u>

As depicted above, approximately 9.9% of the net assets of the City represents resources that are subject to external restriction on how they may be used. The remaining balance, or unrestricted net assets, may be used to meet the City’s ongoing obligations to citizens and creditors.

As was the case in the prior year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its governmental and business-type activities.

The City's operations for the past two fiscal years are summarized, in thousands, as follows:

Operations	Changes In Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues						
Program revenues:						
Charges for services	\$ 55,120	\$ 48,974	\$ 119,732	\$ 113,768	\$ 174,852	\$ 162,742
Operating grants and contributions	7,086	14,134	283	120	7,369	14,254
Capital grants and contributions	7,593	3,929	3,029	2,349	10,622	6,278
General revenues:						
Property Taxes	68,788	64,774	0	0	68,788	64,774
Other Taxes	103,676	106,310	0	0	103,676	106,310
Other	8,479	13,054	6,757	11,180	15,236	24,234
Total revenues	<u>250,742</u>	<u>251,175</u>	<u>129,801</u>	<u>127,417</u>	<u>380,543</u>	<u>378,592</u>
Program expenses:						
General Government	28,365	24,816	0	0	28,365	24,816
Community and Economic Development	28,538	22,464	0	0	28,538	22,464
Public Works	16,878	14,281	0	0	16,878	14,281
Public Safety - Police	68,549	63,788	0	0	68,549	63,788
Public Safety - Fire and EMS	34,954	33,320	0	0	34,954	33,320
Recreation and Culture	54,722	51,492	0	0	54,722	51,492
Securities Lending	527	776	1,041	1,148	1,568	1,924
Interest on long term debt	11,329	11,345		0	11,329	11,345
Water and Wastewater		0	77,400	71,614	77,400	71,614
Stormwater		0	8,699	8,202	8,699	8,202
Sanitation		0	35,107	32,876	35,107	32,876
Airport		0	884	667	884	667
Port		0	845	697	845	697
Marina		0	1,191	1,310	1,191	1,310
Golf Courses		0	3,527	3,630	3,527	3,630
Jamestown Complex		0	501	455	501	455
Total expenses	<u>243,862</u>	<u>222,282</u>	<u>129,195</u>	<u>120,599</u>	<u>373,057</u>	<u>342,881</u>

Changes In Net Assets (Continued)

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Operations						
Change in net assets before other items	\$ 6,880	\$ 28,893	\$ 605	\$ 6,818	\$ 7,485	\$ 35,711
Transfers	<u>9,555</u>	<u>8,903</u>	<u>(9,555)</u>	<u>(8,903)</u>	<u>0</u>	<u>0</u>
Increase (decrease) in net assets	<u>\$ 16,435</u>	<u>\$ 37,796</u>	<u>\$ (8,950)</u>	<u>\$ (2,085)</u>	<u>\$ 7,485</u>	<u>\$ 35,711</u>
Ending net assets	<u>\$ 531,481</u>	<u>\$ 558,441</u>	<u>\$ 558,019</u>	<u>\$566,968</u>	<u>\$1,089,500</u>	<u>\$1,082,014</u>

The increase in charges for services for fiscal year 2003 over fiscal year 2002 is primarily due to the repayment of deferred notes in the Grants Funds, Housing Capital Improvement Fund, and Local Housing Assistance Fund. The decrease in other revenues is primarily due to decreased earnings on investments. The increase in expenditures in the Community and Economic Development function is partially due to a \$2,000,000 contribution to the St. Petersburg College. The remainder of the costs are increases due to an increased level of effort in economic development.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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.

As of the end of fiscal year 2003, the City's governmental funds reported combined ending fund balances of \$150.6 million, an increase of \$3.3 million in comparison with the prior year. Governmental funds reserved \$11.4 million for commitments made in fiscal year 2003 that will not be incurred and paid for until fiscal year 2004. In addition to other items as noted on page D-2, \$14.2 million was reserved for debt service.

The General Fund, the chief operating fund of the City, had a balance at September 30, 2003, of \$33.1 million, of which \$582,576 was reserved for obligations which will be paid in fiscal year 2004 and \$520,146 was reserved for inventory, prepaid costs and deposits. The remainder of the fund balance or \$32.0 million was unreserved.

As a measure of the General Fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 19.5% of the total General Fund expenditures and the total fund balance represents 20.2%.

The General Fund deficiency of revenues and other sources over expenditures and other uses was \$7.2 million compared to prior years excess of revenue and other sources over expenditures and other uses or a combined decrease of \$14.4 million. The key factors for this reduction are as follows:

- Tax revenue increased by \$4 million primarily attributable to growth in assessed value.
- Disposition of property decreased by \$4.8 million due to last year’s sale of land as part of the City’s industrial development.
- Earnings on investments decreased by \$.8 million due to the overall reduction in short term interest rates.
- Transfers into the General Fund increased by \$1.4 million and transfers out of the General Fund increased by \$1.9 million for a net transfer in decrease of \$.5 million.
- Operating expenditures increased by \$12.3 million due to salary increases, pension fund contribution increases and medical insurance rate increases.

The other major governmental funds are as follows (in thousands):

	Utility Tax		Local Option Tax		Excise Tax		Local Option Sales Surtax Improvement		Grants Fund	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues and other sources	\$34,616	\$35,398	\$22,996	\$22,461	\$20,773	\$20,213	\$25,354	\$25,369	\$4,447	\$7,524
Expenses and other uses	<u>34,662</u>	<u>33,589</u>	<u>22,633</u>	<u>22,676</u>	<u>20,475</u>	<u>20,198</u>	<u>22,873</u>	<u>36,279</u>	<u>4,403</u>	<u>7,210</u>
Increase(decrease) in Net Assets	<u>\$ (46)</u>	<u>\$ 1,809</u>	<u>\$ 363</u>	<u>\$ (215)</u>	<u>\$ 298</u>	<u>\$ 15</u>	<u>\$ 2,481</u>	<u>\$(10,910)</u>	<u>\$ 44</u>	<u>\$ 314</u>

Further detail regarding these major governmental funds can be found on pages D-1 thru D-4.

The reduction in the Grants Fund is due to decreases in activity in Community Development Block Grant and Home Investment In Affordable Housing grants.

Proprietary Funds

The City’s proprietary funds provide the same type of information found in the business-type column of the government-wide financial statements, but in more detail. The proprietary funds are composed of the enterprise funds and the internal service funds.

The enterprise funds are supported primarily through user charges. The following schedule, in thousands, is a summary of the performance of each of the major enterprise funds. Additional detail

on the performance of these funds can be found on pages D-8 and D-11. Detail on the non-major enterprise funds can be found on pages F-25 through F-27.

	Water and Wastewater		Stormwater		Sanitation	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues and other sources	\$ 83,352	\$78,287	\$ 10,705	\$ 11,760	\$ 30,841	\$ 31,821
Expenditures and other uses	<u>85,659</u>	<u>79,294</u>	<u>9,851</u>	<u>9,385</u>	<u>37,032</u>	<u>35,031</u>
Increase(decrease) in Net Assets	<u>\$(2,307)</u>	<u>\$(1,007)</u>	<u>\$ 854</u>	<u>\$ 2,375</u>	<u>\$(6,191)</u>	<u>\$(3,210)</u>

The internal service funds are, for the most part, supported through charges to other funds. A significant increase in transfers out occurred in fiscal year 2003 in equipment replacement and the Information and Communication Services Funds to the General Capital Improvement Fund for the purchase of a new accounting software system this fiscal year. The internal service funds are reported on pages F-29 through F-31.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budgeted expenditures and original uses exceeded the budgeted revenues and other sources causing a draw down of fund balance of approximately \$2.6 million. Additionally, increases in the City pension contribution requirements, increases in the medical insurance costs and a \$2.5 million transfer out to the capital project funds, significantly increased the expenditures over amounts originally budgeted. This resulted in expenditures and other uses exceeding revenues and other sources by \$7.7 million. Additional budget to actual information on the City's general fund is on page D-6.

CAPITAL ASSETS

The City has invested \$1.051 billion in capital assets (net of depreciation). Approximately 53.5% of this investment is related to governmental activities and includes infrastructure, buildings, equipment, and land. Capital assets held by the City at the end of the current and previous fiscal year are summarized, in thousands as follows:

Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 134,068	\$ 130,037	\$ 12,319	\$ 11,196	\$ 146,387	\$ 141,233
Buildings & Systems	218,185	215,996	10,772	9,558	228,957	225,554
Improvements & Infrastructure	119,454	114,434	9,546	6,642	129,000	121,076
Machinery & Equipment	43,052	48,957	9,417	10,989	52,469	59,946
Utility Systems	0	0	367,606	325,586	367,606	325,586
Construction In Progress	<u>47,914</u>	<u>53,443</u>	<u>78,907</u>	<u>105,963</u>	<u>126,821</u>	<u>159,406</u>
Totals	<u>\$ 562,673</u>	<u>\$ 562,867</u>	<u>\$ 488,567</u>	<u>\$ 469,934</u>	<u>\$1,051,240</u>	<u>\$1,032,801</u>

Additional information on the City's capital assets can be found in Note 8 beginning on page D-27.

LONG-TERM OBLIGATIONS

For fiscal year ended September 30, 2003, the City had total debt outstanding of \$374.1 million. Of this amount, \$45.4 million of note debt and \$9.0 million of bond debt is backed by a covenant pledge to budget and appropriate from non-advallorem revenue sources. The remaining \$319.7 million in bonded and note debt is secured solely by specified revenue sources.

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenue Bonds	\$ 169,158	\$ 178,154	\$ 134,934	\$ 92,605	\$ 304,092	\$ 270,759
Revenue Notes	0	0	15,633	12,653	15,633	12,653
Covenant Bonds	5,075	5,280	3,900	5,375	8,975	10,655
Covenant Notes	<u>45,450</u>	<u>46,380</u>	<u>0</u>	<u>0</u>	<u>45,450</u>	<u>46,380</u>
	<u>\$ 219,683</u>	<u>\$ 229,814</u>	<u>\$ 154,467</u>	<u>\$ 110,633</u>	<u>\$ 374,150</u>	<u>\$ 340,447</u>

The City of St. Petersburg's total debt increased by \$31.7 million (9.3%) during the current fiscal year due mainly to \$20.6 million in annual principal payments offset by an increase of \$48.5 million in new bond and note debt in the Water Resources Fund, and an increase of \$2.1 million in capital appreciation bonds.

During the fiscal year ended September 30, 2003, the City closed on one debt issue and one note issue:

- On July 1, 2003, the city issued \$45,000,000 of Public Utility Revenue Bonds, Series 2003. The net proceeds will be used for Water Resources Capital Projects. The 30 year bonds were sold competitively and had a true interest cost of 4.48%.
- On September 15, 2003, the city closed a \$3,511,767 pending loan from the State of Florida Department of Environmental Protection local government revolving loan pool into a completed twenty year loan at an interest rate of 3.33%.

The City maintain's a rating of A2 on all governmental debt from Moody's and currently has an "Aa" rating on all Water and Wastewater Revenue Bonds from Moody's and Fitch rating agencies.

Currently the City has no general obligation debt and therefore, the entire State Statutes limitation is available to the City.

Additional information on the City long-term debt can be found in footnote 12 - Long-Term Debt on pages D-36 through D-44.

NEXT YEARS BUDGET AND RATES

The adopted fiscal year 2004 budget was based on a reduced millage rate of 7.09 mills; down from 7.14 mills in fiscal year 2003. This was possible primarily due to continuing appreciation of real estate in the city and the corresponding increase in ad valorem tax revenue. A number of other fees and charges for services were also adjusted to reflect the cost of the services. Management continues to review fees, rates, and other charges to insure that costs are distributed equitably to citizens and users of services and to insure that the city remains in good financial health.

REQUEST FOR INFORMATION

This financial report is designed to provide various interested parties with a general overview of the City of St. Petersburg's finances for all of those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, P.O. Box 2842, St. Petersburg, Florida 33731-2842, or telephone (727) 893-7515.