



City of St. Louis, MO

Office of the Comptroller

Long Range Financial Plan Update

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PFM Group Consulting, LLC
PFM Financial Advisors LLC
1735 Market Street
42nd Floor
Philadelphia, PA 19103



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Long-Range Financial Plan: Overview

For municipal governments, long-range financial planning is an important best practice, recognized by both the Government Finance Officers Association (GFOA) and credit rating agencies as a valuable tool that helps anticipate and address budget pressures and community needs toward achieving sustainable fiscal health.

The Office of the Comptroller of the City of St. Louis has led in the development of long-range financial planning for the City since the first St. Louis Strategic Financial Plan was approved in 1999. More recently, the Office of the Comptroller engaged the development of a detailed Long Range Financial Plan setting forth a range of priorities and fiscal strategies, approved by the Board of Estimate and Apportionment in September 2015. In this 2019 Update, the City's significant progress in accordance with its 2015 plan is reviewed, and projected future outcomes before any further corrective action are re-forecast based on current conditions and expectations.

While this 2019 Update is, in many ways, a positive story – reflecting St. Louis' strengths as a community and the beneficial impact of the multiple financial measures adopted over the past several years – additional challenges remain ahead. Overall, like most U.S. state and local governments, the City still faces a structural budget shortfall, with current revenues not yet keeping pace with rising expenditures. At the same time, as an older City with aging infrastructure and facilities, steady capital investment remains critical. Further, after nearly a decade of economic expansion nationally since the end of the Great Recession, it is increasingly important that reserves be replenished and long-term liabilities reduced.

Accordingly, this 2019 Long-Range Financial Plan Update also includes a series of ideas and initiatives for ensuring that the City's fiscal health remains strong, and that St. Louis continues to move forward as a local government and as a community.

Progress and Momentum since 2015

Over the past several years, St. Louis has demonstrated meaningful progress and momentum.

Investment in the Local Economy and Tax Base

Continued economic and community development serves to attract new residents, boost sales and tourism, and ultimately increase the City's tax base and revenues. Economic development currently occurring in the city includes:

- The selection of St. Louis in 2016 as the site for the National Geospatial-Intelligence Agency ("NGA") Next NGA West Campus, continuing a presence of the NGA and its forerunner agencies in St. Louis since 1952. The new facility is anticipated to include 800,000 square feet of office space and will accommodate approximately 3,150 government and contractor personnel. Construction of the \$1.75 billion project has already begun, with completion expected in 2024.
- Projects adding to downtown revitalization, including the \$240 million Phase II of Ballpark Village, with a new 29 story apartment building, 216 room hotel, 120,000 square feet of offices, and 75,000 square feet of retail, and the \$70 million Phase II investment in Union Station, with an entertainment center to feature an aquarium and Ferris wheel. Other downtown investments include six additional new hotel projects, \$130 million upgrades to the Scottrade Center, multiple other apartment and mixed use developments, technology start-ups driven by the T-REX incubator started earlier in the decade, and



the \$380 million CityArchRiver project including extensive transportation and park museum improvements, which culminated in the opening of the new Gateway Arch National Park in July 2018.

- Major investment beyond downtown. For example, the St. Louis University medical center has partnered with SSM Health and a new \$550 million hospital is underway, and BJC Medical Center has just completed an approximately \$1.0 billion rebuilding program with an additional approximately \$1.0 billion phase just beginning, and Washington University's Frost Campus is undergoing major expansion. In addition, the St. Louis Innovation District Tax Increment Financing (TIF) Redevelopment Plan (the "Cortex TIF"), first approved in 2013, is also now underway. Located in the western portion of the City, the Cortex TIF redevelopment area includes over 168 acres, with planned total investment of approximately \$2.1 billion over twelve years. Already, five of eleven project areas are active, sparking health care, technology, retail, and mixed use investment. Elsewhere across St. Louis, mixed use, educational, and housing developments – both affordable and market-rate – are also underway throughout the central corridor, and north and south of it.

More Cost-Effective Government

A key strategy outlined in the City's 2015 Long-Range Financial Plan was to "rebalance the total compensation portfolio" – seeking to improve cash compensation to be competitive for recruiting and retaining a high-quality municipal workforce, while looking for ways to provide important healthcare and retirement benefits more cost-effectively, thereby reducing budget pressure from fast-rising benefit growth rates.

Progress to date includes:

- Innovative, employee-focused healthcare cost containment, including establishment of an optional Consumer Driven Health Plan (CDHP), expanded wellness and health management programs, such as a diabetes-related pilot program and worksite biometric screening, launching of a new Tele-Med program allowing more timely communication with a physician, and the rebidding of contracts for police benefits, generating significant savings and improving the integration of the plans.
- Continued favorable impact from 2013 reforms to firefighter pensions. The new Firefighters' Retirement Plan (FRP) provides a more affordable, but still strong and competitive, benefits structure for new hires and future service. As a new plan, the FRP was just 2.5% funded when first created in 2013, but has steadily built up assets, reaching a 60.0% funded ratio as of October 2017 for its more sustainable benefits plan. At the same time, the now closed Firemen's Retirement System (FRS) remains well funded, with only a \$2.7 million annual City payment required against an initial actuarial liability. Overall, on a market value basis, FRS assets as of October 1, 2017 exceeded the present value of all benefits.
- Reducing the risk of key elements of the Employees Retirement System (ERS) for civilian workers, with the adoption of a lower 7.5% investment return assumption and a 20-year fixed/layered amortization period for the plan's unfunded liability (assumptions had been 8.0% with a 30-year open amortization period as of the 2013 valuations reviewed in 2015), along with updated mortality tables. Overall, the ERS funded ratio has also improved from 77.1% to 82.7% as of October 2017.

Stronger Revenues

A major long-term challenge for the City has been modest revenue growth that has not kept pace with rising costs of service delivery, particularly given the impact of healthcare inflation on employee benefits.



Accordingly, it is important for fiscal sustainability that St. Louis regularly adjust fixed charges and fees to keep pace with underlying cost growth, and that the City identify new revenue sources to help address emerging needs and challenges.

- As a further step toward rebalancing the total compensation portfolio, St. Louis voters approved a ½ cent sales tax (Prop. P) dedicated to increasing salaries for police officers and firefighters to ensure wage competitiveness, and also supporting crime prevention efforts, afterschool and summer job programs, recreation activities, and social and mental health programs. In FY2019, this measure will improve pay by approximately \$6,000 per uniformed employee, without eroding the baseline level of resources for existing budgetary commitments.
- In addition, the voters approved a second ½ cent sales tax for Economic Development, with its first full year of impact in FY2019, to provide additional resources for public transit improvements, along with additional allocations for neighborhood stabilization, workforce development and public safety infrastructure needs.
- After many years with no adjustment to reflect rising costs, Sanitation fees were also increased from \$11 to \$14 per month in FY2017, with the first full year of implementation in FY2019, better aligning the charges for this core service to costs. Overall, Sanitation fee revenues increased from a low of \$12.9M in FY2014 to an estimated \$15.4M in FY2018, and are budgeted at \$17.3 million in FY2019. Also within the past several years, Emergency Medical Services (EMS) transport and Building Division fees were adjusted to better reflect underlying costs.
- To help fund Senior Services, a \$0.05 property tax increase was approved for a dedicated Special Fund. This new resource helps to meet community goals for expanded services without further eroding the resources available for ongoing commitments.

Regular Capital Investment

As further detailed within this Long-Range Financial Plan Update, like many older cities, St. Louis faces substantial capital investment needs to renew and replace aging infrastructure – compounded by deferred funding during the Great Recession. More recently, however, the City has made positive strides toward addressing this major challenge:

- \$50 million in General Obligation (GO) bonds were approved by the voters in August 2018 of which \$46.4 million were issued in November 2018. Bond proceeds will be used for infrastructure improvement and purchase of equipment, including but not limited to: replacement of fire department vehicles and police department equipment, addressing corrections, courts, and juvenile detention building conditions, and maintenance of city bridges.
- This builds on a \$25 million GO bond issuance for fire engines and building repairs approved in 2016.
- Additionally, Proposition NS—a citizen-led ballot proposition from April 2017—was officially certified by the courts in September of 2018. This Proposition will provide up to \$40 million in GO Bond revenues across several years for the stabilization of single-family and small multi-family City owned properties to increase their attractiveness for private sale.



Such regular investment is critical to the sustainability of core City functions and services, and complements a range of revenue sources within the St. Louis Capital Improvements Fund which support debt service payments and supply pay-as-you-go funding as a stable base of resources for a subset of capital needs. These existing revenue sources include: a 1/2 cent sales tax dedicated solely to capital projects, half of which is allocated across the wards for the aldermen to use on the highest neighborhood priorities; Metro Parks sales taxes of 1/10 cent and 3/16 cent dedicated to parks and recreation improvements; a portion of the new Economic Development sales tax, as outlined above; a portion of the City's share of the state gasoline tax, used to help fund the City's match requirements on federal funds for bridge replacement and street repair; gaming admissions receipts, which occur in both the City and the County are allocated to the City's combined City/County development efforts; and, City and State Court fees designated to offset debt service when financing improvement of City-owned courthouses.

This ongoing investment – not always found to the same degree in many other major cities nationally – plays a vital role in maintaining critical assets in good repair. Further, the regional character of some of these funding streams as applied to regional assets like Forest Park and its cultural resources also reflects best practices by aligning funding and use to better ensure sufficient investment. At the same time, however, this base funding alone does not cover all of the City's core assets, and continued voter support for bond funding to meet other capital needs remains critical.

Rebuilding Reserves

One of the most important best practices in financial management is the maintenance of healthy reserve levels as a contingency against unforeseen events and to provide liquidity for stable cash flows.

For many years, St. Louis followed a policy of allocating 50% of any prior year operating surplus to Fund Balance, with the remaining 50% allocated to the Capital Fund – a sound use of non-recurring revenues. Beginning with the FY2017 Budget, however, the City is now dedicating 100% of any surplus toward increasing General Fund reserves until, at least, the 5% Fund Balance target is met.

Adding further to this effort, the FY2019 General Fund budget includes \$3.4 million, equivalent to 1.5% of the salary accounts of each department, for deposit in reserves. This budgeted reserve replenishment mechanism is anticipated to become a regular practice, at least until reserves become sufficient.

In addition, in FY2019, the Parking Commission voluntarily provided the City with \$10 million in one-time funds directly designated for replenishing the City's reserves.

In St. Louis, the City's current goal within the General Fund is to maintain the unreserved portion of Fund Balance at a minimum of 5% of the total budget, and recommended best practice targets nationally are generally even higher (for example, the GFOA recommends a minimum of two months of operating expenses, or 16.7%, and potentially higher levels depending on a government's particular financial risk exposure). In the years just prior to the Great Recession, the City reached and maintained its 5% target level, providing an important cushion for the downturn that followed. With those economic pressures, however, reserve levels then fell below target, reaching a low of \$6.9 million in FY2011. Since then, reserves have steadily improved to an estimated \$17.6 million in unreserved General Fund balance as of the end of FY2018 (cash basis).

Because of this improved reserve level by the end of FY2018, combined with the FY2019 budgeting for reserve replenishment and Parking Authority contribution, the General Fund reserve, on a cash basis, is projected to reach approximately \$31 million by the end of the current fiscal year. This total will exceed the City's current minimum 5% target (\$25.8 million), reflecting St. Louis' commitment to accelerate rebuilding of



reserves. This progress not only represents significant and positive steps toward greater budget stability, but also positions the City to review the potential establishment of a higher target level going forward as well as reserve replenishment requirements.

Ongoing Budget Pressures

Despite this meaningful progress, like most municipal governments nationally, St. Louis also faces ongoing structural budget challenges.

For the nation as a whole, the most recent forecast by the U.S. Governmental Accountability Office (GAO) projects a 14.7% structural deficit across the state and local government sector for the next half century, prior to corrective action. This challenge is driven by a forecast that economically sensitive governmental revenues will struggle to keep pace with overall growth, while healthcare costs are forecast to continue to increase at a steeper rate than the economy overall, with additional pressure from retiree benefit funding.¹

At the same time, there is growing concern among Finance Officers nationally regarding the approaching onset of the next economic downturn, as well as ongoing challenges such as unmet infrastructure needs. According to the National League of Cities (NLC), the percentage of Finance officers who report that their cities are “better able to meet the financial needs of their communities” decreased from over 80% from 2014 through 2016 to 73% in 2018.² As the NLC reported:

“This year’s analysis demonstrates decelerating fiscal growth in cities across the country. Cities’ revenue growth—including all three major sources of tax revenue—is slowing. Growth of expenditures is outpacing revenues, and fewer finance officers are confident in the fiscal positions of their cities. Although fiscal health is not yet declining, these conditions echo several cautionary signals from previous economic downturns.”

Paralleling these national trends, this 2019 Long-Range Financial Plan Update projects that – prior to further corrective action -- St. Louis will experience continued, moderate revenue growth in the years ahead, but healthcare is among those City cost centers forecast to grow at a faster pace. Compounding this budget challenge, again like many local governments nationally, St. Louis has deferred capital investment during the Great Recession, and now faces a backlog of infrastructure renewal and replacement needs.

Looking ahead to the period from FY2019 through FY2029, PFM has worked with the City Budget Division to develop baseline projections for all General Fund revenues and expenditures on a carry-forward basis, assuming no major changes in service levels, staffing, tax rates, infrastructure funding, or other adjustments to the status quo – all within the further framework of assumed stability in the broader economic environment. Taking into account historical trends and other key factors, the resulting forecast shows that revenue growth is not projected to keep pace with expenditure growth for certain key cost centers – in turn, driving structural shortfalls that will require action to correct.

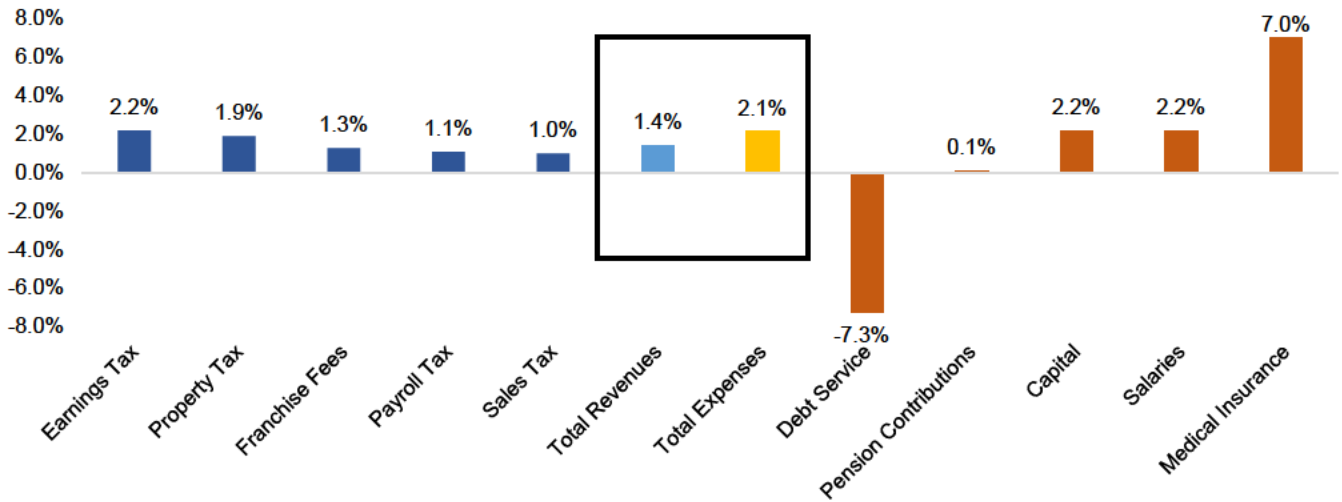
Overall, across this ten-year period, aggregate revenues are forecast to grow at a compound annual growth rate (CAGR) of 1.4%, while carry-forward expenditures are projected to grow at 2.1% annually.

¹ United State Government Accountability Office, State and Local Governments’ Fiscal Outlook, December 2018 Update.

² National League of Cities. “City Fiscal Conditions 2018.”

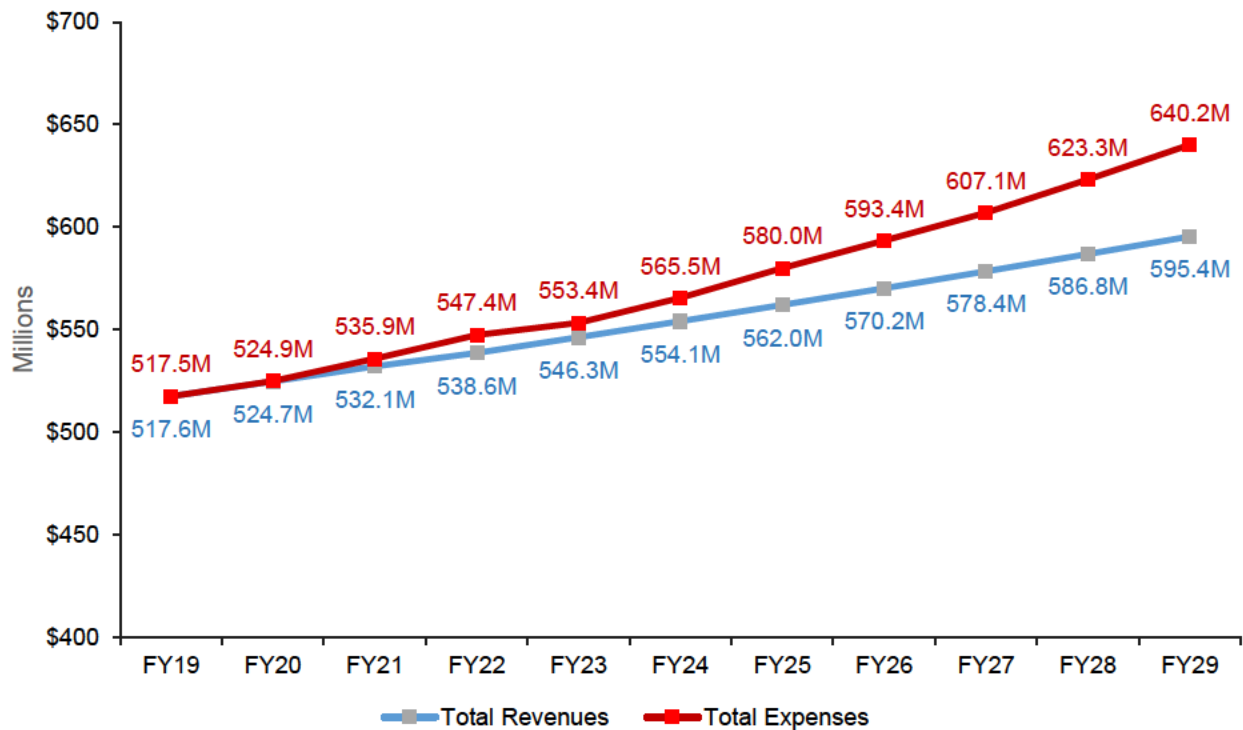


Projected Compound Annual Growth Rate (CAGR) for Major Budget Drivers FY2019-FY2029



In turn, as a result of this structural imbalance – without change – a small budget shortfall would begin to open by FY2020, and is forecast to grow to \$44.7 million by FY2029.

General Fund Baseline Projected Forecast



It is also important to note that the above baseline forecast, while based on a set of mainstream economic expectations, will inevitably vary from actual results as real world events unfold. As of March 2019, the current expansion phase of the U.S. economy, which began when the recession bottomed out in June 2009,



had reached 117 months in duration. Since 1945, the average length of the expansion phase in each of the preceding eleven business cycles was just 58.4 months, and the longest period of expansion was 120 months. If future results are consistent with this past experience, at least one recession would occur within the ten-year forecast period ahead, likely within the earlier years of this timeframe.

Accordingly, PFM also developed a “Stress Test” projection under a set of economic assumptions meant to reflect a recession. These projections are discussed later within this Long-Range Financial Plan Update, providing a broader range of potential results for planning contingencies.

Opportunities for Further Progress

Over the course of this decade, St. Louis has taken multiple steps to improve its fiscal position. With regard to spending, the City has advanced pension reform and adopted innovative healthcare cost containment strategies. With the City’s revenue base, Prop. P has created additional resources for public safety pay competitiveness, adjustments to sanitation fees have better kept pace with service delivery costs, and economic revitalization is contributing to the strength of the St. Louis tax base. Successful ballot initiatives are also leading to much needed capital investment in basic infrastructure and facilities, and a new reserve policy is better preparing for any budget challenges ahead.

With careful planning and execution, St. Louis can continue to build on these actions to move in a direction of fiscal stability and improving community strength. The following opportunities, further outlined later within this Long-Range Financial Plan Update, are among the options that could contribute to this positive trajectory.

Economic Investment

- Continuing to support the City’s major ongoing development initiatives already underway – from the NGA West campus to the Cortex TIF redevelopment area.
- Upgrading the America’s Convention Center Complex, a major driver of the City’s hospitality and trade sector, under a \$175 million regional City-County hotel tax funding plan.
- Enhancing tax incentive guidelines to ensure that incentives and abatements are directed where they will have the greatest impact, and not awarded to projects that could move forward without such public subsidy.
- Strengthening the coordination and analytical input among various divisions of the City and related agencies when assessing potential benefits and costs of proposed development projects.
- Ensuring the best approach for the future of St. Louis Lambert International Airport, a critical transportation asset for the region.
- Rethinking the City’s economic development strategy to align the community’s many strong resources with emerging needs and opportunities.

More Cost-Effective Government

- Continued innovations to contain healthcare cost growth while maintaining quality coverage.
- Pursuit of State authorization for police pension reform, building on recent benefit adjustments for City firefighters.
- Exploration of potential civilian pension modifications to improve sustainability.
- Review of supervisory/managerial staffing requirements and fire deployment strategies.
- Further addressing key non-personnel cost centers.



Stronger Revenues

- Continued renewal of the Earnings Tax.
- Reengagement of the City's past Revenue Enhancement Committee to explore potential fee and license adjustments to reflect cost-of-service growth and possible new revenue sources from evolving services in the new economy.
- Creative pursuit of non-tax revenues, such as expanded partnerships with nonprofit institutions and federal reimbursement for use of available, excess space in the City's jails.

Renewed Capital Investment

- Establish a more regular cycle of capital investment funding.
- Pursue dedicated sources of funding or financing for certain projects.
- Reinstigate the use of half of any annual operating "surplus" for capital investment once reserve the 5% target established by Ordinance is met, currently anticipated to occur at the end of FY2019.
- Continue to pursue fleet modernization.

Rebuilding Reserves

- Further sustain the newly established policy of budgeting for reserve replenishment until Fund Balance reaches a level more in keeping with nationally established best practices.
- Consider establishing replenishment requirements for reserves.



General Fund Baseline Projected Forecast

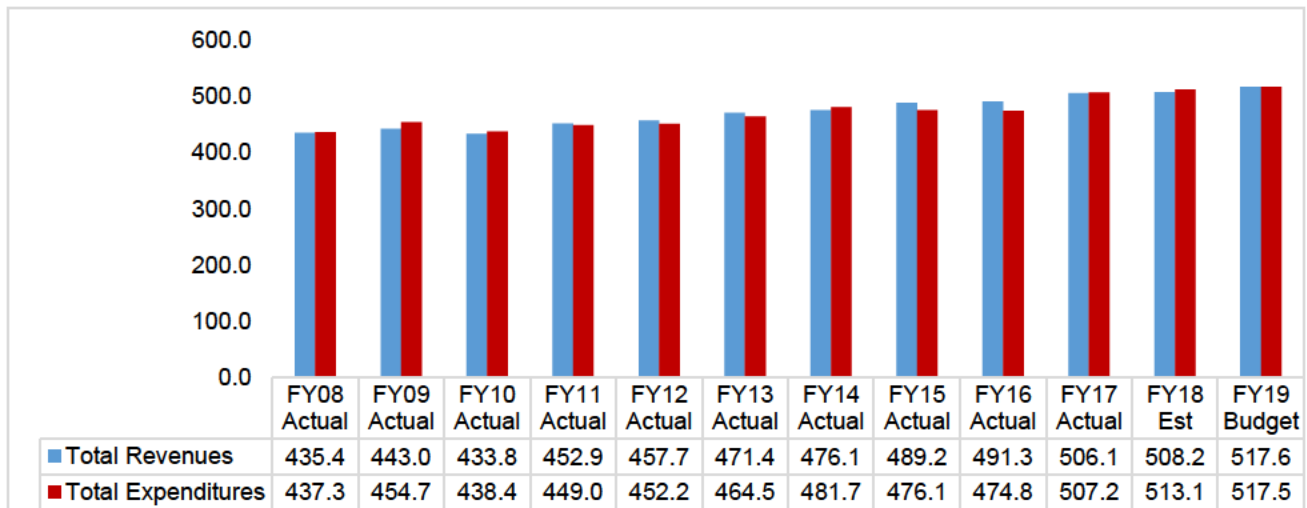
For this 2019 Long-Range Financial Plan Update, PFM has developed a baseline ten-year forecast of all City revenue and expenditure line items assuming a “carry forward” approach prior to any policy change or corrective action. The starting point for these projections is the City’s FY2019 Adopted Budget, and the forecast generally aligns with projections regularly produced by the City’s Budget Division.

This baseline ten-year projection is intended to frame the City’s General Fund budget expectations going forward under economic conditions consistent with the following mainstream forecasts and assumptions:

- Revenues assumed to follow historical growth.
- Pension costs continue to meet actuarial assumptions.
- Healthcare inflation remains consistent with recent experience.
- No significant changes in service levels or headcount.
- No “catch up” for deferred capital investment.

This analysis is informed by historical results, which reflect the City’s budget performance under past economic conditions. At the same time, it is important to recognize that the City’s past results have also required a series of corrective actions to ensure budgetary balance – from service cuts and restructuring to revenue enhancement initiatives – as underlying pressures have created fiscal strain.

General Fund Results – FY2008 to FY2019 (\$ Millions)



For FY2019, based in part on such corrective actions, St. Louis budget is again in balance. Looking forward, however – consistent with national experience across the public sector – St. Louis continues to face longer-term structural challenges projected to require additional change in the years ahead.

Under the baseline set of conditions outlined above, the City budget is projected to see a modest shortfall of \$157,900 (\$0.2 million) begin to appear in 2020. As a result of future revenue forecast to grow at a rate insufficient to sustain the rate of projected carry-forward expenditures, this budget gap is anticipated to widen to become a net operating shortfall reaching approximately \$44.7 million by FY2029, prior to any change.



Summary of Projected Results (Prior to Corrective Action): FY2019 to FY2029

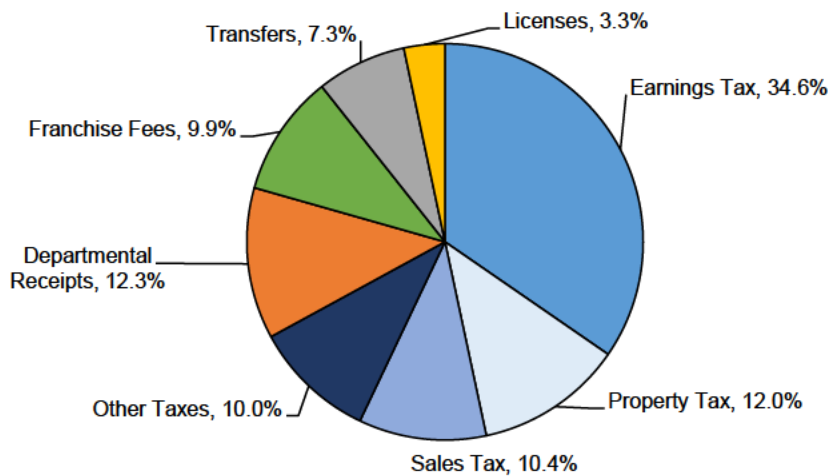
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Taxes	347.0	353.2	359.4	364.8	371.3	377.9	384.7	391.6	398.6	405.8	413.1
Departmental Receipts	63.9	63.9	63.9	63.9	63.9	63.9	63.9	63.9	63.9	63.9	63.9
Franchise Fees	51.4	52.0	52.7	53.4	54.0	54.7	55.4	56.1	56.9	57.6	58.3
Transfers	38.0	38.3	38.6	39.0	39.4	39.7	40.1	40.5	40.9	41.3	41.7
Licenses	17.3	17.3	17.4	17.6	17.7	17.8	17.9	18.0	18.2	18.3	18.4
Total Revenues	517.6M	524.7M	532.1M	538.6M	546.3M	554.1M	562.0M	570.2M	578.4M	586.8M	595.4M
Personnel Expenses	381.4	391.6	402.4	411.1	421.0	432.5	444.4	456.0	468.9	483.2	497.3
Contractual Services	77.5	79.3	81.0	82.8	84.6	86.5	88.4	90.3	92.3	94.3	96.4
Materials & Supplies	15.6	15.9	16.3	16.7	17.0	17.4	17.8	18.2	18.6	19.0	19.4
Non-Capital	5.2	5.3	5.4	5.5	5.6	5.8	5.9	6.0	6.2	6.3	6.4
Capital	3.6	3.7	3.8	3.9	4.0	4.0	4.1	4.2	4.3	4.4	4.5
Debt Service	34.2	29.1	27.0	27.5	21.1	19.3	19.4	18.7	16.8	16.0	16.1
Total Expenses	517.5M	524.9M	535.9M	547.4M	553.4M	565.5M	580.0M	593.4M	607.1M	623.3M	640.2M
FY Surplus / (Deficit)	\$0.0M	-\$0.2M	-\$3.8M	-\$8.8M	-\$7.1M	-\$11.4M	-\$17.9M	-\$23.3M	-\$28.6M	-\$36.4M	-\$44.7M
FY Ending Fund Balance	\$9.8M	\$9.6M	\$5.8M	-\$3.0M	-\$10.1M	-\$21.5M	-\$39.4M	-\$62.7M	-\$91.3M	-\$127.8M	-\$172.5M

To more fully present the basis for the ten-year baseline forecast, detailed analysis of the City's major revenue and expenditure categories, trends, and projections follows below, inclusive of a Stress Test scenario assuming a near-term economic downturn.

Revenues

The City's General Fund revenue sources are comprised of five main revenue categories – taxes, licenses, franchise fees, departmental receipts of fees charged for services, and transfers – totaling \$517.6M in FY2019. Approximately two-thirds of St. Louis' revenues are generated from taxes, with the balance derived from fees, fines, licenses and a range of smaller sources.

General Fund Budgeted Revenues by Category, FY2019



Like most city governments, a majority of St. Louis revenues are linked to the local economy, which, in turn, is responsive to external economic conditions. Although the City continues to diversify its revenue sources to ensure budget stability, historical growth has struggled to keep up with rising costs.

The main drivers of General Fund revenues include the following:

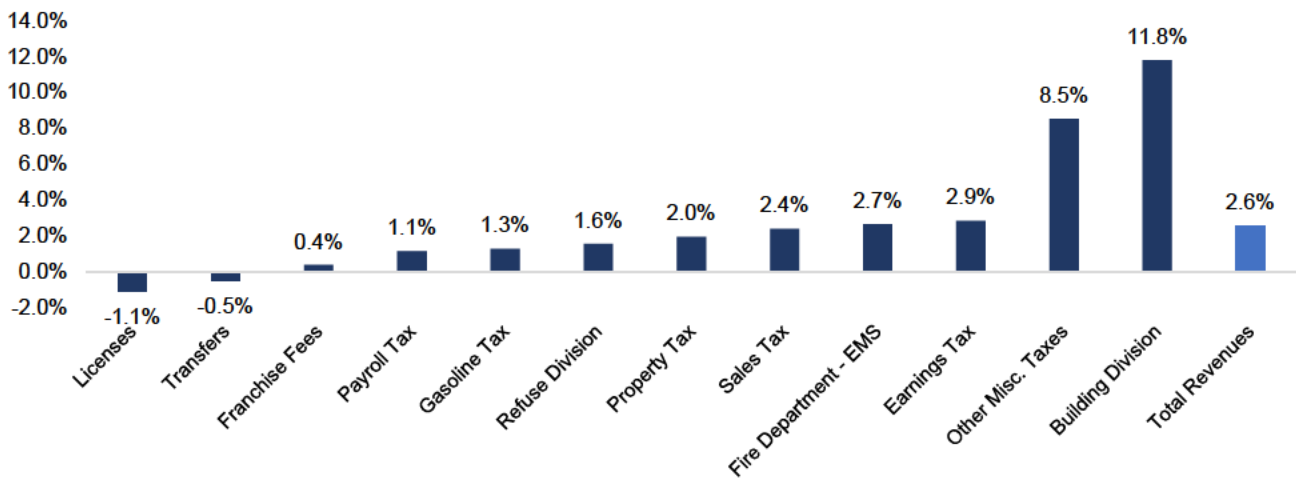


- **Earnings Tax** (FY2019 Budget: \$179.1M) - The Earnings Tax is a 1% tax levied against employee gross compensation and business net profits for residents regardless of where they work and non-residents who work within the city limits. The City of St. Louis relies heavily on the Earnings Tax, as it is the City's single largest revenue source, representing over one-third of the City's General Fund receipts (34.6% in FY2019 budget). The Earnings Tax has shown a healthy compound annual growth rate ("CAGR") of 2.1% from FY08 to FY2018, and even steeper growth from FY2013 to FY2018 (2.9%) and FY2015 to FY2018 (2.6%).
- **Property Tax** (FY2019: \$62.3M) - St. Louis property tax features two separate tax bases: Real Property Tax and Personal Property Tax. Revenues for both have seen steady growth for the past five years with a combined CAGR of 1.9% (from FY2013 actual to FY2018 estimate). The City has assumed continued growth in the FY2019 budget.
- **Sales Tax** (FY2019: \$53.9M) – Sales Tax in St. Louis has experienced a CAGR of 2.4% (from FY2013 actual to FY2018 estimate), reflective of St. Louis' role as a regional hub of commerce, arts, culture, and entertainment. On a year-to-year basis, special events such as postseason baseball can also have a material effect on annual sales tax performance.
- **Other Taxes** (FY2019: \$51.7M):
 - **Payroll Tax** (FY2019: \$39.0M) - The City's Payroll tax is a tax of ½ of 1% of total compensation paid by businesses to employees, from which nonprofit employers are exempt.
 - **Gasoline Tax** (FY2019: \$8.6M) – The revenue from the \$0.17 per gallon State gasoline is distributed to Cities and Counties based off of a formula that ties a jurisdiction's allocation of State-collected revenues to the community's share of total State population, based on each decennial Census. This revenue experienced a steady decline over much of the past two decades from its peak of \$10.5M in FY2000, but has begun to recover, seeing a CAGR of 1.3% from FY2013 to FY2018.
 - **Other Taxes** include Auto Sales, which is also linked to the City's share of the State population (FY2019: \$3.4M) and intangible taxes (FY2019: \$0.6M), both of which have a history of volatility and little growth.
- **Departmental Receipts** (FY2019: \$63.9M) – Departmental receipts represent the next largest revenue category after taxes, and are driven largely by the Refuse Fee (FY2019: \$17.3M), building permit fees (FY2019: \$11.1M), and Emergency Medical Services (EMS) fees (FY2019: \$11.0M). In many cases, these charges are not adjusted regularly for rising costs of service delivery. A recent adjustment to the Refuse Fee in August 2017 from \$11 to \$14, however, is anticipated to increase receipts and better keep pace with inflationary cost pressures.
- **Franchise Fees** (FY2019: \$51.4M) – Franchise Fees are collected for electric, natural gas, airport, railroad, steam, and water services. Electric makes up the bulk of these fees (FY2019: \$31.5M or 61.4% of total Franchise Fees), and has seen modest growth over the last 10 years. Natural Gas, Airport, and Water services are the next largest (FY2019: \$19.4M, combined), though these have seen more volatility over the past decade.



- Transfers** (FY2019: \$38.0M) - The largest transfer into the General Fund, from telecommunication gross receipts (FY2019: \$10.0M), is designated for employee pension expenditures. This transfer has a cap of \$13.5 million, and any amount over that is redirected to other General Fund expenditures. However, this revenue has not reached the \$13.5M cap since FY2013. Other significant transfers include hotel tax receipts (FY2019: \$9.6M) and restaurant tax revenues (FY2019: \$5.8M). While these two hospitality revenue sources saw positive annual growth from FY2013 to FY2018 (2.8% for the restaurant tax and 3.5% for the hotel tax), both are sensitive to general economic performance and special events (e.g., sports playoffs, conference bookings) making future growth more uncertain.
- Licenses** (FY2019: \$17.3M) - The largest revenue source in this category is the Graduated Business License (GBL) at \$7.1 million in FY2019, which has seen modest, consistent decline since its peak of \$8.1M in FY1999. Among the other revenue sources in this category, the Amusement Tax declined 27.3% from FY2013 to FY2018, and is budgeted at \$0.2M for FY2019. Because this tax is based on 5% of the gross receipts from sporting and amusement tickets, it has declined significantly since the Cardinals were exempted starting in FY2007, the Blues were exempted starting in FY2011 with the development of the Stifel Theatre (formerly the “Peabody Opera House”), and the Rams departed from the city.

Major General Fund Revenue Budget Drivers, CAGR FY2013 – FY2018



Looking forward, over the ten-year projection period (FY2019 to FY2029), aggregate General Fund revenues are projected to grow at a CAGR of 1.4%, somewhat below the City’s five-year compound annual growth rate of 2.6% per year from FY2013-FY2018. This slightly lower projected rate of growth going forward is, in part, a function of the forecast methodology for determining a baseline projection, which assumes no increased rates for existing taxes, fees, and fines, and no establishment of new revenue sources. Such policy changes might well be adopted, however, as part of a City strategy to close any projected budget gap. In addition, some forecasts for economically sensitive revenues are projected at rates aligned with longer-term performance, rather than solely on the last five years of national economic expansion.



Projected baseline growth in major revenue categories is summarized below.

Summary of Major Revenues - FY2019-FY2029

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Taxes	347.0	353.2	359.4	364.8	371.3	377.9	384.7	391.6	398.6	405.8	413.1
Earnings Tax	179.1	183.1	187.1	191.2	195.4	199.7	204.1	208.6	213.2	217.9	222.7
Property Tax	62.3	63.5	64.7	65.9	67.2	68.5	69.8	71.1	72.5	73.9	75.3
Sales Tax	53.9	54.4	55.0	55.5	56.1	56.6	57.2	57.8	58.3	58.9	59.5
Other Taxes	51.7	52.2	52.7	53.1	53.6	54.1	54.6	55.1	55.6	56.1	56.6
Payroll Tax	39.0	39.5	39.9	40.3	40.8	41.2	41.7	42.1	42.6	43.1	43.6
Gasoline Tax	8.6	8.6	8.6	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Misc. Taxes	4.1	4.1	4.2	3.9	3.9	4.0	4.0	4.0	4.1	4.1	4.1
Dept. Receipts	63.9	63.9	63.9	63.9	63.9	63.9	63.9	63.9	63.9	63.9	63.9
Refuse Division	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3
Building Division	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Fire Dept. - EMS	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Other Dept.	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
Franchise Fees	51.4	52.0	52.7	53.4	54.0	54.7	55.4	56.1	56.9	57.6	58.3
Transfers	38.0	38.3	38.6	39.0	39.4	39.7	40.1	40.5	40.9	41.3	41.7
Licenses	17.3	17.3	17.4	17.6	17.7	17.8	17.9	18.0	18.2	18.3	18.4
Total Revenues	517.6M	524.7M	532.1M	538.6M	546.3M	554.1M	562.0M	570.2M	578.4M	586.8M	595.4M

Significant revenue growth assumptions include the following:

- **Earnings Tax** - This revenue is projected to grow at 2.2% annually for the period of 2020 to 2029. This number reflects both historical growth experience, and what the Survey of Professional Forecasters predicts for long-term inflation from 2018-2027.³
- **Property Tax** - The projection from 2020 to 2029 assumes that Real Property Tax will grow at 2.0%, slightly slower than the Earnings Tax, and Personal Property Tax will grow at 1.5% due to valuation and collection factors.
- **Sales Tax** - The City expects that these taxes will continue to see modest growth, but below inflation based on historical performance. Therefore, Sales Taxes are forecast to grow at 1.0% annually through the projection period.
- **Other Taxes:**
 - **Payroll Tax** - The projection assumes that this will grow half as quickly as the Earnings Tax, at 1.1%, due to disproportionate growth in tax exempt sectors in St. Louis which are exempted from this tax.
 - **Gasoline Tax** - Held flat at the FY2019 level due to the excise structure of the tax, with a downward adjustment of 8.0% in FY2022 based on projected impacts of the 2020 Census on the formula determining the City's share of statewide collections.

³ Third Quarter 2018 Survey of Professional Forecasters; <https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/2018/survq318>. This forecast is used as the general "inflation" assumption throughout the balance of its Long-Range Plan.

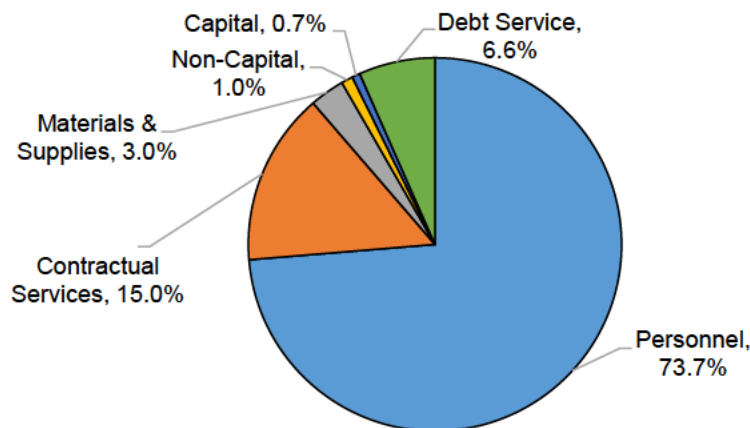


- **Auto Sales Tax** - Grown at 1% annually, consistent with historical growth, adjusted downward by 8% in FY2022 based on the projected effects of the 2020 Census on State distributions.
- **Intangible Tax** - Held flat at the FY2019 budgeted amount.
- **Licenses** – Restaurants Gross Receipts Tax revenues are assumed to grow at the rate of inflation, due to the nature of the underlying base. Parking Garage & Lots are assumed to grow at 1.5%, consistent with historical growth. All other Licenses revenues are held flat at the FY2019 budgeted amounts.
- **Franchise Fees** – Telephone, Natural Gas, Steam, and Railroad franchise fee revenues are all held flat through the projection period, based on both the assumption that usage and fees will not change, and historical experience. Electric, Water, and Airport franchise receipts are all grown at 1.5% annually, aligned with historical growth.
- **Departmental Receipts** - The baseline forecast does not assume any change in fees or collections rates. Therefore, overall departmental receipts are not assumed to change through the forecast period.
- **Hotel Tax and Restaurant Tax** - The baseline forecast assumes inflation to continue in the City and national economy. Consistent with this assumption, both hotel tax and restaurant tax receipts are projected to grow at an inflationary rate, or 2.2%.

Expenditures

City government is labor-intensive – requiring people to patrol the streets, respond to emergencies, maintain basic infrastructure, and deliver most other core municipal services to the public. As a result, 73.7% of St. Louis expenditures are dedicated to employee wages and benefits.

General Fund Budgeted Expenditures by Category, FY2019





Within the City's overall workforce expenditures, employee healthcare costs have been a point of pressure, increasing with a 5-year CAGR of 8.2% (FY2013 actuals to FY2018 estimate), generally reflective of nationwide premium growth trends.⁴ Accordingly, healthcare cost containment has been an important area of focus for the City, with multiple innovative health management and cost-effective care options undertaken and underway. Additionally, St. Louis has taken steps to better manage pension costs, most notably through significant reform of the firefighter pension system in 2013 – although the Police Retirement Plan, which has not yet seen comparable reforms, grew at a 4.0% pace well above City revenues.

Such active and thoughtful management of benefit costs is critical – both to minimize the City's exposure to such potentially high-growth cost centers and to preserve sufficient total compensation dollars to be able to offer competitive wages. During the low inflation period of recent years, St. Louis has managed to maintain total salary cost growth at an overall CAGR of 2.5% from FY2013 to FY2018. Salaries were reduced slightly in the FY2019 budget (-1.8% from FY2018 estimate to FY2019 budget), largely as a result of the City eliminating vacant positions and realizing savings through attrition. To promote greater pay competitiveness, the FY2019 budget also includes new special fund revenues from the Prop P Sales Tax dedicated towards a \$6,000 raise for each uniformed employee.

Outside of personnel expenditures, the remaining 26.3% (\$136.2M) of General Fund budgeted spending is allocated across contractual services, materials and supplies, non-capital (leases, rentals and equipment), capital needs, and debt service. Looking at recent experience in these categories:

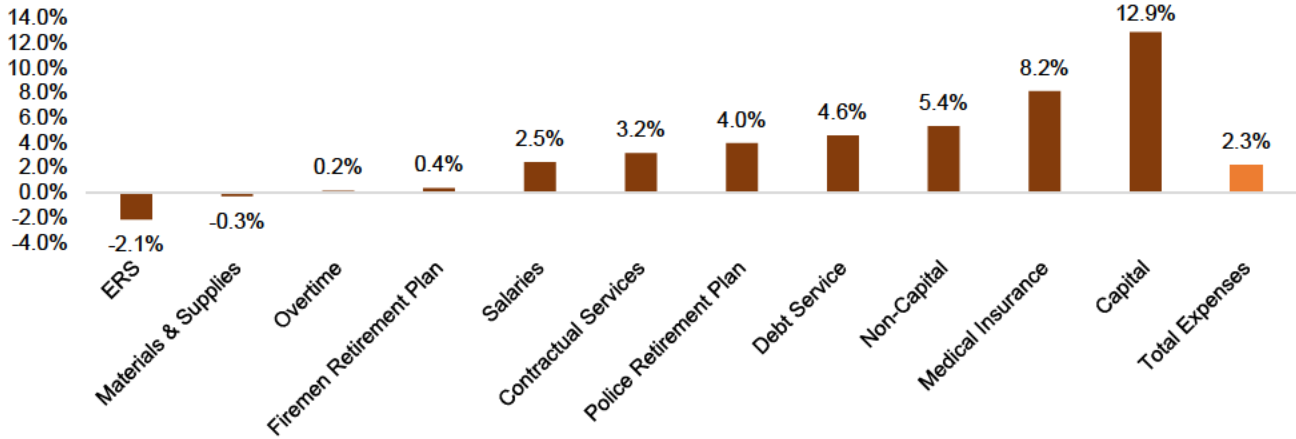
- The City saw a CAGR for Contractual Services of 3.2% from FY2013 actual to FY2018 estimate, particularly in the areas of Communication Services, Fleet Services, and Computer Services. With aging IT systems and vehicles, the City will continue to face growing costs for upkeep unless or until greater funding is available for replacement.
- General Fund capital spending has seen a significant increase from FY2017 (\$1.7M) to FY2019 (\$3.6M), although the City still has an extensive backlog of capital needs. A more detailed discussion of capital needs follows later within this Long-Range Financial Plan Update.
- Materials and Supplies and other Non-Capital spending can fluctuate year-over-year, but are not projected to change in a way that will materially impact the budget going forward.

⁴ Segal Consulting, 2018 Segal Health Plan Cost Trend Survey; <https://www.segalco.com/publications-videos/data/#PublicSector>



The following graph highlights key expenditure drivers across the period from FY2013 to FY2018:

Major General Fund Expenditure Budget Drivers, CAGR FY2013 – FY2018



Looking forward over the ten-year projection period from FY2019-FY2029, St. Louis expenditures are projected to exceed revenues in each year of the forecast, with an overall spending CAGR of 2.2%. Projected baseline growth in major cost categories is summarized below.

Summary of Major Expenditures - FY2019-FY2029

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Personnel Expenses	381.4	391.6	402.4	411.1	421.0	432.5	444.4	456.0	468.9	483.2	497.3
Salaries	234.0	239.1	244.4	249.8	255.3	260.9	266.6	272.5	278.5	284.6	290.9
Overtime	13.8	14.1	14.4	14.7	15.1	15.4	15.7	16.1	16.4	16.8	17.2
Medical Insurance	48.0	51.4	55.0	58.8	62.9	67.3	72.1	77.1	82.5	88.3	94.5
ERS	16.5	17.2	18.0	17.9	18.0	18.4	18.9	19.3	19.7	20.1	20.6
Police Retirement Plan	30.6	30.5	30.4	28.6	27.6	27.4	27.2	26.0	25.7	26.3	25.9
Firefighters Retirement Plan	7.2	7.3	7.5	7.7	7.8	7.9	8.1	8.2	8.4	8.6	8.7
Firemen's Retirement System	2.4	2.4	2.4	2.4	2.3	2.3	2.2	2.2	2.1	2.1	2.0
Other Personnel Services	28.9	29.6	30.4	31.1	32.0	32.8	33.7	34.6	35.5	36.5	37.5
Contractual Services	77.5	79.3	81.0	82.8	84.6	86.5	88.4	90.3	92.3	94.3	96.4
Materials & Supplies	15.6	15.9	16.3	16.7	17.0	17.4	17.8	18.2	18.6	19.0	19.4
Non-Capital	5.2	5.3	5.4	5.5	5.6	5.8	5.9	6.0	6.2	6.3	6.4
Capital	3.6	3.7	3.8	3.9	4.0	4.0	4.1	4.2	4.3	4.4	4.5
Debt Service	34.2	29.1	27.0	27.5	21.1	19.3	19.4	18.7	16.8	16.0	16.1
Total Expenses	517.5M	524.9M	535.9M	547.4M	553.4M	565.5M	580.0M	593.4M	607.1M	623.3M	640.2M

Significant expenditure growth assumptions include the following:

- **Salaries** (FY2019 Budget: \$234.0M) - The baseline does not assume any significant headcount change, and salaries are grown by inflation (2.2%) for the duration of the projection. Actual wage growth will reflect negotiated pay increases, which may vary based on economic conditions, growth in benefit costs, and other factors. Aggregate salary costs will also reflect the size and composition of the City workforce over time. The development of the 2.2% forecast growth rate was also informed



by historical CAGRs, which ranged from 1.5% (FY2015 to FY2018) to 3.9% (FY2014 to FY2017) across recent periods.

- **Medical Insurance** (FY2019: \$48.0M) - Both active and retiree health insurance are assumed to grow at 7.0% annually for the duration of the projection. This assumption is based on past experience, the City's assumption for the FY2019 budget, and current cost-containment initiatives already underway.
- **Pensions** (FY2019: \$56.7M) - Each of the City's four pension plans are grown at rates informed by the projected percentage of payroll contributions that are included in each plan's most recent actuarial valuation. These result in moderation of the required contribution for the Police Retirement Plan and the Firemen's Retirement System over the course of the projection period (CAGRs from FY2019 to FY29 of -2.0% and -1.2% respectively). The ERS and the Firefighters Retirement Plan, however, are projected to experience growth closer to inflation for their contributions (CAGR from FY2019 to FY29 of 2.3% and 2.2% respectively).
- **Debt Service** (FY2019: \$34.2M) - The debt service projection reflects the City's current debt service profile – including approximately \$2.9 million annually in pension related debt. The baseline scenario does not assume any new issuance of debt during the forecasted period, and some past obligations will cease during the forecast period - with the exception of rolling stock debt, assumed to remain constant throughout the projection period (resulting in an additional \$6.9 million in debt service over the ten year period).
- **Materials/Supplies, Contractual Services, and Non-Capital** (FY2019: \$98.3M) - Because the baseline does not assume any change in services, with generally consistent economic conditions across the projection period, these expenditure categories are generally forecast to grow at the rate of inflation (2.2%).
- **Capital** (FY2019: \$3.6M) – A majority of the capital spending reflected in the General Fund budget for FY2019 is related to Fleet Assets for both the Refuse Division and the Police Department. The remainder is related to office/computer assets and capital leases.

Stress Testing

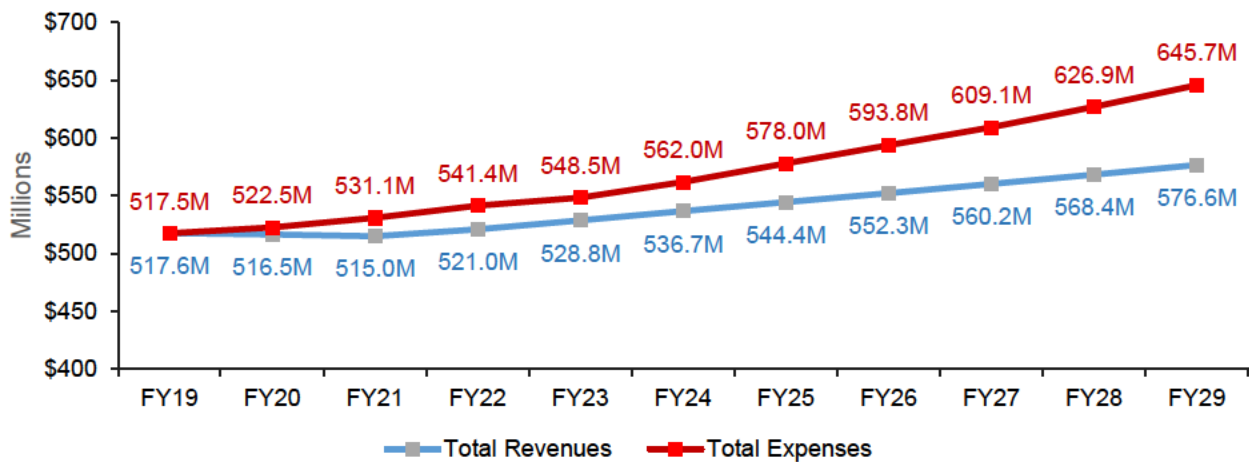
The preceding baseline projection scenario is intended to reflect expected results under mainstream economic expectations. Over any ten-year period, however, economic performance will be fluid – and often volatile – while intergovernmental policies and other budget factors shift. To provide additional perspective on potential fiscal environments, an alternative projection scenario was developed to reflect expectations under less favorable economic conditions. As the City cites in its FY2019 operating plan, the national economy is entering its tenth year of expansion, and it is, therefore, important to consider a potential economic downturn in the near future.

This alternative “Stress Test” scenario assumes somewhat weaker economic performance than in the baseline forecast, resulting in slower revenue growth. Also reflecting economic strain, subpar investment returns are projected to drive employer pension contributions higher, while medical costs are also assumed to grow faster. Somewhat offsetting these factors, wage growth would be expected to moderate relative to the baseline under such adverse economic conditions.



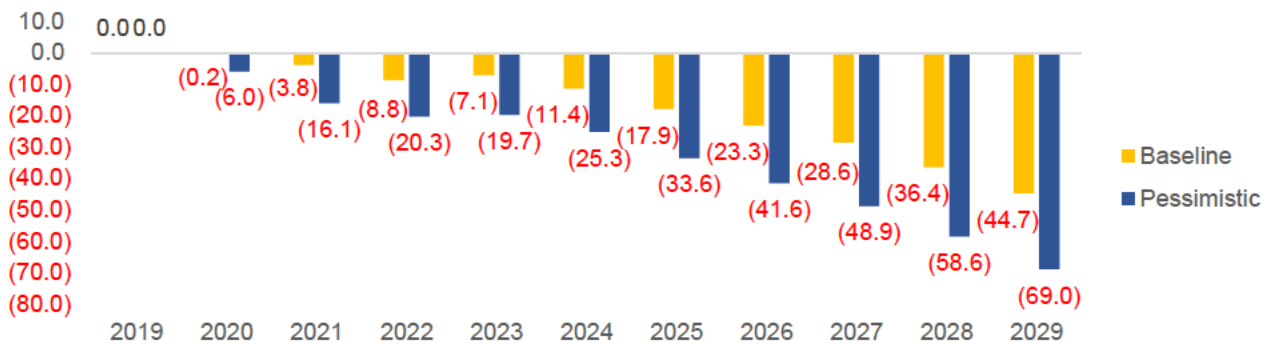
The underlying assumption for this scenario is to illustrate the impact of a recession beginning in FY2020 (chosen because it is the first projected year beyond the starting point of the FY2019 Budget), with a three-year fiscal impacts. These projections include assumptions about whether effects may be delayed or immediate, based on the sensitivity of various budget line items to economic change and any associated lag times. Overall, this environment is forecast to generate increased financial strain on the City's General Fund budget when compared to the baseline scenario, as illustrated in the graphic below.

General Fund Stress Test Scenario (Assumes Recession Beginning in FY2020)



In the first projection year (FY2020), the forecast operating shortfall with an economic downturn would be \$6.0 million – up from \$0.2 million in the baseline scenario. By the end of the ten-year forecast period, even with economic recovery assumed to begin after just a few years, the annual operating balance is projected to be \$69.0 million in deficit – significantly higher than the \$44.7 million FY2029 shortfall projected in the baseline scenario.

Projected General Fund Surplus/(Deficit) – FY2019 to FY2029 (\$ Millions)



For additional information on specific assumptions underlying the baseline and stress test projections, please see Appendix A.



Balance Sheet Concerns

In addition to this structural imbalance in the operating budget, St. Louis also shares the national challenges of unfunded retiree benefit liabilities and under-addressed infrastructure and capital investment needs. Also of concern from a balance sheet perspective, while the City has made significant progress in rebuilding reserves, St. Louis, is still in the process of reaching levels that are considered to be best practice nationally.

Pension Liabilities

The major pension systems for the City of St. Louis include:

- **Employees Retirement System (ERS)**
- **Police Retirement System (PRS)**
- **Firemen’s Retirement System (FRS – closed)** the FRS has been replaced for recent hires and future service with a new retirement system, the Firefighters’ Retirement Plan (FRP)
- **Firefighters’ Retirement Plan (FRP)**

Based on a variety of financial metrics, the City’s pension plan funding is sound, but not without strain. The City’s pension plans were funded, in the aggregate at approximately 83% – above the FY2017 national Public Fund Survey aggregate of 71.9%⁵. While this reflects responsible management relative to other state and local governments, a shortfall remains, and it is important to continue to address any pension underfunding prior to the next economic downturn and increased risk of investment losses.

Funding Metrics of City Retirement Plans

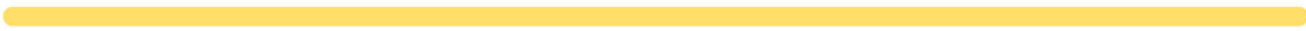
	ERS (10/1/17)	PRS (10/1/17)	FRP (New) (10/1/18)	FRS (Closed) (10/1/17)	National (FY2017) ⁶
Funded Ratio	82.7%	79.5%	61.8%	96.9%	71.9%
Total Participants	12,350	3,169	726	1,453	N/A
Unfunded Liability	\$171.8 million	\$198.5 million	\$46.3 million	\$33.0 million	N/A
Normal Cost	5.90%	Aggregate Method	11.94%	--	N/A
Total Employer Contribution	12.36%	40.96%	20.05%	7.68%	N/A

St. Louis employer General Fund pension contributions equate to **10.96%** of revenues in the FY2019 Budget, even without including debt service on past pension obligation bonds or other post-employment benefit (OPEB) costs.⁷ The credit rating agency Standard & Poor’s (S&P) has stated that a combined carrying charge of 10% or more in the required annual pension payment plus annual OPEB payment as a percentage

⁵ NASRA Public Fund Survey for FY2017, published November 2018 (<https://www.nasra.org/publicfundsurvey>). City of St. Louis estimate based on analysis of aggregate unfunded liability and aggregate actuarial assets as of 10/1/2017, however, varying valuation assumptions across the four plans lead to some imprecision when combining.

⁶ Ibid.

⁷ Calculation includes general fund expenditures for pensions, divided by total general fund revenues.



of total governmental funds expenditures will be considered elevated. S&P, however, will consider whether they expect the elevated payments to result in lower future obligations.⁸

Moody's calculates a three-year average Adjusted Net Pension Liability (ANPL), using standardized factors for key actuarial assumptions toward normalizing liability calculations for comparative purposes. In turn, these liabilities are evaluated relative to a community's overall tax base and operating budget.

- Based on the city's 2017 financial results, Moody's calculated the St. Louis ANPL at 7.7% of full value of the property tax base⁹, placing the City in the range equivalent to Baa credit ratings (4.8% < n < 12%). To rise to the A level for this factor, the liability should be between 2.1% and 4.8%, and Aa would be between 0.9% and 2.1%.¹⁰
- The St. Louis ANPL was calculated at 2.3x operating revenues, placing the City in the range equivalent to A credit ratings (0.8 < n < 3.6). To rise to the Aa level for this factor, the liability should be between 0.4 and 0.8x operating revenues.

Changes to the City's pension plans since the 2015 long-range plan include:

- In the FRP, a more conservative 7.25% investment return assumption is used (down from 7.65% previously) along with a closed amortization period; however, the amortization period is a relatively lengthy 30 years in tandem with the level percent of pay approach.
- The assumed rate of investment return was also lowered for the ERS (from 8.0% to 7.5%) and the PRS (also to 7.5% from the prior 7.75% rate).
- Amortization periods in the ERS plan have been reduced from 30 years to 20 years, and the open amortization method previously used by the ERS has been modified to a layered, fixed approach rather than an open amortization. While this de-risking is somewhat offset by a parallel shift to level percent of payroll funding rather than the prior level-dollar approach, these are still positive steps toward accelerating funding progress.
- Most open plans have also transitioned to Entry Age Normal ("EAN"), aligning with GASB standards.

Actuarial Metrics for the City's Retirement Plans

	ERS	PRS	FRP (New)	FRS (Closed)	National ¹¹
Actuarial Funding Method	EAN	Aggregate Cost	EAN	Frozen Entry Age Actuarial Cost	EAN
Investment Return	7.50% net	7.50% net	7.25% net	7.00% net	7.38% median
Asset Smoothing	5 year	5 year	5 year	3 year	N/A
Ratio of Actives/Annuitants	1.15	0.59	9.53	0.57	1.42
MVA/AVA	99.8%	100.7%	102.9%	104.6%	N/A

⁸ S&P U.S. Local Governments General Obligation Ratings: Methodology and Assumptions, September 2013

⁹ Moody's Credit Opinion; St. Louis (City of) MO, May 2018

¹⁰ Moody's Rating Methodology; US Local Government General Obligation Debt, December 2016

¹¹ NASRA Public Fund Survey for FY2017.



With regard to the benefits provided by the City's pension plans, several findings are of note:

- The noncontributory structure of the ERS plan is an outlier nationally, as the great majority of public employees now contribute toward their retirement plans.
- The base pension benefit is not high for the ERS, and the other City plan base benefits are within the national mainstream for public safety.
- The Deferred Retirement Option Program (DROP) structure for Police allows for officers to regain their full formula-benefit with two additional years of service (YOS) after having completed a DROP period and taken a supplemental payment. In the ERS plan, employees can also resume building creditable service after DROP participation.
- An emerging best practice in retirement system best design is the adoption of risk management provisions, such as suspension of COLAs and/or other adjustments in the event that a plan funded ratio falls below a specified threshold. Looking forward, the St. Louis systems could consider developing such provisions.

Benefit Structure of the City Retirement Plans

	ERS	PRS	FRP (New)	FRS (Closed)	National
Employee Contribution	0%	7.0%; refunded w/o interest on retirement	9.0% (8.0% if grandfathered with 20 YOS at effective date)	N/A	6% w/ SS 8.0% non-SS
Final Average Compensation (FAC)	Two highest consecutive years + credited sick leave, SS base	Last two years, base + shift + education	Last five years (two years for grandfathered)	Last two years	N/A
Base Benefit	YOS * 1.3% up to SS Comp Base + 2.05% above Base	2% * YOS for 25 yrs + 4% for next 5 yrs; 75% after 30 years	2% * YOS for 25 yrs + 2.5% for next 10 yrs; 75% maximum	2% * YOS for 25 yrs + 5% for next 5 yrs; 75% maximum	N/A
Normal Retirement	Age 65 + 5 YOS	20 YOS or age 55	20 YOS or age 55	20 YOS any age	N/A
COLA	CPI up to 3.125%; if CPI <1%, no adjustment; maximum 25% cumulative; begins second 1/1 after retirement	Lesser of 3% or CPI; CPI carries forward; maximum 30% cumulative	Lesser of 3% or CPI up to 25% cumulative maximum; grandfathered varies by YOS	Varies by YOS	N/A
DROP	Up to 5 years	Up to 5 years; can reenter and regain standing with two YOS	Grandfathered can enter for up to 5 years; can reenter	N/A	N/A

The 2013 reforms adopted for the City's firefighter pensions significantly improved the affordability and financial sustainability of this program. To date, however, parallel reforms have not yet been adopted for members of the Police Retirement System due to the benefits being under State control.



Other Post-Employment Benefits (OPEB)

For the City of St. Louis, the City’s OPEB challenges are less severe than many governments nationally as the only employees eligible for retiree medical coverage are those within the St. Louis Police Department (SLPD) – a legacy of the past State operation of the department. Retiree medical benefits are now guaranteed only for police employees (uniform or civilian) hired before the City assumed local control on September 1, 2013, with benefits provided under a single-employer, defined benefit postemployment plan.

Even with OPEB coverage limited to police employees hired prior to September 1, 2013, the unfunded liability for this cohort is quite significant at \$501.9 million as of July 1, 2015.¹² Unlike pensions, the City has no established OPEB trust to prefund these liabilities.

City’s OPEB Liabilities

	Police	General	Fire
Funded Ratio	0%	N/A	N/A
Unfunded Liability	\$502.0 Million	N/A	N/A
Eligibility	20 YOS sworn; age 55 and 20 YOS or age 60+ 5 YOS for police civilians.	N/A	N/A
Benefit	Employer pays full cost of base plan for individual coverage, Buy-up for enhanced plan and/or spousal coverage.	N/A	N/A

Capital Investment and Infrastructure Needs

Overall, the amount of funding that the City of St. Louis is now investing in the renewal and replacement of basic public infrastructure such as roads, bridges, and municipal buildings is significantly less than what is needed to maintain the current state of repair. As noted previously, this is a national challenge – as reflected in the NLC 2018 City Fiscal Conditions report finding that infrastructure needs were the most commonly cited negative factor influencing municipal budgets, highlighted by 57% of finance officers surveyed.

In St. Louis, 2014 analysis by the interdepartmental City Capital Committee identified a backlog of \$323.6 million in unfunded projects, of which \$114.6 million were categorized as “critical” and another \$80 million as “needed” pursuant to the definitions below:

- **Critical:** *Essential to ensure the continued operations of a department, the integrity of City buildings, facilities, or infrastructure, or to eliminate a serious risk to public safety.*
- **Needed:** *Not currently critical to a department’s operations as described above, but needed to ensure continued operations in the future. This category includes improvements that may update outdated technology, address costly maintenance issues, or otherwise achieve greater operational efficiencies.*

¹² Comprehensive Annual Financial Report, City of St. Louis, Missouri, June 2017



- *Desirable: Not needed for current operations, but would significantly improve upon the existing level of City service or address long delayed improvements in infrastructure.*

The City is in the process of updating its 2014 analysis, and it appears that the level of outstanding capital needs remains high – as illustrated by the 2018 preliminary department requests for capital funding still at \$323.6 million as shown in the table below, well above available funding levels. Notwithstanding some meaningful capital investments over the past several years, current conditions reflect both a historical under-funding of necessary capital needs compounded by recession-era deferrals, and the reality that aging physical infrastructure and equipment continually requires renewal and replacement.

2018 Preliminary Capital Needs Proposed by Departments

Department	Total
City Buildings	\$ 114,932,500
Police	\$ 28,624,000
Corrections	\$ 20,902,000
Fleet ¹³	\$ 127,229,661
Fire	\$ 15,975,000
Courts	\$ 15,970,000
Transportation Improvement Project (City Share)	\$ 33,760,000
Total	\$ 323,633,161

Going forward, the City requires regular capital funding to prevent the further deterioration of existing assets while it begins to bring conditions to more desirable levels. Ultimately, the price and disruption of infrastructure failures and major reconstruction far exceed the cost of ongoing renewal and replacement.

Examples include:

- Bridges – The City is responsible for the maintenance of 73 total bridges, approximately 50% of which do not qualify for federal funding and therefore require City funds for resurfacing and repairs. The City relies heavily on the match from federal programs, but that funding has been declining while 15 bridges maintain low sufficiency ratings and have been deemed structurally deficient.¹⁴
- Streets – The City maintains approximately 1,100 linear miles and 4,230 lane miles of streets. According to the FY2019 Annual Operating plan, 81% of arterial streets were considered to be in acceptable condition in FY2018. This percentage has been decreasing since a 2008 Conditions Assessment, which found that 88.7% of streets were in acceptable condition. The FY2017 AOP reported that 86% of streets were in acceptable condition in FY2016 and 83% in FY2017. The City's stated goal for FY2019 is to maintain an 81% level of acceptable conditions.
- City Fleet – The average age of the City's fleet exceeds 17 years (some up to 25 years) with vehicle availability estimated at 50% in FY2018. Availability in this context considers fleet and equipment units out of service due to accidents, breakdowns, or maintenance. The aging fleet and equipment has left the City with estimated replacement needs exceeding \$127 million.

¹³ This is equal to "the total cost to replace all vehicles which are due or overdue for replacement in 2019", from City Vehicle Fleet – Replacement Planning Data

¹⁴ City of St. Louis 2017 CAFR, p. 222



- Fire Stations – Maintenance is needed on all 30 fire stations – with an average age of 87 years old, built from 1895-1975. The city has made progress on repairing station roofs, but still 20 stations need roof replacement and many of the mechanical systems require total replacement. The City is currently responsible for 165,219 total square feet of station space not designed to meet today's life and safety or ADA standards, and stations prior to 1965 were not designed with air conditioning or heating in the sleeping areas.
- Criminal Justice System – With the sale of the General Obligation bonds approved and issued in 2018, the City jails will receive \$6.5 million for much needed facility renewal. The two main structures for St. Louis' Medium Security Institution (MSI) are now over 50 years old and nearly 30 years old, respectively, and the comparatively "new" City Justice Center (CJC) is more than 16 years old and beyond its initial technology warranty period. As a result, remaining basic facility needs – from windows to roofing to plumbing – carry an estimated cost nearly twice that of the 2018 capital investment. Looking forward, it will be important not only to continue to address such needs, but also to do so within the context of a plan that takes into account declines in jail population (due in part to bail reform and City programs), as well as the fiscal cost/benefit and policy implications of using available municipal jail space to house federal inmates on a contracted basis.
- Technology – Information technology costs can be significant, as reflected in a multimillion allocation within the 2018 GO bond issue to modernize the City's accounting and payroll system. Going forward, further investment will be needed both to upgrade additional, existing City systems and to bring greater citizen access and new tools to bear for improved service delivery.
- Other City Buildings – Critical maintenance is required on a number of City buildings to ensure they meet life and safety standards, and other federal compliance requirements. The City is currently responsible for over five million square feet of building space with significant utility costs.

Reserve Levels

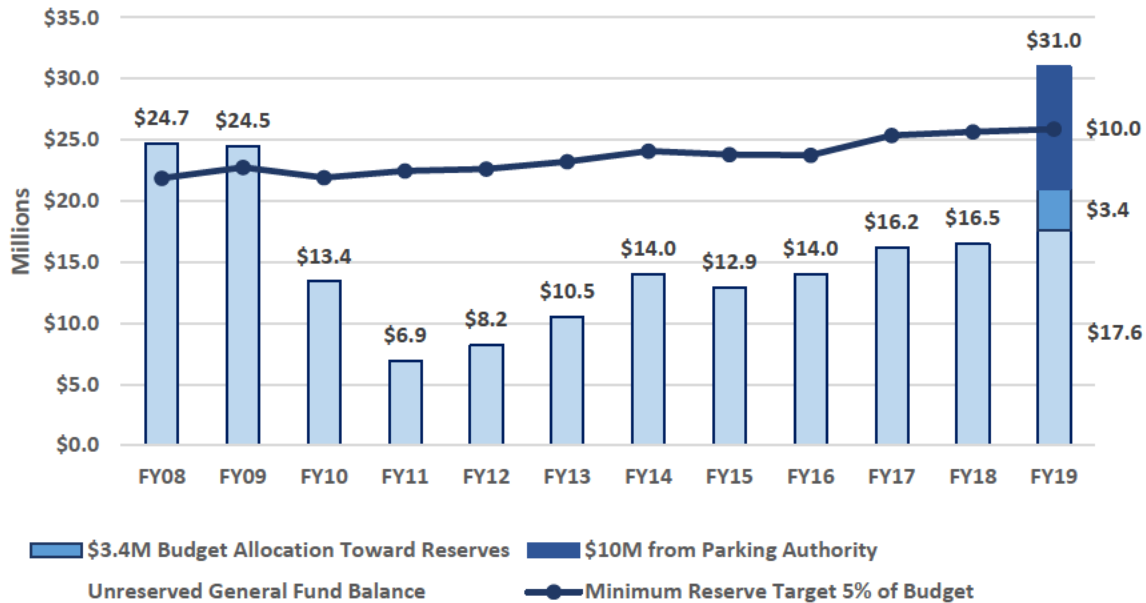
As noted in the overview to this Long-Range Financial Plan Update, the City has taken three positive steps toward rebuilding reserve levels:

- Dedicating 100% of any annual operating surplus toward reserves until the target of a minimum of 5% of the total budget is reached – a significant increase over the commitment to dedicate half of any annual surplus to reserves.
- Including an additional \$3.4 million allocation in the FY2019 budget, based on 1.5% of salary accounts, a policy the City intends to maintain in future fiscal years until the reserve level is sufficient.
- In addition, the previously mentioned one-time \$10 million reserve contribution from the Parking Meter Fund has provided a significant boost to reserve levels.

As shown in the chart below, these three measures are projected to result in a General Fund reserve balance at the end of FY2019, on a cash basis, of approximately 6% of the FY2019 General Fund budget, slightly above the City's current 5% minimum target level.



Unreserved General Fund Balance, FY2008 – FY2019¹⁵



These steps are important for St. Louis, because – as noted in the 2015 Long-Range Financial Plan – one of the most critical best practices in financial management is the maintenance of healthy reserve levels as a contingency against unforeseen events and to provide liquidity for stable cash flows. As was evidenced by the Great Recession, budget risks can and do become difficult realities – and local governments also face exposure to natural disasters, public emergencies, and other volatile conditions in addition to economic cycles. In light of such concerns, the Government Finance Officers Association (GFOA) generally recommends a minimum reserve target of two months of operating expenses, or 16.7%, and credit rating agencies and other municipal analysts also highly value strong reserves.

Going forward, it should remain a priority of the City to maintain at least its targeted 5% reserve level – particularly while the economy remains in an expansion phase – and to also explore establishment of a higher target and strengthened reserve policies more in line with national best practices. To further enhance the City’s reserves, the following specific modifications might be considered:

- It is already City practice to never budget for drawdowns from reserves at the start of any year, but only to use such resources for unexpected needs arising after Budget adoption. This sound, existing approach might potentially be formalized as part of an expanded reserve policy, and adopted legislatively. Even where good practices are already well-established, formal adoption is generally viewed as credit positive by rating agencies and other municipal analysts.

¹⁵ Comptroller’s Annual Reports, and FY2018 Year End Report. FY2018 estimated and FY2019.



- Similarly, the City has a strong history of dedicating any one-time, non-recurring revenues (e.g. proceeds from the sale/long-term lease/concession of City owned asset) toward one-time, non-recurring expenses, rather than using such resources to launch ongoing commitments that would then become difficult to sustain. This is another sound approach that might be formalized in an updated set of City financial policies, and indirectly support efforts to maintain healthy reserves and overall budget stability.
- As a larger government with a diverse and historically stable mix of revenues, St. Louis can appropriately maintain a somewhat lower target than smaller governments exposed to greater volatility. Nonetheless, while near-term focus should remain on maintaining reserve levels at least at the City's existing 5% target, undertaking further risk-based analysis of optimal reserve levels to determine if a higher long-range target and, potentially, other reserve parameters (e.g. replenishment requirements, limitations on permitted uses, etc.) are appropriate would be beneficial.

Finally, although the City has worked hard to diversify and expand its potential revenue sources, the newest of these sources are often statutorily dedicated for a specific use (e.g. Prop P going to Police and Firefighter raises). In some respects, this is problematic, as it limits budgetary flexibility – and prevents such newer resources from helping to rebuild and maintain General Fund reserves. As the City continues to address its fiscal position, it will be important to educate the public regarding not only the importance of reserves and fiscal stability, but also on the value of budget flexibility to adapt to and address changing and unanticipated conditions as they arise.



Opportunities for Fiscal Improvement

In order to address St. Louis' structural budget challenges, the City can pursue a number of steps to raise revenues, contain expenditures, and strengthen its balance sheet. The following are among the key opportunities and options going forward:

Investing in the Local Economy and Tax Base

While this is a financial planning document, not an economic and community development strategy for St. Louis, the interconnection between a healthy local economy and sustainable municipal finances is evident and strong. Without a sound economy, City revenues will remain weak, even as spending pressures grow. At the same time, the very purpose of a municipal government and the level and stability of its financial resources is to promote and preserve a vibrant community.

Accordingly, although this Long-Range Financial Plan Update is not intended to capture all of the initiatives in play to support St. Louis' economic growth and vitality, several major opportunities with particularly significant fiscal implications are highlighted below:

- Continuing to support the City's major ongoing development initiatives – from the NGA West campus to the Cortex TIF redevelopment area – already underway to strengthen the St. Louis economy.
- Upgrading the America's Convention Center Complex, a major driver of the City's hospitality and trade sector. Currently, a \$175 million plan to be funded jointly by City and County hotel tax receipts is under evaluation.
- Enhancing tax incentive guidelines to ensure that incentives and abatements are directed where they will have the greatest impact, and not awarded to projects likely to move forward without such public subsidy.
- Strengthening the coordination and analytical input among various divisions of the City (Comptroller's Office, Budget Division, etc.) and related agencies when assessing potential benefits and costs (including the ongoing costs associated with providing various City services, etc.) of proposed development projects.
- Ensuring the best approach for the future of St. Louis Lambert International Airport, a critical transportation asset for the region.
- Rethinking the City's economic development strategy to align the region's many strong resources with emerging needs and opportunities.

More Cost-Effective Government

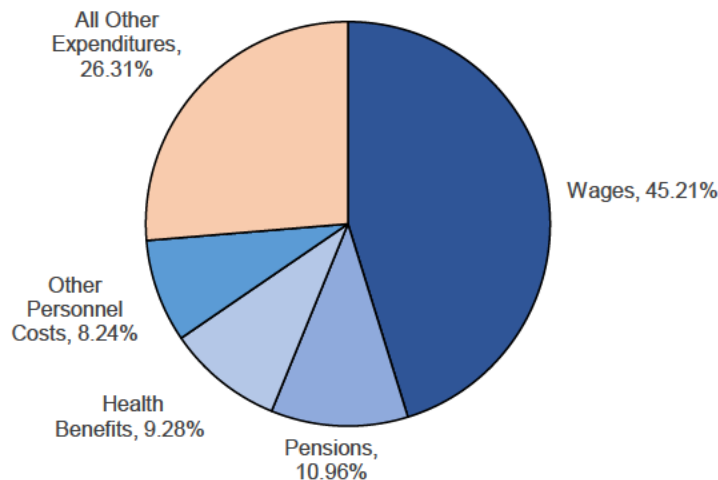
Every year, inflationary pressures will drive up the underlying cost of service delivery – and certain cost centers, such as employee healthcare, utilities, and maintenance for aging facilities and equipment, can rise at rates well beyond the Consumer Price Index (CPI) generally. To maintain and improve important services



without extraordinary increases in tax rates, cities must manage their expenditures thoughtfully and pursue greater efficiency and cost-effectiveness consistently.

- Continue to advance a total compensation strategy that seeks both to manage employee benefits thoughtfully, seeking to contain these areas of high cost growth while still providing quality coverage, and to improve wage and salary competitiveness. As noted earlier within this Long-Range Financial Plan Update, City services are labor intensive, such that employee wage and benefit costs represent almost three-quarters of the St. Louis budget. At the same time, the recruitment, retention, and motivation of quality public employees is essential for effective service delivery.

FY19 Budgeted Expenditures – Personnel Cost Detail



The following opportunities focus on this essential component of City spending:

- Building on recent employee healthcare innovations, next step strategies being developed by the City’s Personnel Department include: implementing a monthly tobacco surcharge for employees who smoke, and moving toward a cafeteria healthcare plan, such that employees would have greater choice in selecting which benefits are most important to them.
- Advancing Police Retirement System (PRS) pension reform, consistent with adjustments already implemented for firefighters. In 2013, St. Louis closed the Firemen’s Retirement System (FRS) and opened the new, more affordable and sustainable Firefighters’ Retirement Plan (FRP), enrolling firefighters with less than 20 years of service and all subsequent hires. For PRS reform, however, any changes require approval by the State Legislature as a legacy of past State operation of the Police Department. While modest adjustments consistent with the locally approved FRP approaches have been put forward by the City and supported by the PRS, State legislative support and action is still required.
- Pursuing Deferred Retirement Option Plan (DROP) pension reform. The city could also take steps to modify its existing DROP program for employees in the Employee’s Retirement System (ERS). The intention of the DROP program is to allow employees of eligible age for retirement to continue working for a set period of time. During that time, the existing retirement benefit is frozen, and future contributions accumulate in a separate account given to the employee at the



time of retirement as a supplemental payment. Under the current ERS plan, employees can stay in the DROP program, and then return to work under the same employment period, while still receiving the supplemental payment. In contrast, the new Firefighters Retirement Plan does not offer DROP at all for non-grandfathered participants. Potential restructuring could require, for example, that employees remaining in active service after a DROP period would start a new employment period, subject to requirements such as renewed vesting for any additional service credits that might be earned. For the PRS, which also includes a DROP program, the City could again pursue reforms consistent with those already incorporated in the new FRP.

- Exploring a contributory structure for the ERS plan. Currently, civilian employees in the ERS do not contribute to their retirement plans, contrary to most public employee retirement plans. In part, this structure reflects concerns regarding the lower salary levels for many ERS participants. If a new employee contribution were phased in over time concurrent with equivalent or greater wage increases, however, such a revised structure could both ensure joint employer-employee commitment to retirement benefit funding and increase the “headline” pay levels presented when recruiting – all on a cost basis that would be substantially budget neutral.
- Reevaluating supervisory and managerial staffing levels. In a 2007 workforce analysis report, PFM identified opportunities for the City to streamline supervisory and managerial staffing levels, and the City reports achieving over \$1 million in recurring annual savings from successful implementation from expanded spans of control. In interviews conducted for this Long-Range Financial Plan Update, City human resources professionals indicated that an updated analysis of such opportunities could now be timely, given that more than a decade has passed since the last comprehensive review was conducted.
- Studying fire deployment opportunities. Past analysis of St. Louis fire station locations indicates that strong coverage could potentially be achieved through an alternative deployment model with lower overall staffing requirements. Such an approach, if ultimately determined to be appropriate, could help to meet the City’s public safety goals more cost-effectively – both with regard to personnel and facility expenditures.
- Beyond personnel costs, the City can also continue to pursue efficiencies in spending on contracts, materials and supplies, and other non-personnel expenditures, for example:
 - Review of all banking relationships to ensure the most competitive fee and interest rate structures.
 - Audit of utility accounts and charges, building on a recent and successful review of telephone charges, which identified opportunities to reduce City costs.

Stronger Revenues

While the City must always strive to be cost-effective, the rising costs of service delivery combined with ongoing capital investment needs require that St. Louis’ revenue streams be steady and strong. Going forward, areas of focus might include:



Continued Renewal of the Earnings Tax

In November 2010, a statewide ballot initiative (Proposition A) was adopted that requires voter re-approval of the Earnings Tax every five years. 2016 marked the second re-approval (April 2011 being the first), and the tax was renewed with 72.3% of the vote.

Over the course of the next ten-year planning period, two more reauthorizations will be required – and will be no less vital for sustaining the City’s fiscal health and stability.

The City might also consider pursuit of a modification to the existing re-approval cycle so as to align with the U.S. Presidential election cycle on an eight-year basis. Such an adjustment would be expected to reduce the cost of special elections, while aligning votes on the fiscally critical issue with periods of high participation by the electorate.

Updated and Expanded Revenue Sources

Periodically, the City has engaged a **Revenue Enhancement Committee** to explore opportunities to improve available resources while remaining sensitive to the importance of tax competitiveness and other policy concerns. Whether through reengagement of this group, or simply as part of the annual budget processes ahead, both taxes and fees can be reevaluated to identify new approaches for improving structural balance.

Looking first at licenses and fees substantially under City control, some have not been adjusted for over a decade. While the City does have some fees that have been updated annually or periodically through City ordinance, other City fees and charges have not been reevaluated since the last, comprehensive revenue study in 2009. Given rising cost pressures, PFM recommends regular and policy-sensitive review of all fees and charges. Examples of major opportunities include:

- Graduated Business License (GBL):** The City’s business license tax is structured as a graduated flat fee and has not been adjusted since FY2007. The GBL generated \$6.8M in FY18, and is budgeted at \$7.1M in FY19, however, the average for 2013-2017 is \$6.9M, indicating that the underlying number of licenses is not materially increasing. Assuming that the city’s underlying activity did not change from years FY07 to FY17, if the city had increased the fee at CPI annually, this revenue source would have generated an additional \$7.49 million in revenues, cumulatively, over that time period – and more than \$1.4 million beyond actual receipts in FY2017 alone.

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Graduated Business License	\$7.70M	\$7.94M	\$7.32M	\$7.24M	\$6.95M	\$7.26M	\$6.87M	\$6.86M	\$7.07M	\$6.79M	\$7.15M
Inflation Rate		2.34%	1.98%	1.29%	1.58%	1.63%	1.99%	1.77%	1.84%	1.96%	1.97%
Compounded Growth		2.34%	4.37%	5.72%	7.39%	9.14%	11.31%	13.28%	15.37%	17.62%	19.94%
New GBL Revenue	\$7.70M	\$8.12M	\$7.64M	\$7.66M	\$7.47M	\$7.92M	\$7.64M	\$7.77M	\$8.15M	\$7.99M	\$8.58M
Annual Gain		\$0.19M	\$0.32M	\$0.41M	\$0.51M	\$0.66M	\$0.78M	\$0.91M	\$1.09M	\$1.20M	\$1.43M
Cumulative Gain		\$0.19M	\$0.51M	\$0.92M	\$1.43M	\$2.10M	\$2.87M	\$3.78M	\$4.87M	\$6.07M	\$7.49M



- *Motor Vehicle License:* The City's Motor Vehicle License Fee has not been adjusted since 1986, and there has been a cumulative increase of approximately 120% in CPI from 1986 to 2017¹⁶. The City currently charges \$8 for car licenses and \$10 for truck licenses¹⁷, generating \$1.4 million in FY2018. There has been very little volatility in this revenue source in the past 5 years, indicating little change in the underlying activity. If the city increased these fees by inflation since 1986, the results would be a fee of \$17.60 for cars and a \$22 for trucks, resulting in an additional \$1.7M in revenue annually, or somewhat less on an interim basis if phased in gradually.
- *Refuse Fee:* The amount of this flat fee was adjusted from \$11 to \$14 per month per dwelling, beginning in August, 2017¹⁸. The city has budgeted for this full increase beginning in 2019, resulting in a \$3.6M increase from 2017 to 2019. This fee now recovers a slightly larger portion of the underlying cost growth, but the City could still consider additional ways to fund the associated services. For example, along with regular cost-of-service adjustments, the City could explore transitioning the Refuse Division from a General Fund program with partial fee-based funding to become a fully user-supported Solid Waste Enterprise Fund, similar to other regional utility services. This approach would help to ensure appropriate funding for these important environmental programs, and promote greater transparency and accountability regarding the benefits derived from public spending. At the same time, because current fees cover only a portion of current sanitation and recycling expenditures, such a transition could free up budget capacity for other City needs.

Beyond such locally controlled adjustments, St. Louis might also pursue creative and innovative revenue sources – some linked to new developments in the broader economy – recognizing that many of these opportunities may require authorization by the State. Examples of options to explore could include:

- **Additional Local Taxes on Room-sharing services:** St. Louis is a city that attracts visitors from both near and far to participate in conventions, attend baseball games, and tour local cultural institutions. With the advent of Airbnb and other room sharing services, many St. Louis citizens have begun sharing their homes with visitors in order to make extra money. According to one report, Airbnb hosts in Missouri generated \$28.9M in income in 2017, \$9.1M of which was generated in St. Louis.¹⁹ That has, however, shifted revenue away from the City Hotel and Motel Tax. The State of Missouri, aware of the opportunities in this market, passed legislation in early 2018 to collect taxes on Airbnb rentals, estimating \$1.1 million in annual state and local sales and tourism taxes,²⁰ and early returns appear to be exceeding these forecasts.
- **Additional Excise Taxes:** St. Louis already has multiple excise taxes in place, however, excise taxes are evolving nationally as new products and services enter the marketplace. Examples of newer forms of excise taxes include those applied to recreational marijuana, vape and e-cigarettes, plastic grocery bags, and sugared beverages. In particular, PFM recommends the examination of a Vape Tax. Missouri and St. Louis have, in the past, considered and implemented means to suppress the purchased and use of

¹⁶ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers

¹⁷https://library.municode.com/mo/st._louis/codes/code_of_ordinances?nodeId=TIT17VETR_DIVIIMIPR_CH17.52VELI_17.52.040AMOV_ELITA

¹⁸ <https://www.stlouis-mo.gov/government/departments/street/refuse/news/refuse-collection-fee-increase.cfm>

¹⁹ https://www.stltoday.com/business/local/missouri-collects-in-first-month-under-new-airbnb-tax-agreement/article_dc4ba993-143a-5c86-aa6c-a3acd0565682.html

²⁰https://www.stltoday.com/business/local/airbnb-missouri-enter-tax-agreement-estimated-at-million-annually/article_2ca34ca7-2114-5b78-bcb6-57a1214d57d3.html



cigarettes and tobacco products, particularly by minors. One such way to continue this suppression—and potentially generate revenue—would be to impose a tax on vape or e-cigarette products. Since January 1, 2015, 22 states and the District of Columbia have introduced bills to assess an excise tax on vaping hardware, e-cigarettes, and e-Liquid. To date, seven states impose an excise tax on vapor products including California (27.3 percent at wholesale), North Carolina (5 cents per mL), Louisiana (5 cents per mL), Kansas (20 cents per mL), West Virginia (7.5 cents per mL), Pennsylvania (40 percent at wholesale), Minnesota (95 percent at wholesale), and both Cook County, IL and Chicago, IL. While it is still unclear how much revenue this might generate for Missouri, and, more importantly, St. Louis, it may be worth exploring as this market continues to grow – not only as a possible revenue generator, but also in relation to public health policy concerns.

- **Rental Cars:** Many local governments charge fees and levy taxes on car rentals, often from convenience locations such as airports. Because such taxes are generally paid by visitors to these cities, the receipts are often used to fund economic development projects and hospitality sector investments such as convention centers, sports stadiums, and similar amenities. Working with St. Louis County and/or other regional jurisdictions, the City could explore a collaboration to establish a separate local tax on all car rentals out of the airport for a designated, regional public purpose -- similar to the existing, dedicated metro sales tax for parks. City officials report that past research has indicated that adoption of such a tax would likely require authorization by the State of Missouri. The revenue generated from a local car rental tax would vary depending on the total number of cars rented and the duration of such rentals.
- **Ride-Sharing Services:** While vehicle rentals are directly associated with tourism trends, the increasing popularity of ride-sharing services like Uber and Lyft are lessening the demand for rentals. According to a May 2017 article by Travel Weekly, 50 percent of corporate travel buyers reported an increase in ride-sharing services between October and April, while 28 percent of those buyers reported a drop in traditional car rentals.²¹ As the ride-sharing economy has continued to grow, at least 28 states have passed legislation to regulate these services, and some include the ability of localities to impose additional fees on these services.²² To date, the Missouri legislature passed a law making Uber and Lyft legal throughout the state – in response to efforts by the St. Louis Metropolitan Taxi Cab Commission to try to keep Lyft and Uber out of St. Louis – and St. Louis has since imposed a \$3 fee on any pick-ups or drop-offs by ride-sharing cars at Lambert International Airport. Additional opportunities to impose fees on ride-sharing services might further be explored beyond those rides which originate or end at the airport.
- **Internet Sales:** Many states are aggressively pursuing methods to collect taxes on Internet-based transactions sales made in their state with e-commerce providers who don't have a physical presence in the state. Most notably, South Dakota (which passed a law to establish its standard) has been prominent in this effort. South Dakota's law was immediately challenged in court and, in June 2018, the US Supreme Court overturned *Quill Corporation v. North Dakota* which prohibited states from requiring a business to collect sales tax unless the business had a physical presence in the state.²³ Missouri already had "Amazon Laws" on the books, which required large online retailers to collect and remit sales taxes, and there may now be an opportunity to revise these laws to extend their reach. While some stakeholders have expressed policy concerns about how these laws might affect smaller online retailers,

²¹<http://www.travelweekly.com/Travel-News/Car-Rental-News/Analysts-Ride-hailing-putting-dent-car-rental-revenue-Uber>.

²² <http://www.ncsl.org/blog/2016/02/19/lawmakers-put-pedal-to-metal-to-deal-with-ride-sharing.aspx>

²³ <https://www.nolo.com/legal-encyclopedia/missouri-internet-sales-tax.html>



the revenue potential for this sales tax is real, and although there are costs associated with administering these changes, the continued growth of this economic activity warrants evaluation.

- **Alternative fuel vehicles:** Today, more motor vehicles than ever run, in whole or in part, on alternative fuels. As positive as this may be, this reduces local tax receipts on gasoline. Accordingly, a compensating surcharge could be considered for Missouri Motor Vehicle Registrations, and St. Louis might also explore how to incorporate this idea into its Automobile Sales Tax, or other existing auto-related taxes.

Beyond fees, user charges, and taxation, other non-tax revenue strategies could include:

- **Nonprofit contribution programs.** St. Louis benefits in many ways from its non-profit institutions such as universities (St. Louis University, Washington University in St. Louis, University of Missouri St. Louis, among others), hospitals, and cultural institutions. At the same time, many cities that see their business landscape dominated by nonprofits face revenue challenges linked to nonprofits' property tax exemptions. Further, St. Louis nonprofits are exempt from the Payroll Tax, as well. Many creative solutions exist for interacting with non-profits in a positive manner to help support municipal service demands, including services provided and/or payment-in-lieu-of-taxes (PILOT) agreements.
- **Expanded federal reimbursement for jail use.** With a declining jail population, the City is now actively exploring the costs and benefits of greater use of available space for federal inmate custody relative to "mothballing" certain areas. With strong cost recovery, expanded per diem programs could potentially be a cost-effective way to maintain jail capacity flexibility while enhancing local revenues.

Regular Capital Investment

The 2018 voter approval of \$50 million for critical capital improvements, in addition to multiple existing revenue streams for capital investments, represents a positive step toward addressing the City's significant backlog of infrastructure, facility, and fleet renewal and replacement needs. The following represent potential approaches for further meeting these needs:

- **Establish a More Regular Cycle of Capital Investment Funding.** Building on the recent GO Bond voter authorization, the City should consider a regular GO capital funding program whereby every four-to-five years, GO bonding authorization is sought to provide CIP financing for the ensuing three-to-five year period. Establishing a regular borrowing program will assist the City in better keeping up with its deferred capital investment needs, and will also mitigate the need for material debt-related property tax levy increases. This program should optimally be structured to keep assets in good working order and smooth out annual capital expenditures for predictable project types by completing an identified percentage each year. For example, if roofs have a useful life of 15 years and there are 30 fire stations, then two roofs might be replaced each year.
- **Use Dedicated Sources of Funding or Financing for Projects.** It is not uncommon to leverage opportunities surrounding dedicated fees or funding sources; this is an approach already used by the City with local and regional taxes dedicated to certain funds (primary examples include local ward and park funding and regional funding for shared-benefit assets). The City should expand such strategies to include opportunities for the funding or financing of critical technology and productivity investments. These efforts could include a minimal fee to online filings or other convenience-driven services that



could be enhanced through technology or productivity investments. Likewise, the City's plan to pursue dedicated hotel tax revenues to finance Convention Center expansion represents a positive application of this strategy for an extraordinary, large-scale investment.

- **Reinstitute the Use of Any Positive Annual Operating Results for Capital Once Reconsidered Reserve Targets Are Met.** The City's financial policies have included leveraging half of any annual positive fund balance result for capital investment, prior to a post-recession prioritization of these resources for rebuilding reserves. When appropriate reserve levels are in place, the alignment of non-recurring resources with capital investment is a strong management practice, supplementing debt financing with a regular source of pay-as-you go funding.
- **Pursue Fleet Modernization.** The City's Equipment Services Division (ESD) currently manages, maintains, and fuels a fleet of over 2,500 equipment and vehicle units, ranging from sanitation compactors to fire engines. In the 2018 GO Bond issue, significant funding was included to address fire apparatus needs, and the recent increase to the City's Refuse Fee should help to place compactors on a more reasonable replacement cycle. Overall, however, much of the remaining fleet is aging, and often already beyond its scheduled useful life. In turn, these conditions lead to escalating maintenance and repair costs, higher fuel costs due to older, fuel inefficient vehicles, and service disruptions from breakdowns. Contributing to these challenges, both replacement parts and mechanics with relevant expertise are becoming harder to find for some older makes of equipment and vehicles. With additional capital funding and/or a lease financing strategy to accelerate vehicle replacement, the City could begin to modernize the fleet to include more fuel-efficient and reliable "green" vehicles and place the City on a more consistent replacement schedule going forward. Reduced fuel and repair costs – as well as the up-front vehicle acquisition savings generated from lease-purchase financing – could generate quantifiable benefit for the City.

As the City continues to address its capital investment needs, it will be important that debt financed funding solutions adhere to the City's debt management policies, which are designed to promote effective and efficient management of the City's debt programs by providing a written framework for how the City accesses the credit market, establishing debt limitations and restrictions, identifying preferred debt structures and debt issuance practices, creating guidelines for refunding of previously issued debt, and demonstrating commitment to long-term financial planning. The debt management policies establish the parameters within which the City may undertake debt obligations (including, but not limited to, General Obligation, lease revenue, moral obligation, revenue, economic development (including tax increment financing and special districts)) and are designed to assist the City in prudently allocating limited resources to appropriate projects and maintaining financial flexibility and credit strength. Certain key elements of the City's debt management policies are included in Appendix B and are reflected in each of the City's Annual Operating Plans.

Rebuilding Reserves and Financial Sustainability

With the City's expanded commitment to rebuilding reserves and the one-time \$10 million contribution in FY2019, St. Louis is now positioned to surpass its minimum target level of 5% by the end of the fiscal year.

- Given that the current expansion phase of the business cycle has now far exceeded historical norms in duration, the City's planned attainment of the current minimum reserve target level is especially important and timely – with the goal now to exceed this minimum.



- Building on the City's proven success in this area, identifying and working toward a new reserve target and the adoption of other parameters related to the reserves will provide enhanced financial flexibility and be more in line with national best practices will be an important priority for the fiscal years ahead.

Also important for long-term financial sustainability, in the event that City advances a lease/concession for the St. Louis Lambert International Airport, the City should also develop a fiscally sound policy for the use of any proceeds. It is important to note that the evaluation of this concept is still underway as of the completion of this Long-Range Financial Plan Update, and no determination has yet been made as to the suitability of this approach for the City and its airport. If, and only if, the broader strategy is ultimately found to be in the City's overall best interests, then any proceeds made available should be reinvested in St. Louis' long-term health and stability. Recommended uses, in priority order, might include:

- Further building reserve levels to better align with national best practices.
- Improving the funded levels for the City's long-term retiree benefit liabilities.
- Addressing capital program shortfalls for the renewal and replacement of core City assets.
- Investing in support of long-term economic and community development to strengthen St. Louis' tax base and neighborhood quality of life.

In all cases, it is critical that the timing of any extraordinary proceeds be aligned with the new investments (for example, one-time funds should only be used for non-recurring expenditures).



Conclusion

Since the City's 2015 Long-Range Financial Plan was completed, St. Louis has achieved meaningful progress with economic development, compensation realignment, enhancing its revenue base, advancing initial capital reinvestment, and strengthening reserves. Nonetheless, as with most state and local governments nationally, additional work remains to address ongoing, structural budget pressures, infrastructure needs, and balance sheet concerns.

In putting forward the opportunities within this 2019 Long-Range Financial Plan Update to build on St. Louis' positive momentum, it is important to recognize that the City's leadership will need to weigh and balance its full range of options to develop the optimal approach. In addition, some of the potential paths ahead will require partnership beyond the City's direct control, and will inevitably evolve as they are further explored. Accordingly, the above (and any other) potential budget initiatives are not intended to represent a fixed list that must be completed exactly as outlined. Rather, these alternatives are meant to help prime the pump for further local, regional, and statewide conversations toward generating a flow of ideas and initiatives that will carry St. Louis forward.

If such steps are taken, along with tightening financial policies, St. Louis will be better positioned to weather the inevitable next downturn in the business cycle with the continued stability that is a hallmark of the City's fiscal management. More than just maintaining budget stability, however, such steps can provide St. Louis with the opportunity to turn the corner and begin to grow again economically – much as other, mature, urban centers have recently seen renewed population growth after prior decades of decline.

With further strong action now, St. Louis can capture a very bright future ahead.



Appendix A: Projection Growth Rate Assumptions; Baseline and Pessimistic Scenarios

Notes:

- For the pessimistic projection, FY Start is inclusive, FY End is not inclusive (e.g. if the period is 2020 – 2022 it is from the first day of FY2020—7/1/2019—until the last day of FY2021—6/30/2021).
- Before the FY Start and after the FY End, the baseline assumption is used.
- Unless otherwise noted, the growth rate given is true of all fiscal years of the projection.

	Base Case		Pessimistic Case			
	Growth Rate	Assumption(s)	Growth Rate	FY Start	FY End	Assumption(s)
Revenues						
Taxes						
Earnings Tax	2.2%	Aligned with 10, 5, and 3 year CAGRs—near inflation.	0.0%	2020	2022	Generally consistent with past periods of varying economic conditions.
Real Property Tax	2.0%	Slower growth than earnings tax.	1.0%	2021	2023	Generally consistent with past periods of varying economic conditions. Slight delay in impact
Personal Property Tax	1.5%	Collection issues lead to a lower growth than Real Property.	0.5%	2021	2023	Generally consistent with past periods of varying economic conditions. Slight delay in impact
City 1% Sales Tax	1.0%	Generally consistent with 5-10 year CAGRs.	-1.0%	2020	2022	Generally consistent with past periods of varying economic conditions.
City 3/8 % Sales Tax	1.0%	See above.	-1.0%	2020	2022	Generally consistent with past periods of varying economic conditions.
Gasoline Tax	0.0%	Low base case reflects excise tax structure, improving fuel efficiency, and state allocation methodology. Downward adjustment of 8% in FY2022 to reflect the projected impact of the 2020 Census on State distributions.	-1.0%	2020	2022	Reflects assumed changes in commercial, commuter, and discretionary use in an unfavorable economic climate.
Intangible Tax	0.0%	Volatile, modest revenue stream. Controlled by State with limited historical growth.	0.0%	2020	2023	See baseline.
Automobile Sales Tax	1.0%	Generally consistent with past periods of varying economic conditions. Aligned with Sales Taxes. Downward adjustment of 8% in FY2022 to reflect the projected impact of the 2020 Census.	-5.0%	2020	2022	Generally consistent with past periods of varying economic conditions. 5% decline for 2 years, 2.5% growth for the next 5, then return to 1%
Payroll Tax	1.1%	Lower than earnings tax due to disproportionate growth in tax exempt sectors.	-2.0%	2020	2022	Generally consistent with past periods of varying economic conditions. -2% for 2020-2022, then grow by 2% for the next 3 years.



	Base Case		Pessimistic Case			
	Growth Rate	Assumption(s)	Growth Rate	FY Start	FY End	Assumption(s)
Licenses						
Manufacturer's Licenses	0.0%	Small revenue source, relatively flat in recent years.	0.0%	2020	2023	See baseline.
Cigarette Tax	0.0%	Historical performance to date is relatively flat.	0.0%	2020	2023	Potential to decline in recession scenario.
Amusement Tax	0.0%	Volatile year over year, with limited long term growth.	0.0%	2020	2023	See baseline.
Restaurant Gross Receipts Tax	2.2%	Generally aligned with CPI assumptions.	1.8%	2020	2022	Generally aligned with CPI assumptions, assumed to be somewhat lower in a weaker economy.
Graduated Business License Tax	0.0%	Assumes stabilizing business sector.	-2.5%	2020	2022	Generally consistent with past periods of varying economic conditions.
Parking Garage & Lots	1.5%	Different economic conditions assumed to impact commuter activity; otherwise inflationary movement.	0.0%	2020	2022	Generally consistent with past periods of varying economic conditions.
Motor Vehicle License	0.0%	Flat in accordance with historical performance.	0.0%	2020	2023	See baseline.
License Commission	0.0%	Linked to assumed growth of all licenses.	0.0%	2020	2023	Linked to assumed growth of all licenses.
Other Licenses	0.0%	No changes assumed in cost or amount of licenses generated.	0.0%	2020	2023	See baseline.
Franchise Fees						
Telephone Franchise	0.0%	First \$13.5 goes to Employee Pension Transfer, remainder here. Has not met cap in recent past. No expectation of growth.	0.0%	2020	2023	See baseline.
Natural Gas Franchise	0.0%	Aggregate franchise fee revenue growth historically modest, somewhat greater activity assumed during favorable economic periods.	0.0%	2020	2023	Aggregate franchise fee revenue growth historically modest, somewhat weaker activity assumed during unfavorable economic periods.
Electric Franchise	1.5%		0.0%	2020	2022	
Steam Franchise	0.0%		0.0%	2020	2023	
Railroad Franchise	0.0%		0.0%	2020	2023	
Water Franchise	1.5%		0.0%	2020	2022	
Airport Franchise	1.5%		0.0%	2020	2022	



	Base Case		Pessimistic Case			
	Growth Rate	Assumption(s)	Growth Rate	FY Start	FY End	Assumption(s)
Departmental Receipts						
Comptroller	0.0%	Most receipts based on fixed dollar charges with no with automatic escalation, somewhat greater activity assumed during favorable economic periods.	0.0%	2020	2023	Only impact assumed is on Building Division, due to decrease in building activity during a recession. (Building Division: decrease by 5% for two years, increase by 2% until return to historical levels).
City Courts	0.0%		0.0%	2020	2023	
Juvenile Division	0.0%		0.0%	2020	2023	
Recorder of Deeds	0.0%		0.0%	2020	2023	
Auto Towing and Storage Division	0.0%		0.0%	2020	2023	
Refuse Division	0.0%		0.0%	2020	2023	
Fire Department - Emergency Medical Services	0.0%		0.0%	2020	2023	
Building Division	0.0%		-5.0%	2020	2022	
Other Departmental Earnings	0.0%		0.0%	2020	2023	
Transfers						
Hotel Tax 3.5%	2.2%	Assumed to generally track standard inflation.	0.0%	2020	2022	Reflects sensitivity of hospitality sector to economic conditions.
Restaurant Tax 1%	2.2%	Growth at rate of restaurant gross receipts.	1.75%	2020	2023	Reflects sensitivity of hospitality sector to economic conditions.
Prisoner Housing Reimbursement	0.0%	State revenue, no growth expected.	0.0%	2020	2023	See baseline.
Employee Pension Trust	0.0%	Revenue has declined below \$13.5M cap in recent years. No growth expected.	0.0%	2020	2023	See baseline.
Other Transfers	0.0%	Volatile, with limited 10 year growth assumed.	0.0%	2020	2021	See baseline.



	Base Case		Pessimistic Case			
	Growth Rate	Assumption(s)	Growth Rate	FY Start	FY End	Assumption(s)
Expenditures						
Personnel Expenses						
Salaries	2.2%	Assumed to parallel consumer price change with no significant headcount change.	1.5%	2020	2023	Wage pressure assumed to be somewhat lower in weaker economy.
Salaries per Performance	2.2%		1.5%	2020	2023	
Salaries - Uniformed Employees	2.2%		1.5%	2020	2023	
Social Security	2.2%		1.5%	2020	2023	
Overtime	2.2%		1.5%	2020	2023	
Medical Insurance	7.0%	Base case scenario.	7.0%	2020	2023	See Baseline
Life Insurance	2.2%	Assumed to generally track standard inflation.	2.20%	2020	2023	Inflation assumed to be somewhat lower in weaker economy.
Unemployment Compensation	0.0%	Assumes flat growth.	0.0%	2020	2023	See Baseline
Workers Compensation - Disability	2.2%	Aligns with salaries.	1.5%	2020	2023	Aligns with salaries.
Workers Compensation - Settlement	5.4%	Approx. 2/3 of cost is medical related and remaining 1/3 is salary related. Growth rate is a blend of the medical and salary growth rate.	5.2%	2020	2023	See Baseline
ERS	Tied to Pension index	Percentage of payroll contribution, extrapolated from actuarial evaluation assuming investment return of 7.5%.	Tied to Pension index	2020	2023	Percentage of payroll contribution, extrapolated from actuarial evaluation assuming investment return of 6%.
Police Retirement Plan	Tied to Pension index	Percentage of payroll contribution, extrapolated from actuarial evaluation assuming investment return of 7.5%.	Tied to Pension index	2020	2023	Percentage of payroll contribution, extrapolated from actuarial evaluation assuming investment return of 6%.
Firemen Retirement Plan	Tied to Pension index	Percentage of payroll contribution, extrapolated from actuarial evaluation assuming investment return of 7.65%.	Tied to Pension index	2020	2023	Percentage of payroll contribution, extrapolated from actuarial evaluation assuming investment return of 6.125%.
Firemen Retirement System	Tied to Pension index	Projections provided.	Tied to Pension index	2020	2023	Assumed projected contribution will be higher. Percent change based on effects on Firemen Retirement Plan.
Other Personnel Services	0.0%	No growth assumed.	0.0%	2020	2023	See baseline.
Prior Year Encumbrances	2.2%	Assumed to generally track standard inflation.	1.7%	2020	2023	Inflation assumed to be somewhat lower in a weaker economy.



	Base Case		Pessimistic Case			
	Growth Rate	Assumption(s)	Growth Rate	FY Start	FY End	Assumption(s)
Contractual Services	2.2%	Assumed to generally track standard inflation.	1.7%	2020	2023	Inflation assumed to be somewhat lower in a weaker economy.
Materials & Supplies	2.2%	Assumed to generally track standard inflation.	1.7%	2020	2023	Inflation assumed to be somewhat lower in a weaker economy.
Non-Capital (Leases, Rentals, & Equipment)	2.2%	Assumed to generally track standard inflation.	1.7%	2020	2023	Inflation assumed to be somewhat lower in a weaker economy.
Capital	2.2%	Assumed to generally track standard inflation.	1.7%	2020	2023	Inflation assumed to be somewhat lower in a weaker economy.
Debt Service						
Principal	Varies	Based on PFM Financial Advisors LLC / Budget Division analysis.	Varies	2020	2023	Based on PFM Financial Advisors LLC / Budget Division analysis.
Interest	Varies		Varies	2020	2023	
Administrative Fees	Varies		Varies	2020	2023	



Appendix B: City Debt Management Policies – Key Elements

The City's debt management policies are designed to promote effective and efficient management of the City's debt programs by providing a written framework for how the City accesses the credit market, establishing debt limitations and restrictions, identifying preferred debt structures and debt issuance practices, creating guidelines for refunding of previously issued debt, and demonstrating commitment to long-term financial planning. The debt management policies establish the parameters within which the City may undertake debt obligations (including, but not limited to, General Obligation, lease revenue, moral obligation, revenue, economic development (including tax increment financing and special districts)) and are designed to assist the City in prudently allocating limited resources to appropriate projects and maintaining financial flexibility and credit strength. Certain key elements of the City's debt management policies presented below and also are reflected in each of the City's Annual Operating Plans.

1. Debt financing should be used to finance / refinance only those long-term assets or projects that benefit a significant portion of citizens in the City and for which repayment sources have been identified. Debt financing should be used only after considering all alternative funding sources such as project revenues, federal and state grants, etc.

The issuance of new money General Obligation Bonds requires voter approval and is subject to compliance with constitutional and statutory Legal Debt Limit (10% of Assessed Value).

2. The scheduled maturity of bond issues shall not exceed the expected useful life of the capital project or asset financed and, in any event, shall not exceed 30-years from the date of issuance.

Prudent debt management requires that there be a proper matching of the lives of the assets and the length of the debt, whether taxable or tax-exempt, used to finance the City's capital needs. In no instance will the City amortize the repayment of debt beyond the useful life of the asset acquired or constructed. Where feasible, the City will incorporate shorter term fixed rate bond/loan amortizations in order to minimize interest costs and address its principal repayment targets. In addition, in determining amortization of any given debt issuance, the future funding of repair, expansion and/or replacement of the financed asset should be considered.

The forgoing notwithstanding, the final maturity of any General Obligation Bond, pursuant to State of Missouri Constitution, is limited to a maximum of 20-years from the date of issuance.

In addition, the City will, at all times, structure the amortization and maturity of any fixed rate debt to comply with all applicable tax regulations.

3. For property tax supported General Obligation bonds, the Comptroller will strive for a debt service reserve in an amount not less than the succeeding year principal and interest requirements. Reserve requirements for other bonds will be set forth in respective bond covenants.
4. To provide the maximum amount of flexibility, long term debt shall be structured with early redemption/prepayment provisions, except when alternative structures are more advantageous to the City. The City will consider early redemption/prepayments when available resources are identified and/or market conditions are favorable.



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5. Bond refunding shall be considered if one or more following conditions exist:
 - a. present value savings of 3% of par value of the refunded bonds;
 - b. bond covenants are restrictive or outdated; or
 - c. restructuring debt is deemed desirable; desire to keep debt payments level from year to year, opportunity to release excess debt service reserves, etc.

Refunding of outstanding debt represents unique opportunities for the City to realize savings in debt service cost. Refunding also allows the City to re-structure its existing debt or debt profile to enable the City to operate in a more competitive manner. Many of the policies and practices applicable to new money fixed are applicable to debt refundings as well and those policies and practices shall be adhered to in any debt refunding issue unless State law, City Charter and/or federal regulations dictate otherwise. Refundings will be considered within all applicable federal tax law constraints. As of January 1, 2018, tax-exempt advance refundings are no longer permitted under the U.S Tax Code.

6. Bond insurance shall be considered when present value of debt service savings is equal to or greater than the insurance premium. Bond insurance should be analyzed on a maturity-by-maturity basis and used only on maturities where its use generates debt service savings.
7. The City will take all steps necessary to maintain and, where possible, improve its credit ratings on outstanding debt and comply with all bond covenants, including, but not limited to, the maintenance of the tax-exempt status of the obligations, as applicable, federal bond proceeds expenditure and investment requirements, and all continuing disclosure obligations. The investment of bond proceeds shall be governed by State statute and the City's investment policies and the related bond documents.

The Comptroller will select underwriters, disclosure counsel and bond counsel from a pre-qualified list to be reviewed at least every two years.