



CITY OF KNOXVILLE
MADELINE ROGERO, MAYOR

Budget Retreat: Financial Update

February 9, 2018

- Understanding the Budget
 - Structure of the Budget (Funds)
 - Fund Types
 - Interfund Transfers/Charges
 - The General Fund
 - Fund Balance
 - Where the Money Comes From
 - Where The Money Goes
- The Budget Process
 - Budget Timetable
- Six Month Report (Where We Stand Now)
- 2018/19 Budgetary Opportunities/Issues

Structure of the Budget

- Fund Types
 - Governmental
 - General Fund
 - Special Revenue
 - Debt Service
 - Capital Projects
 - Proprietary
 - Enterprise
 - Internal Service

Fund Types

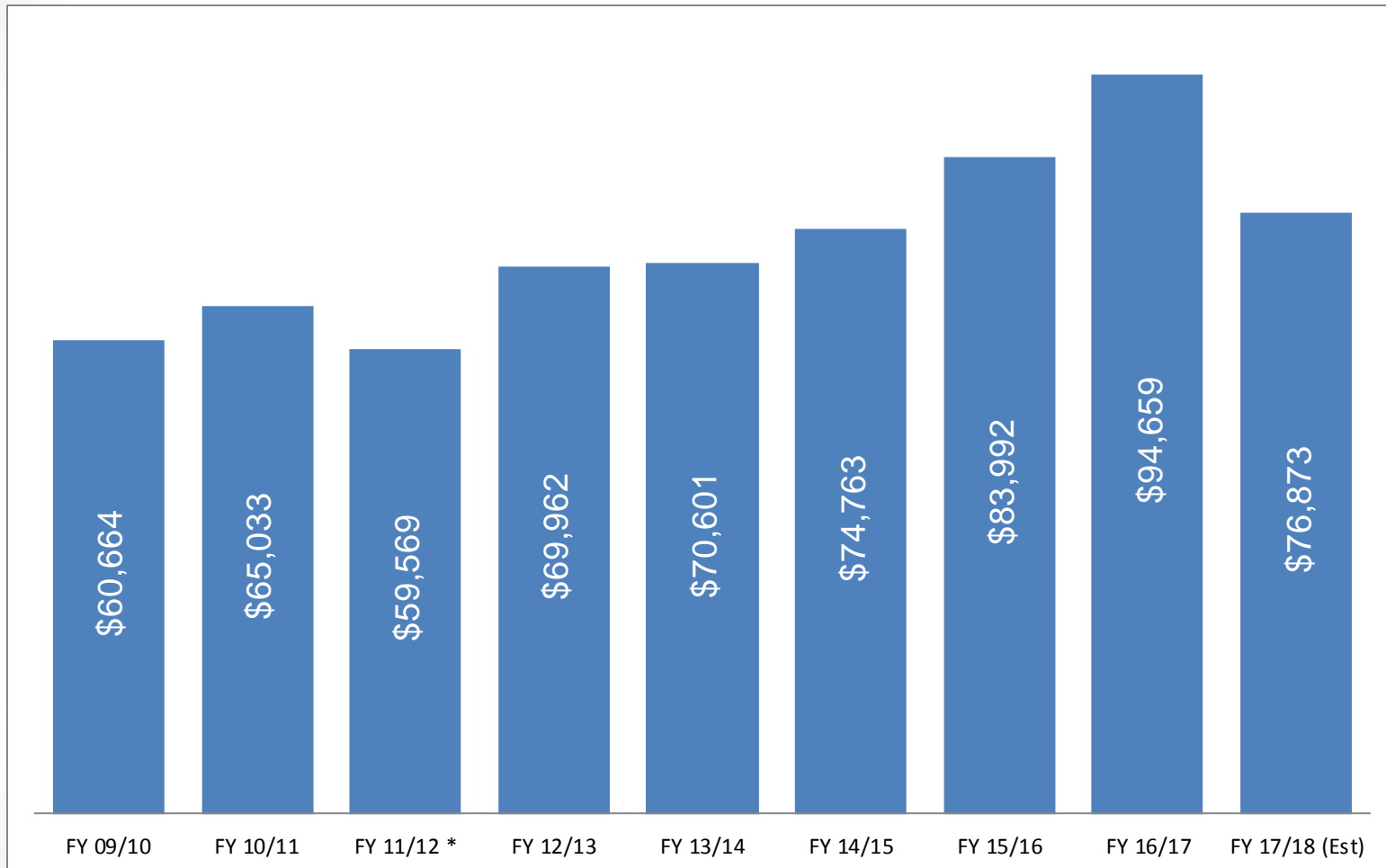
- General Fund - The general fund is the chief operating fund of the City. Used “to account for all financial resources except those required to be accounted for in another fund.”
- Special revenue funds - account for revenue sources that are set-aside for a specific purpose. (i.e., grant proceeds).
- Debt service funds - account for resources set aside in order to meet current and future debt service requirements on long-term debt.
- Capital projects funds - account for the resources used for the acquisition or construction of major capital facilities.
- Enterprise funds provide services and operate like a business
- Internal Service Funds- allocate the cost of certain services (i.e., fleet services) among other departments within the government.

The FY 17/18 Budget

Adopted Budget and Net Budget

| Fund No. | Fund Name | Adopted FY 17/18 Budget | Less Interfund Transfers Out | Less Interfund Charges In | Net Budget |
|----------|-----------------------------------|-------------------------------|------------------------------------|---------------------------------|----------------|
| 100 | General Fund | \$ 236,769,920 | \$ (59,475,670) | \$ - | \$ 177,294,250 |
| | Special Revenue Funds | | | | |
| 201 | State Street Aid | 7,032,500 | (2,677,500) | - | 4,355,000 |
| 202 | Community Improvement | 90,000 | - | - | 90,000 |
| 209 | Abandoned Vehicles | 931,200 | (85,000) | - | 846,200 |
| 211 | Animal Control | 41,500 | - | - | 41,500 |
| 213 | City Court | 3,211,610 | (2,142,170) | - | 1,069,440 |
| 216 | City Inspections | 2,701,450 | - | - | 2,701,450 |
| 220 | Stormwater | 3,562,460 | (300,000) | - | 3,262,460 |
| 230 | Solid Waste | 9,375,980 | (365,000) | - | 9,010,980 |
| 240 | Miscellaneous Special Revenue | 5,711,900 | (824,040) | - | 4,887,860 |
| 264 | Home Grant | 1,417,540 | - | - | 1,417,540 |
| 290 | Community Development Block Grant | 1,905,540 | - | - | 1,905,540 |
| | Subtotal - Special Revenue Funds | 35,981,680 | (6,393,710) | - | 29,587,970 |
| | Debt Service Funds | | | | |
| 305 | Debt Services | 25,769,360 | (19,238,550) | - | 6,530,810 |
| 306 | Tax Increment | 2,197,380 | - | - | 2,197,380 |
| | Subtotal - Debt Service Funds | 27,966,740 | (19,238,550) | - | 8,728,190 |
| | Capital Project Funds | | | | |
| 401 | Capital Projects | 64,644,540 | - | - | 64,644,540 |
| | Subtotal - Capital Project Funds | 64,644,540 | - | - | 64,644,540 |
| | Enterprise Funds | | | | |
| 503 | Public Assembly Facilities | 6,121,070 | - | - | 6,121,070 |
| 504 | Metro Parking | 12,767,710 | - | - | 12,767,710 |
| 506 | Convention Center | 23,375,780 | - | - | 23,375,780 |
| 507 | Mass Transportation | 23,753,710 | - | - | 23,753,710 |
| 508 | Municipal Golf Course | 1,421,350 | - | - | 1,421,350 |
| | Subtotal - Enterprise Funds | 67,439,620 | - | - | 67,439,620 |
| | Internal Service Funds | | | | |
| 702 | Fleet Services | 13,108,860 | - | (15,164,890) | (2,056,030) |
| 704 | Risk Management | 7,138,120 | - | (7,015,320) | 122,800 |
| 705 | Health Care | 21,085,200 | - | (13,625,890) | 7,459,310 |
| 706 | Equipment Replacement | 3,084,090 | - | (2,542,190) | 541,900 |
| 707 | City Building | 1,838,200 | - | (1,748,050) | 90,150 |
| | Subtotal - Internal Service Funds | 46,254,470 | - | (40,096,340) | 6,158,130 |
| | Grand Total | \$ 479,056,970 | \$ (85,107,930) | \$ (40,096,340) | \$ 353,852,700 |

General Fund Ending Fund Balance



- In FY 11/12 the City provided a supplemental contribution of \$10 million to the Pension System. If not for this action the ending fund balance in FY 11/12 and subsequent years would both be \$10 million higher.
- All numbers in \$1,000's

General Fund Ending Fund Balance

| | FY 12/13 | FY 13/14 | FY 14/15 | FY 15/16 | FY 16/17 |
|---------------------------|------------|------------|------------|------------|------------|
| Non-spendable | | | | | |
| Prepaid | 10,758 | - | 9,258 | - | 47,816 |
| Inventory | 355,677 | 323,900 | 432,138 | 354,116 | 297,185 |
| Subtotal - Non-spendable | 366,435 | 323,900 | 441,396 | 354,116 | 345,001 |
| Restricted | | | | | |
| Encumbrances | - | - | - | - | - |
| Subtotal - Restricted | - | - | - | - | - |
| Committed | | | | | |
| Encumbrances | 561,044 | 131,498 | 279,196 | 382,277 | - |
| Policy | 36,636,086 | 40,100,512 | 41,275,270 | 42,506,918 | 47,353,984 |
| Subtotal - Committed | 37,197,130 | 40,232,010 | 41,554,466 | 42,889,195 | 47,353,984 |
| Assigned | | | | | |
| Encumbrances | 281,423 | 82,718 | 472,838 | 142,766 | 937,779 |
| Appropriated Fund Balance | 1,850,000 | 2,004,600 | 2,065,000 | 2,135,000 | 20,475,000 |
| Other | - | - | - | - | - |
| Subtotal - Assigned | 2,131,423 | 2,087,318 | 2,537,838 | 2,277,766 | 21,412,779 |
| Unassigned | 30,267,058 | 27,957,986 | 30,228,819 | 38,470,483 | 25,547,309 |
| Total Fund Balance | 69,962,046 | 70,601,214 | 74,762,519 | 83,991,561 | 94,659,073 |

Definitions:

- Non-Spendable – Items included in assets that are non-cash related and cannot be spent
- Restricted – Funding that is restricted by law or contracts
- Committed – Items that have been approved by the governing body and are committed/designated
- Assigned – Reserved funds that do not meet the two above standards
- Unassigned – Balance available after above standards are met - the spendable amount

Bond Ratings

- Fitch AAA
- Moody's Aa1
- Standard & Poor's AA+

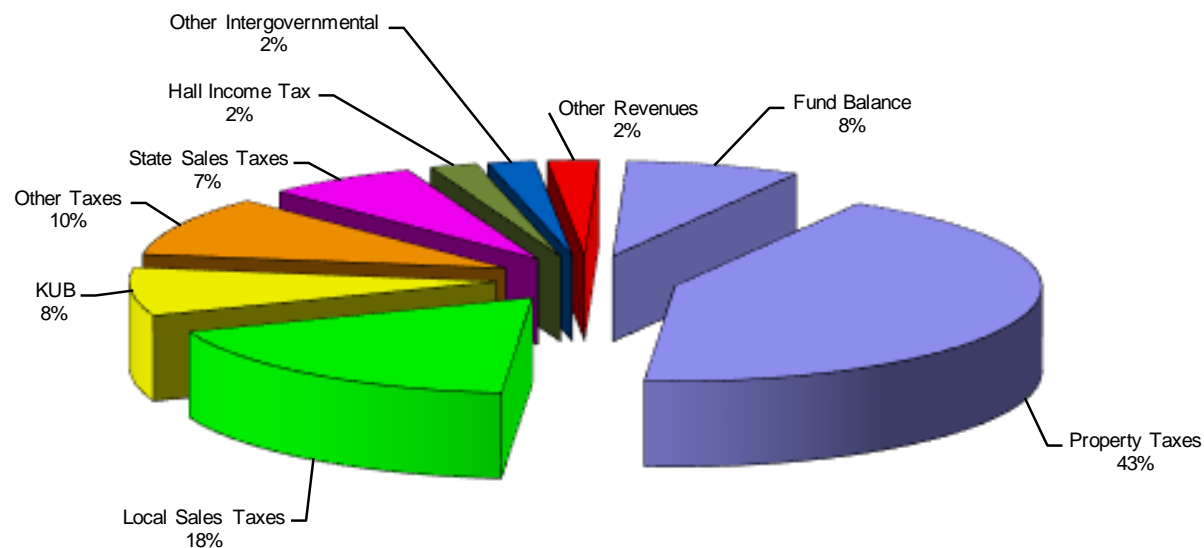
General Fund Revenues

By Source

| | |
|-------------------------|---------------|
| Property Taxes | \$101,831,290 |
| Local Sales Taxes | 42,231,130 |
| KUB | 19,315,660 |
| Other Taxes | 24,187,030 |
| State Sales Taxes | 15,812,890 |
| Hall Income Tax | 4,900,000 |
| Other Intergovernmental | 4,907,350 |
| Other Revenues | 5,319,570 |
| Fund Balance | 18,265,000 |
| | <hr/> |
| | \$236,769,920 |
| | <hr/> <hr/> |

General Fund Revenues

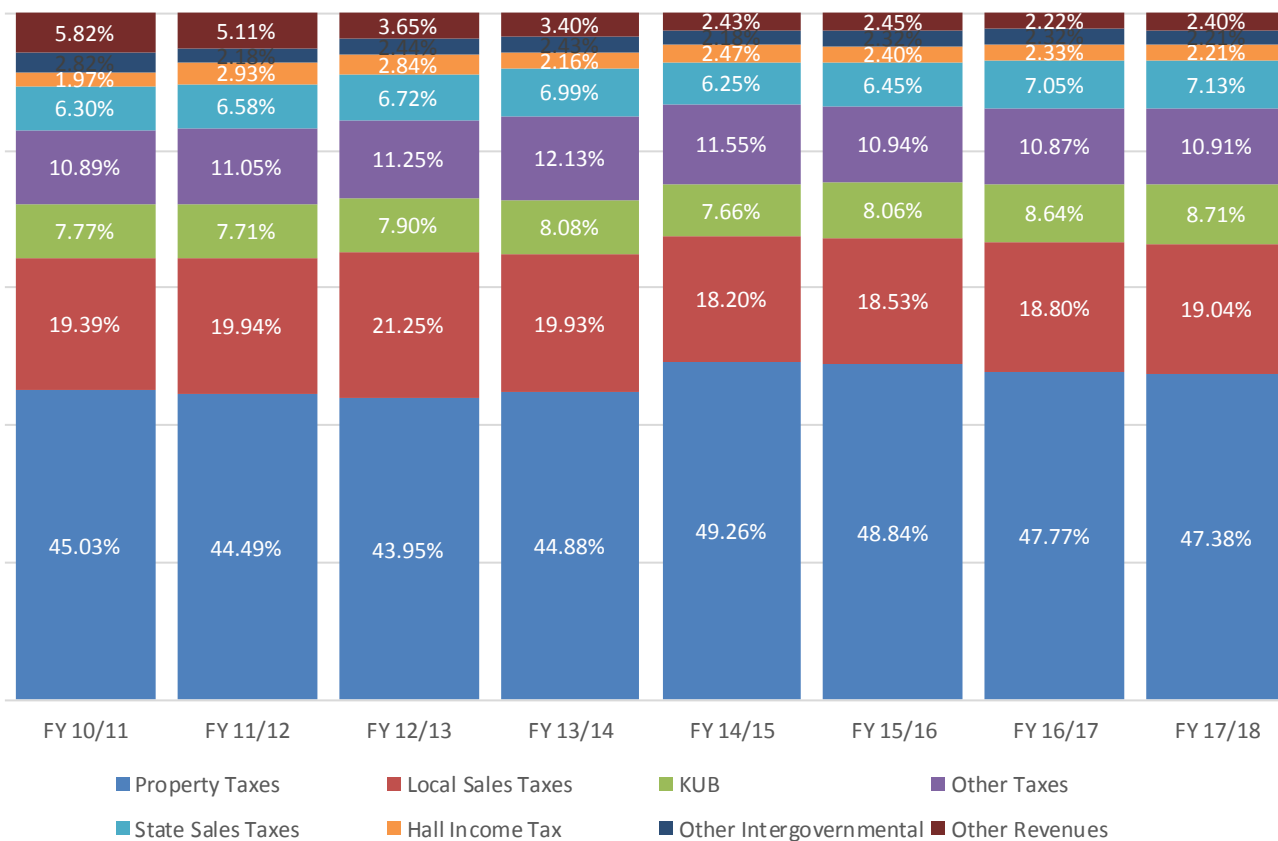
By Source



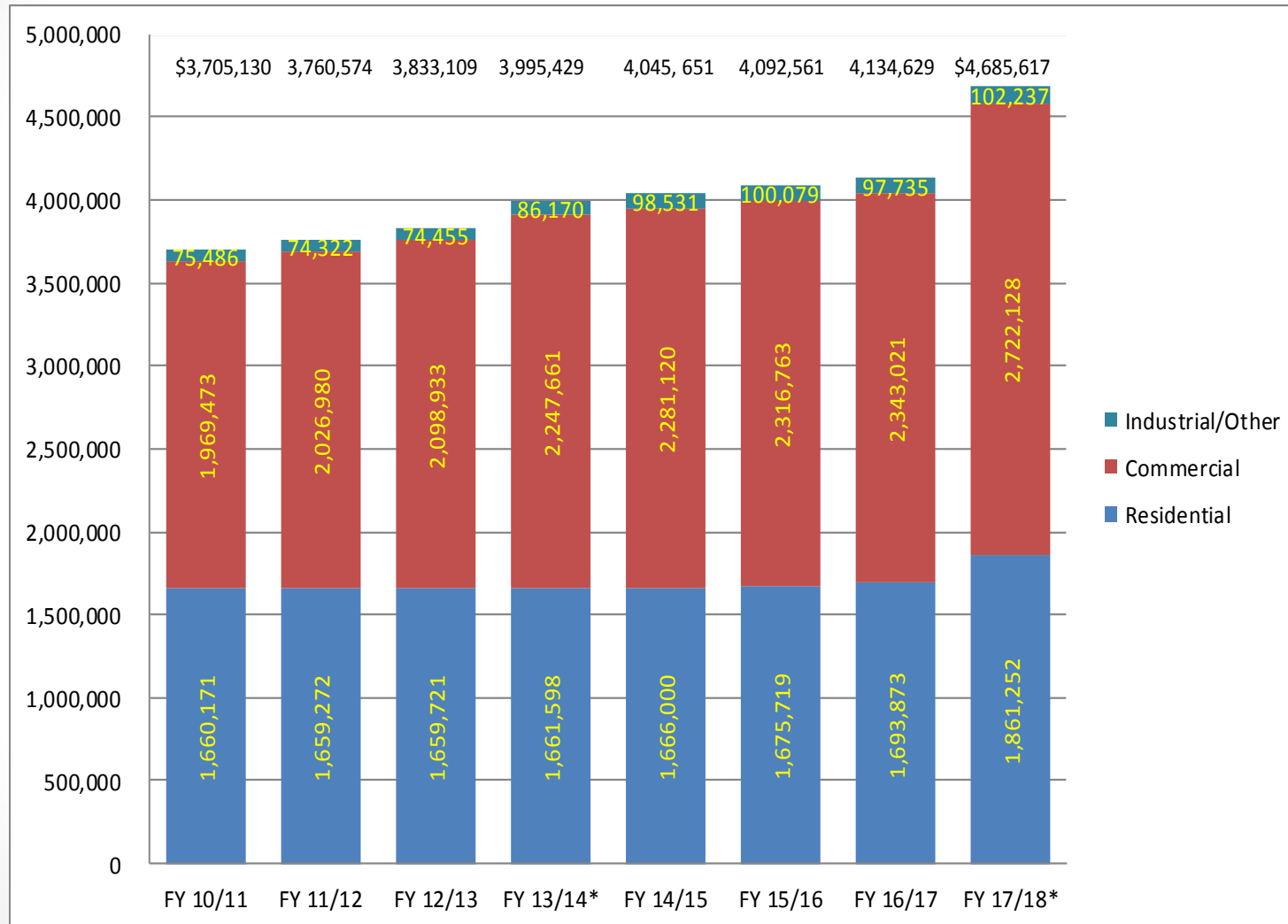
Total Amount = \$236,769,920

General Fund Revenues

By Source



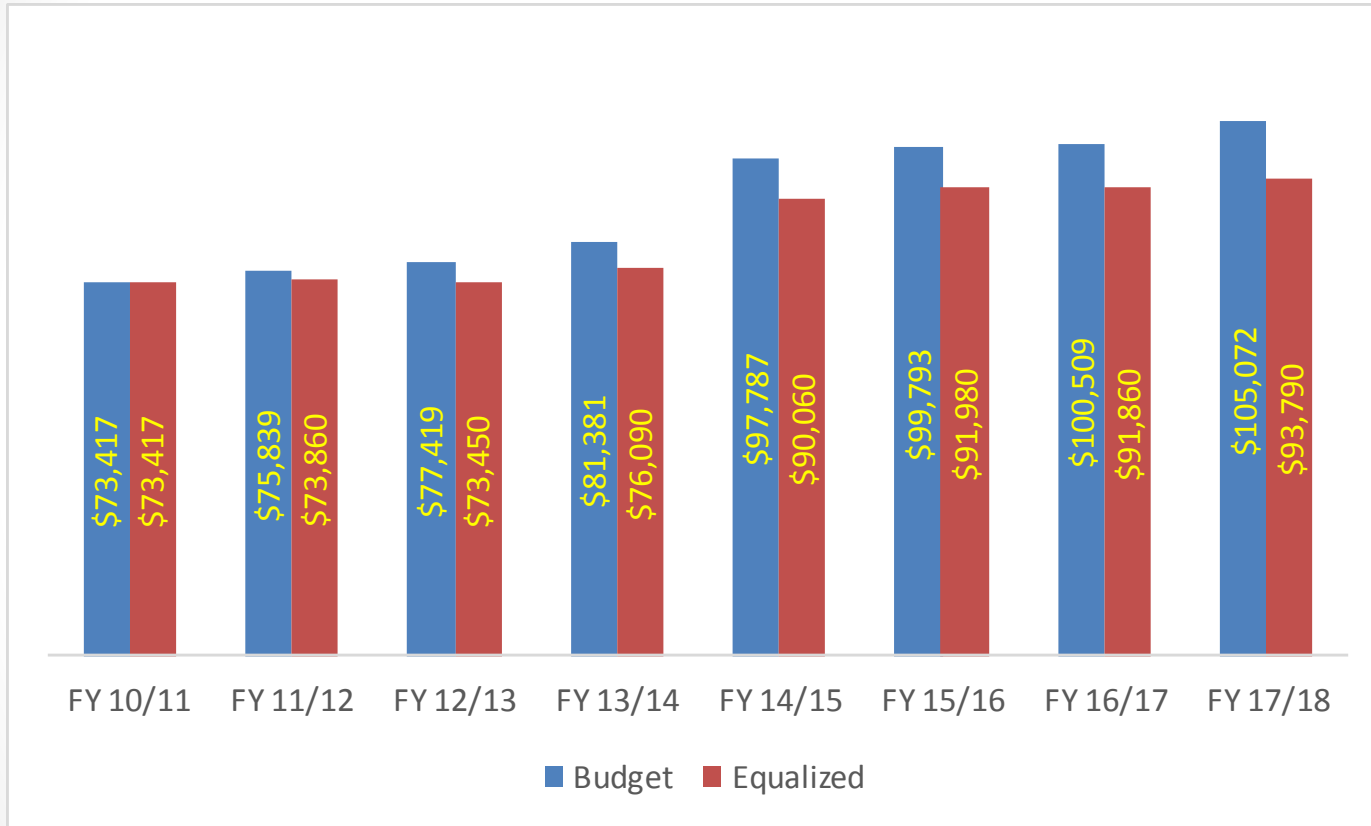
Real Property Values



- FY 13/14 and FY 17/18 were both reappraisal years which account for the larger growth.
- All number in \$1,000's

Property Taxes By Year

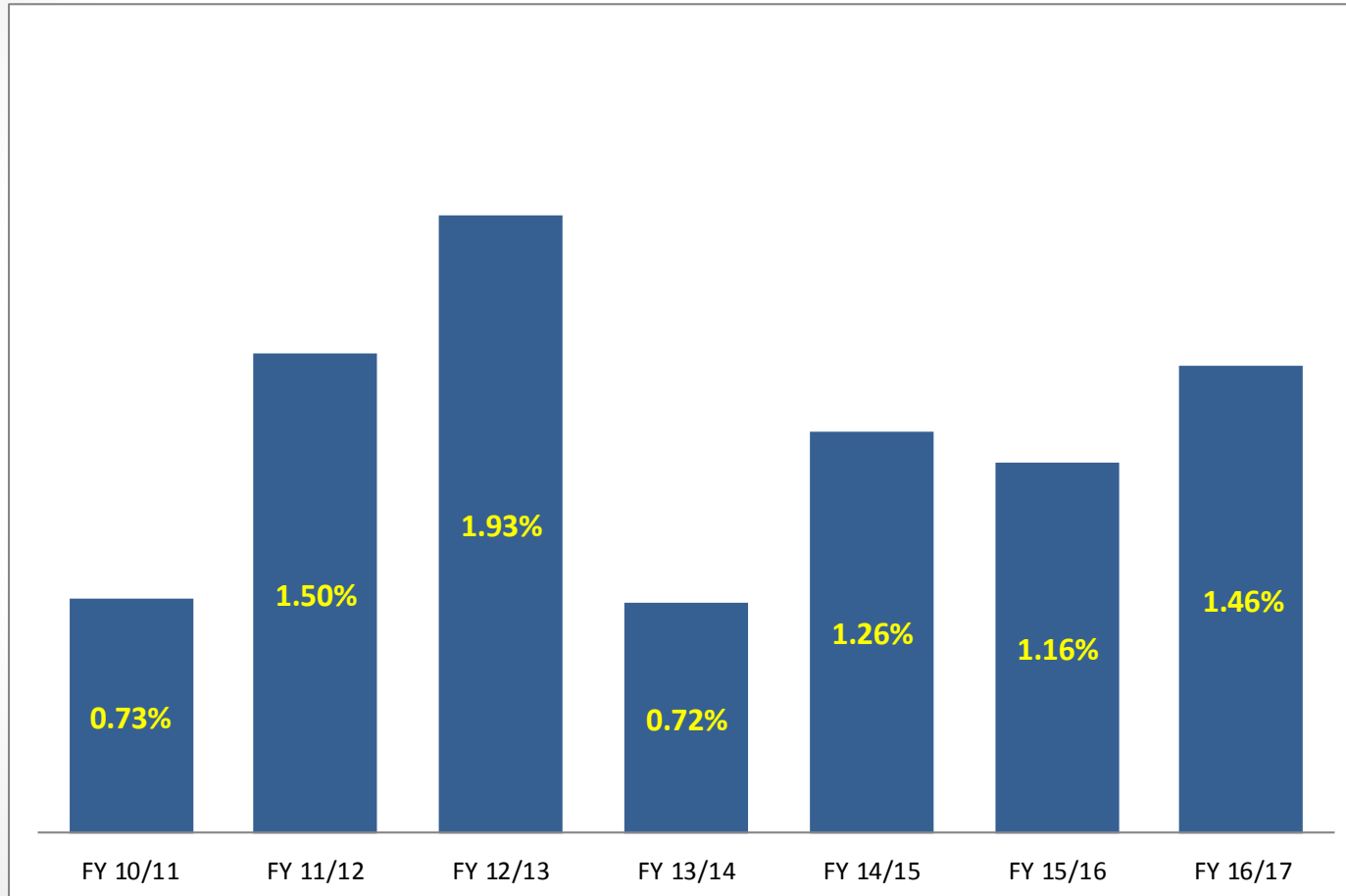
(Equalized for Inflation)



All numbers in \$1,000's.

Growth in Property Values

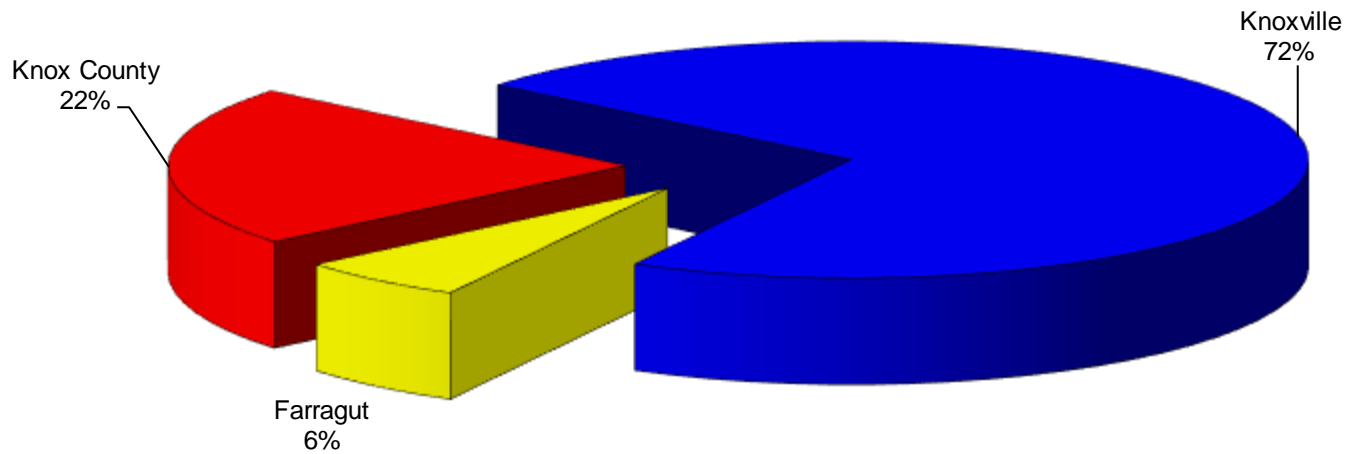
Real Property



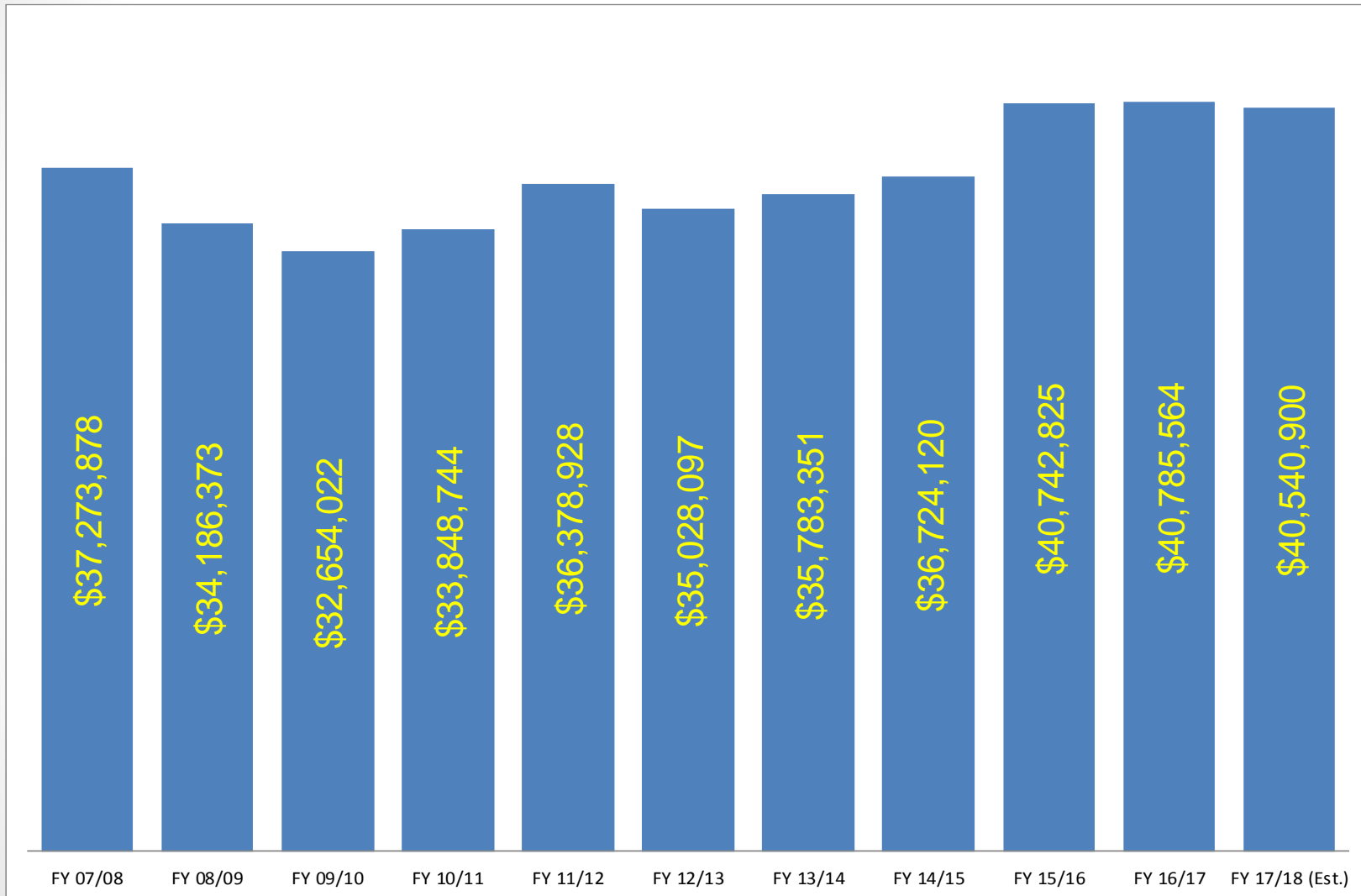
Local Option Sales Tax

| | Knox Co. | Knoxville | Farragut |
|---------------------|---------------------|---------------------|---------------------|
| Local Government | 0.625 | 0.625 | 1.125 |
| Knox County Schools | <u>1.625</u> | <u>1.625</u> | <u>1.125</u> |
| Total | <u><u>2.250</u></u> | <u><u>2.250</u></u> | <u><u>2.250</u></u> |

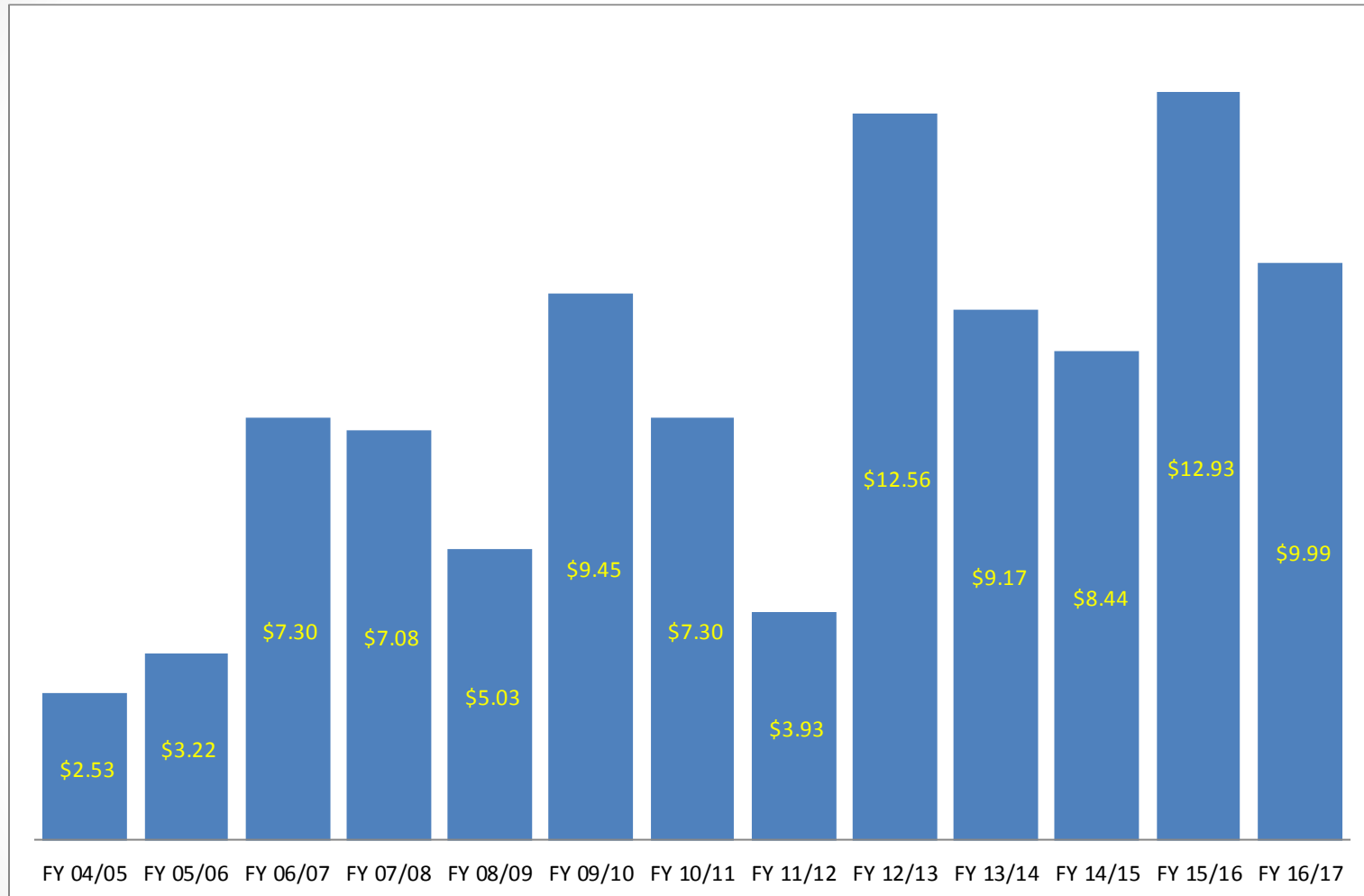
Local Option Sales Tax



Local Option Sales Tax

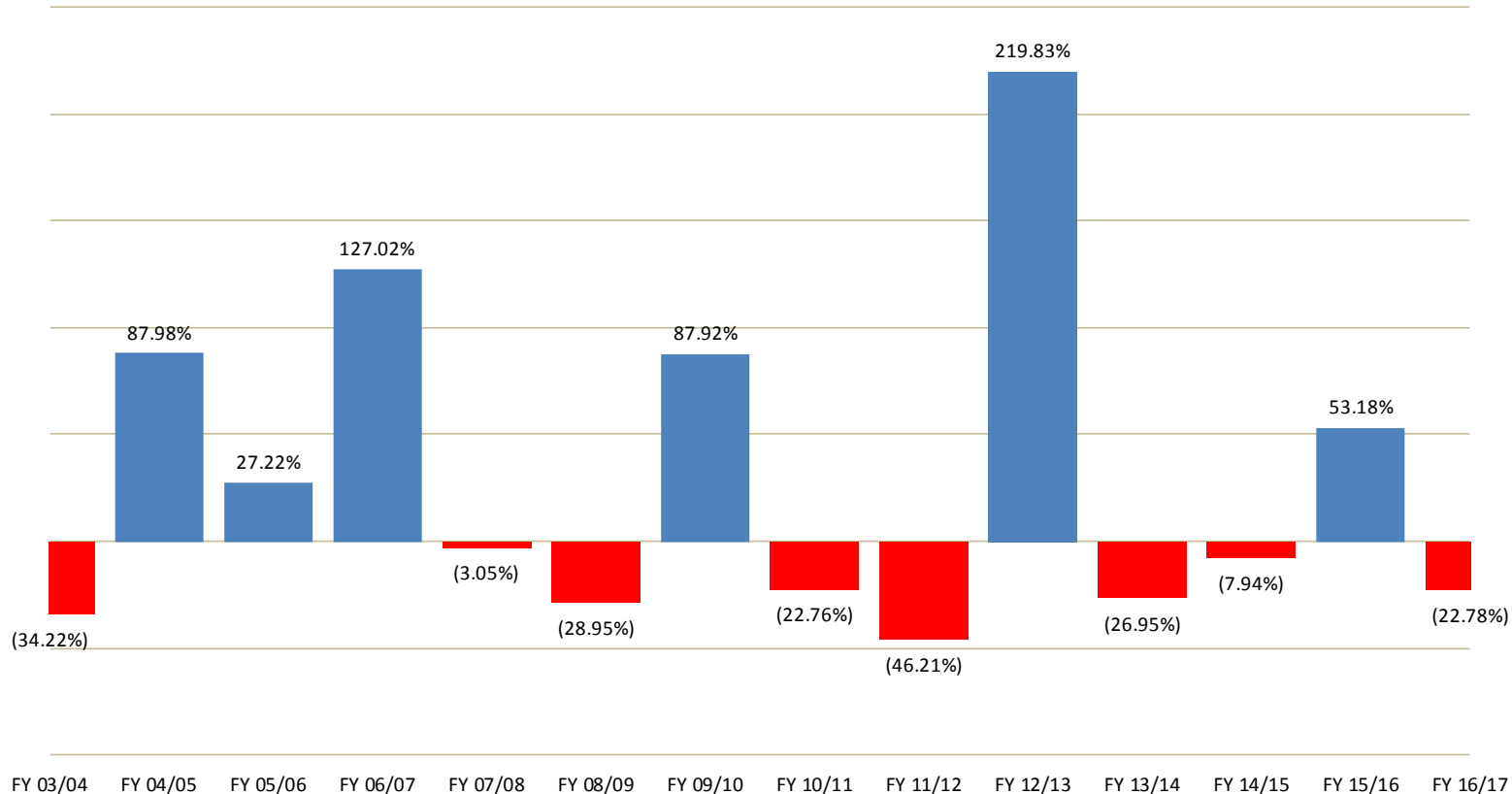


Hall Income Tax



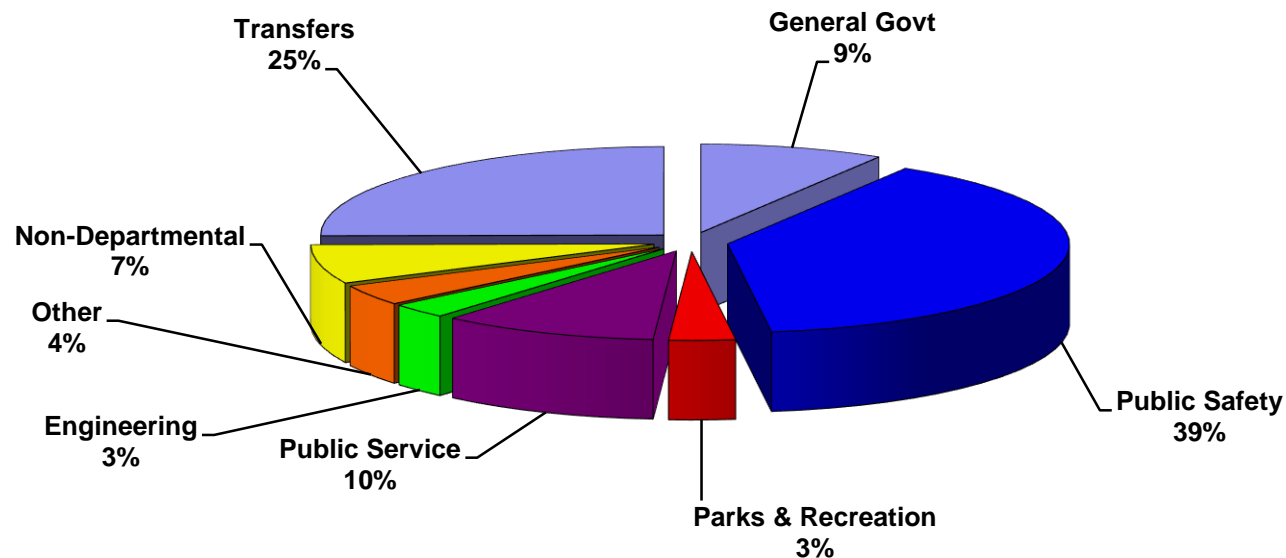
All amounts in million \$'s

Hall Income Tax (Annual % Change)



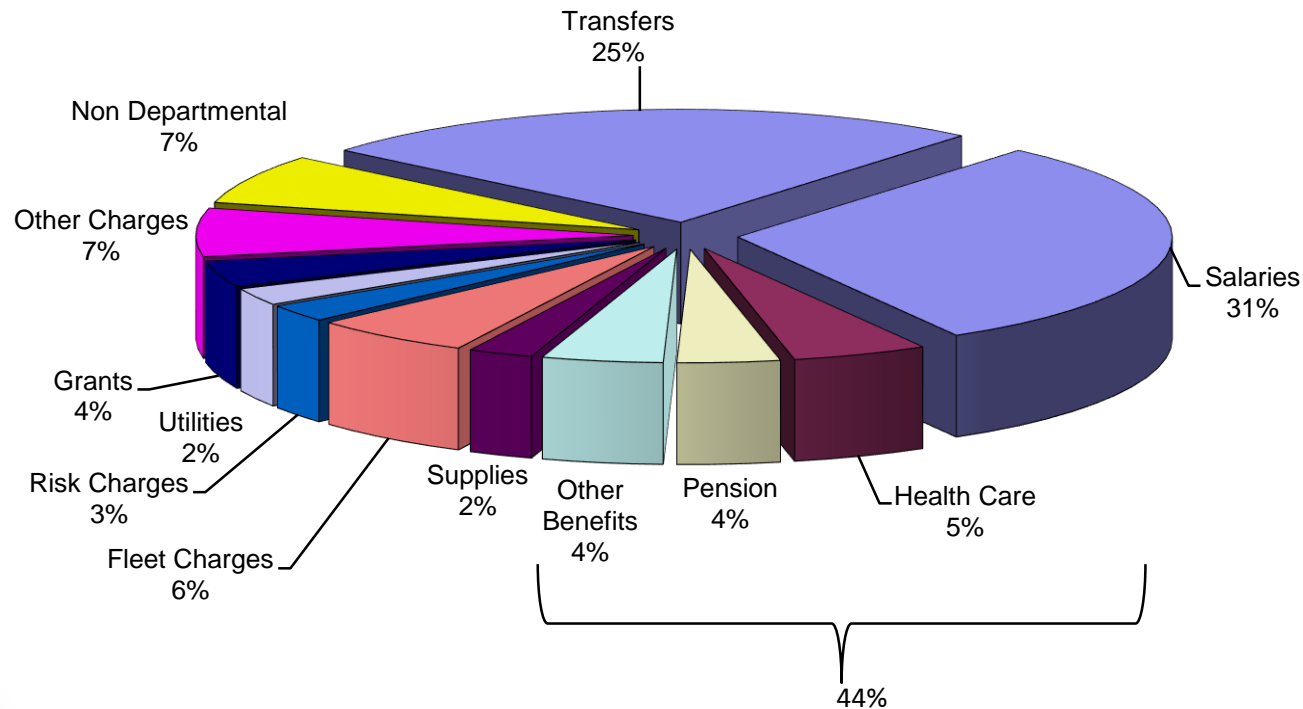
General Fund Expenditures

By Function

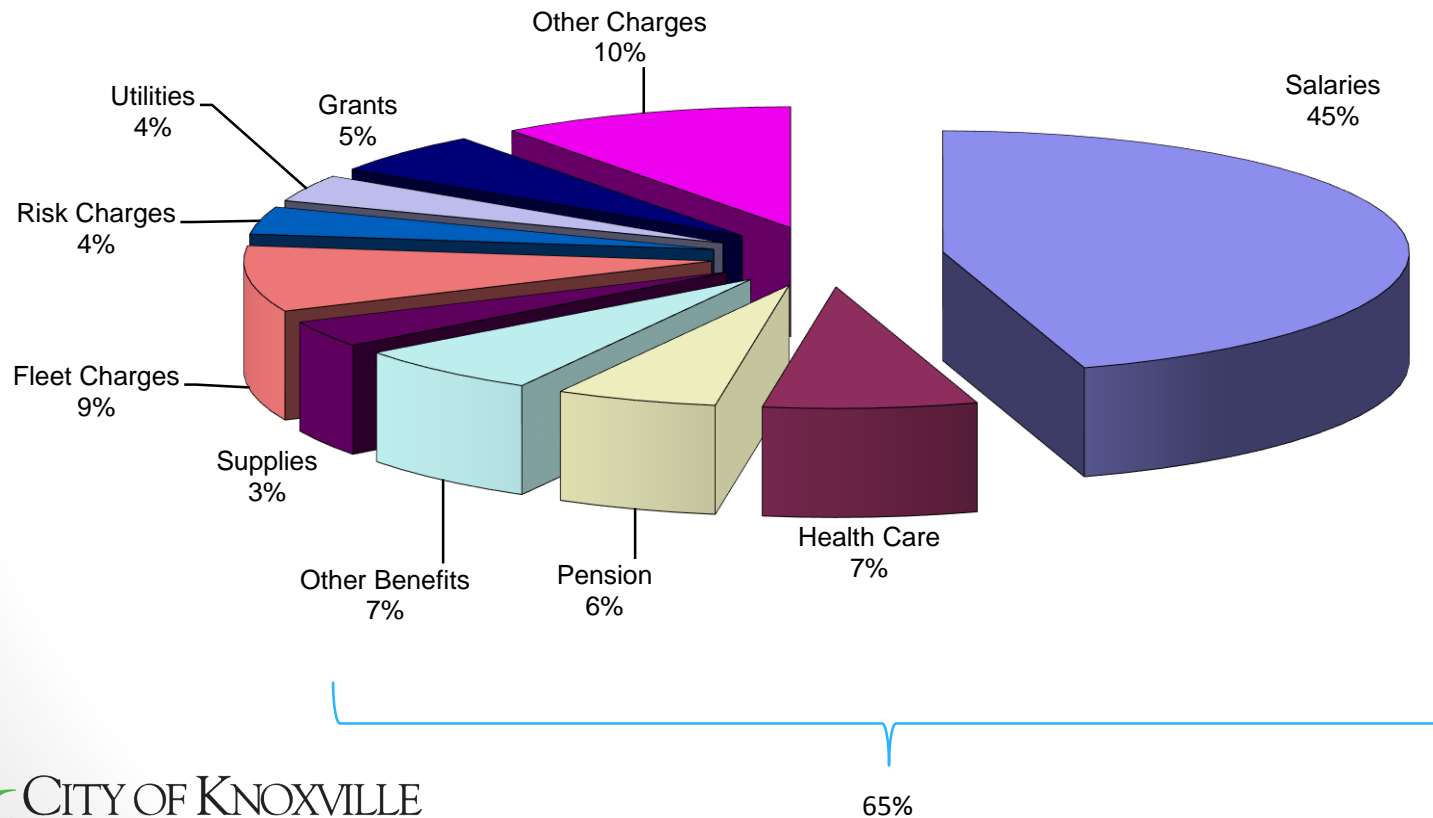


General Fund Expenditures

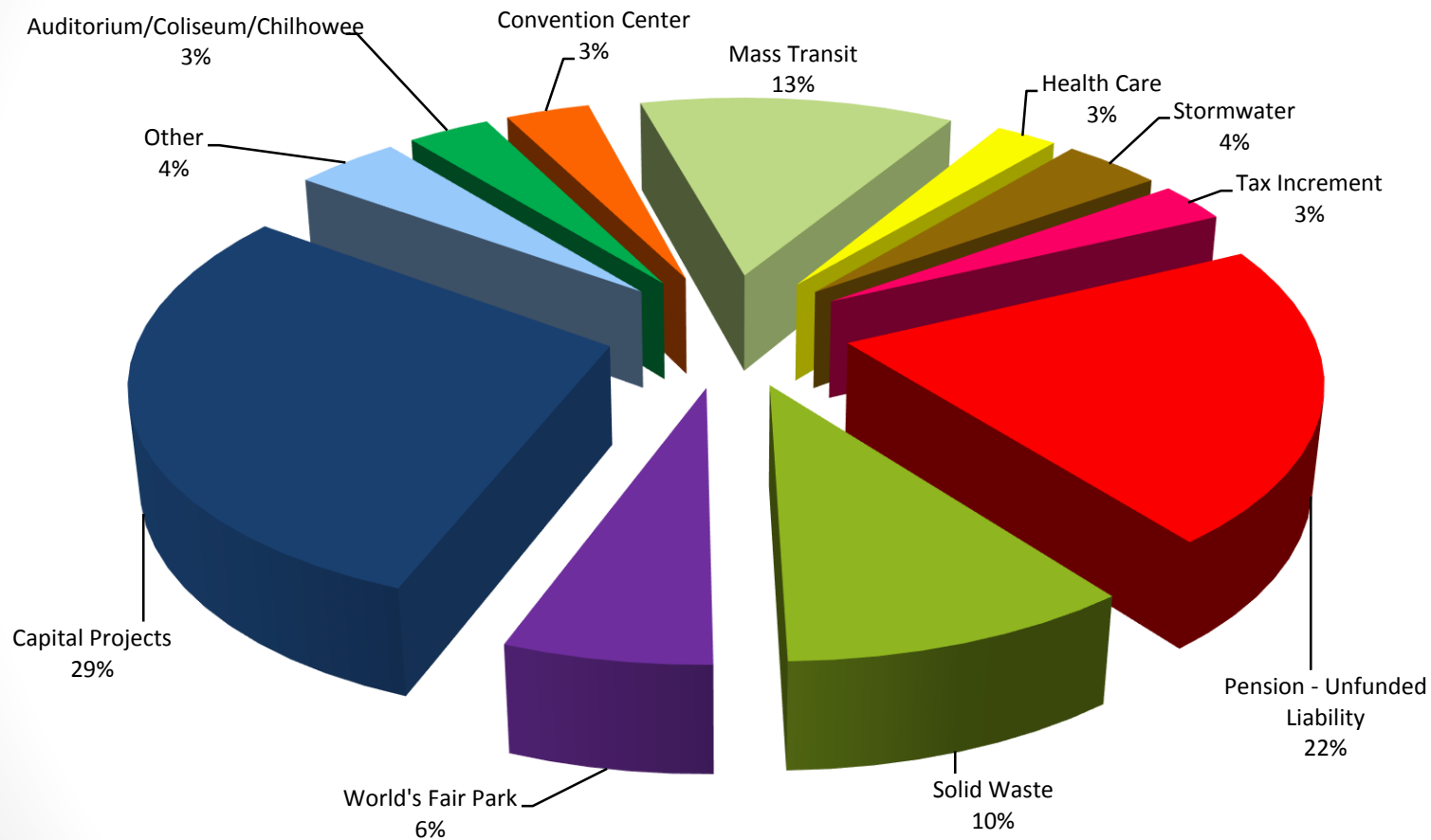
By Expense Type



General Fund Expenditures



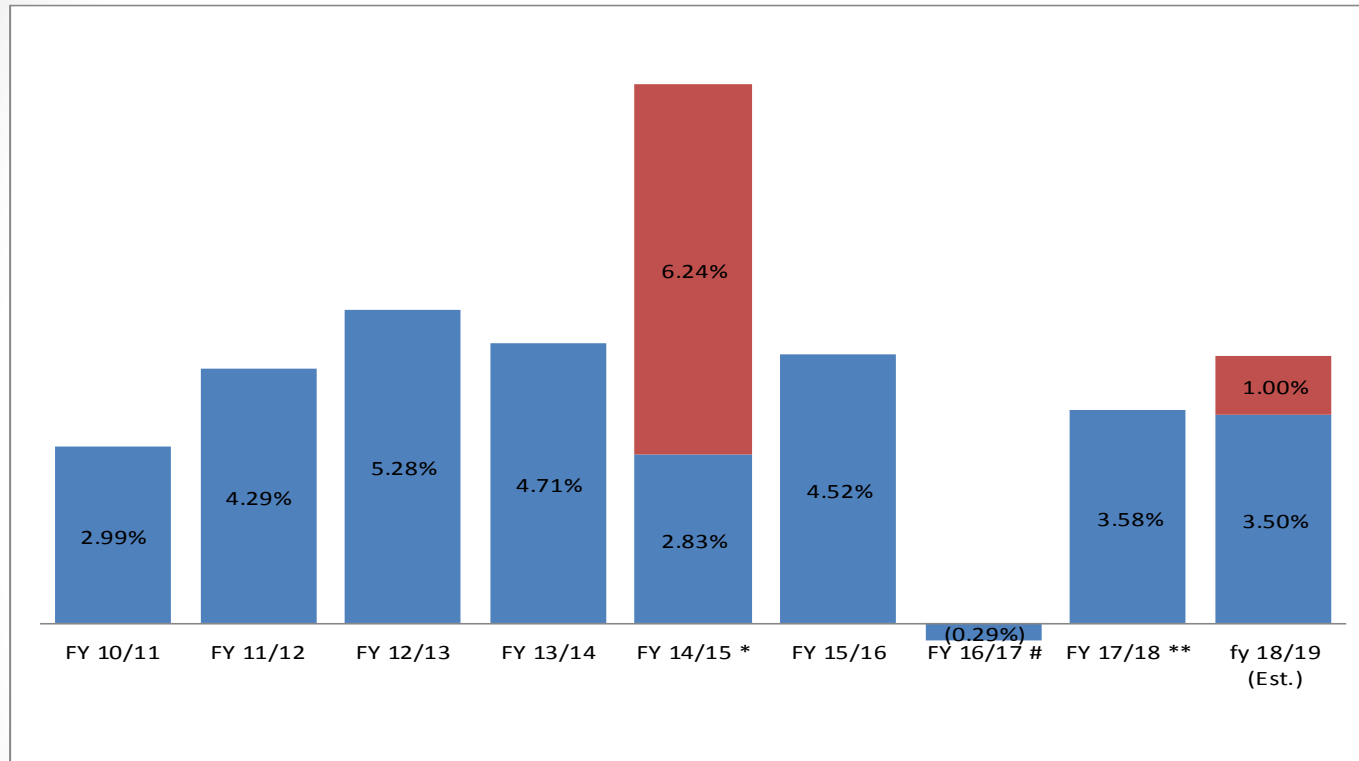
Transfers/Non-Departmental



Transfers/Non-Departmental

| | Adopted FY 17/18 | Amended FY 17/18 |
|-------------------------------|---------------------|---------------------|
| Stormwater | 3,036,460 | 3,036,460 |
| Tax Increment | 2,197,380 | 2,197,380 |
| Pension - Unfunded Liability | 16,477,000 | 16,477,000 |
| Solid Waste | 7,738,980 | 7,738,980 |
| World's Fair Park | 4,578,620 | 4,578,620 |
| Capital Projects | 22,302,440 | 23,812,440 |
| Other | 3,220,960 | 3,220,960 |
| Auditorium/Coliseum/Chilhowee | 2,542,880 | 2,542,880 |
| Convention Center | 2,586,380 | 2,586,380 |
| Mass Transit | 9,737,550 | 9,737,550 |
| Health Care | 1,892,040 | 1,892,040 |
| | <u>76,310,690</u> | <u>77,820,690</u> |

Growth Rate of Salaries and Benefits

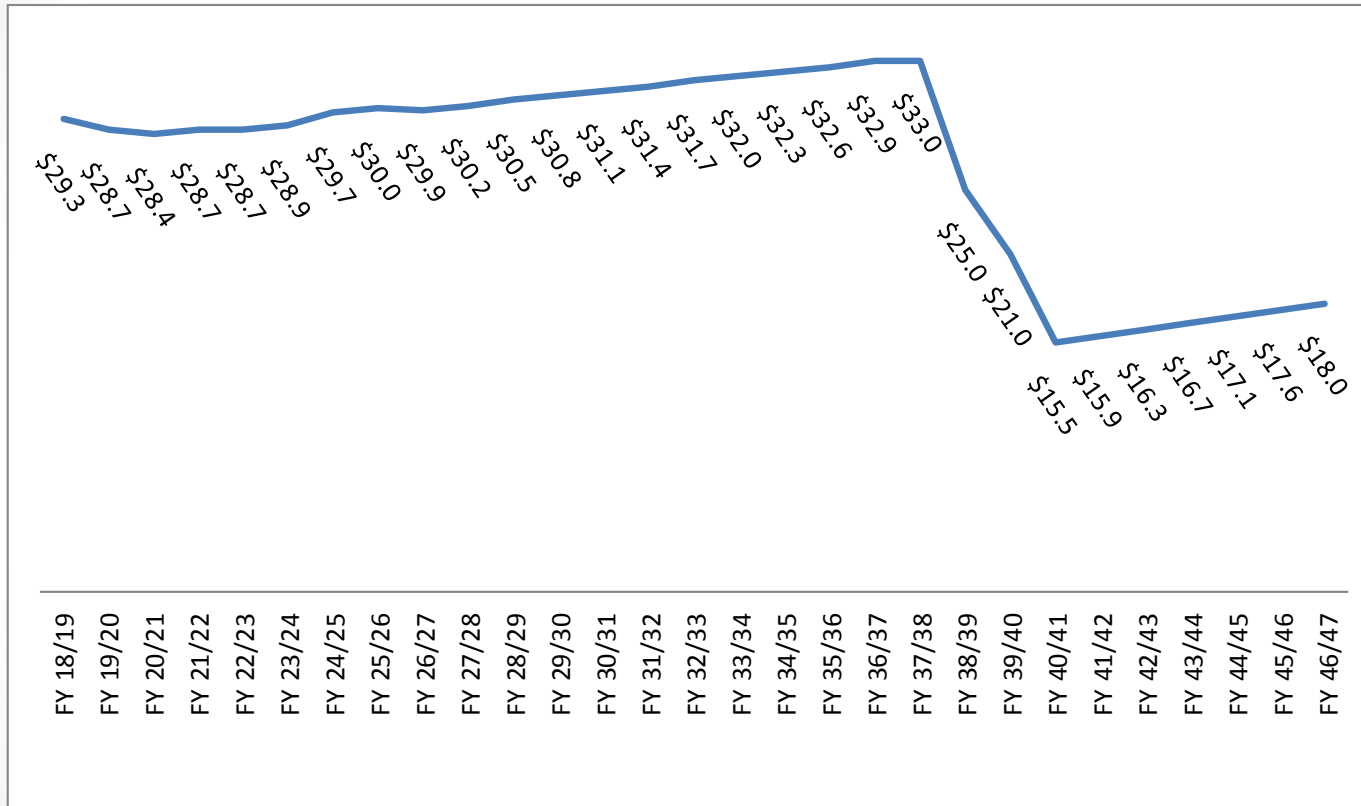


- FY 14/15 reflects a reduction in the pension discount rate from 8% to 7.375%. This action was taken to reduce risk and lower volatility of the investments. The result of this action is a one time increase in the base for pension costs.

The decline in FY 16/17 is due to the shift of the management of Public Assembly Facilities to SMG

++ Includes the amortization of unfunded pension liability

Estimated Future Pension Contributions



All amounts in million \$'s

Mid-Year Status

Ending 12/31/2017

| | |
|-----------------------------|----------------------------|
| Revenues and Sources | \$87,728,667 |
| Expenditures and Uses | <u>112,320,715</u> |
| Revenues Minus Expenditures | <u>(24,592,048)</u> |
| Beginning Fund Balance | 94,659,043 |
| Ending Fund Balance | <u><u>\$70,066,995</u></u> |

Mid-Year Status

- Weakness in local option sales tax
- Weakness in state shared sales tax
- Property tax revenues consistent with budget
- Higher interest earnings
- Higher fuel costs

General Fund Forecast

Ending 6/30/2018

| | Amended Budget | Current Forecast |
|----------------------------|----------------------------|----------------------------|
| Revenues & Sources | \$ 218,504,920 | \$ 215,937,890 |
| Expenditures | (236,614,920) | (233,723,630) |
| Budgeted Reserve | <u>(2,365,000)</u> | <u>-</u> |
| Revenues Less Expenditures | <u>(20,475,000)</u> | <u>(17,785,740)</u> |
| Beginning Fund Balance | 94,659,043 | 94,659,043 |
| Ending Fund Balance | <u><u>\$74,184,043</u></u> | <u><u>\$76,873,303</u></u> |

General Fund Forecast

Ending 6/30/2018

| | Amended Budget | Current Forecast |
|----------------------------|----------------------------|----------------------------|
| Revenues | \$ 216,317,350 | \$ 214,830,320 |
| Expenditures | (177,994,250) | (172,737,960) |
| Net Transfers | <u>(58,798,100)</u> | <u>(59,878,100)</u> |
| Revenues/Sources Over Uses | <u>(20,475,000)</u> | <u>(17,785,740)</u> |
| Beginning Fund Balance | 94,659,043 | 94,659,043 |
| Ending Fund Balance | <u><u>\$74,184,043</u></u> | <u><u>\$76,873,303</u></u> |

2018/19 Budgetary Factors

- Higher fuel costs
- Higher pension costs
- Salary cost of living adjustments
- Limited new growth in real property
- Potential federal cuts
- Slower growth in local option sales taxes

Controlling health care costs

Controlling risk management charges

Fleet replacement

Equipment replacement

Maintenance of assets

The Budget Calendar

| | |
|---------------------------|--|
| February 9, 2018 | Budget Retreat |
| February 16, 2018 | Budget Retreat (Backup Date) |
| Feb. – April, 2018 | Departments Submit Budget Requests Base Numbers Calculated and Capital Budget Prepared |
| March 19 - March 21, 2018 | Mayor's Budget Hearings |
| April 27, 2018 | Mayor's State of the City Presentation |
| May 8, 2018 | First Reading of Budget and Tax Ordinances |
| May 10, 2018 | MPC Hearing on Capital Improvement Program |
| May 17, 2018 | Council Budget Hearings |
| May 17, 2018 | Public Hearing |
| May 18, 2018 (Tentative) | Council Budget Hearings |
| May 22, 2018 | Second Reading of Budget and Tax Ordinances |
| June 15, 2018 | Last possible day to approve Budget/Tax Ordinances |
| July 1, 2018 | New Fiscal Year Begins |