

BUDGET OVERVIEW

The financial data presented in this section represent the Financial Summary and a written Overview of the revenues and expenses for all of City of Memphis Funds. Figures are rounded to the nearest dollar. Some totals may be off due to rounding.

Budget Overview

The City of Memphis' Fiscal Year 2018 (FY18) budget encompasses the General Fund and Debt Fund, which are largely dependent on local property tax revenues; Enterprise Funds, which are supported by user fees; Special Revenue Funds; and Internal Revenue Funds. All of these funds work in tandem to provide the financial resources that support services to the citizens of Memphis. The FY18 budgets, across all funds, incorporate a balanced approach of expense planning based on anticipated revenues and local economic priorities. Within the general fund public safety remains the highest priority, but the budget also funds other priorities that promote economic development, consolidate functionally and balance fees versus taxes in the government.

The City of Memphis' Fiscal Year 2018 (FY18) general fund budget was developed with expectations of moderate and sturdy economic growth with no increase in the tax rate. The City's growth is predicated on new investments in plants and facilities, transportation, and low and stable fuel costs. This combination of economic performances has resulted in over 41,000 jobs, returning to the city since 2011, that have generated an increased circulation of dollars into the local economy. In essence, the budget conservatively embraces economic positives and carefully apportions increased investments in the City's priority initiatives of safety, neighborhoods- a clean and vibrant community which is inclusive of our roads and infrastructure, youth, government-being brilliant at the basics, and economic development. This budget provides an increase to our employees, the dedicated public servants working to carry out the City's mission to the citizens of Memphis.

FY18 general fund budget is \$668.8m. Being brilliant at the basics required an aggressive approach to budget for expenditures that are within the means of our current tax rate. Natural revenue growth and careful expense planning has allowed for the funding of the City's needs and priorities. The FY18 budget has allocated resources to bring spending increases to Police, Youth, Libraries and Parks while maintaining the same funding to blight and public transportation. The City will pay 88% across all funds that contribute to the pension annual required contribution (ARC). This is 6% above the required 83.2%.

Public safety, which encompasses our Police and Fire Divisions, is as always, a top priority. Safe neighborhoods create vibrant neighborhoods. It takes government, community partnerships, and citizen participation to create sustainable strategies to make our city and its communities safe. As several communities continue to donate sky cameras to the City of Memphis, the city has also increased funding for the Police Division to recruit and ensure the maintenance of a workforce at effective staffing levels. The Police Division is budgeting to increase staffing by more than 50 officers and 70 Public Service Technician (PSTs) to make communities safer. Also, overtime cost will be increased by \$6.0M over last year's budget. This will help to effectively increase staffing in the areas of high crime.

Investments to create a vibrant community and engage our youth are represented in this budget through additional funding, public transportation and community grants. This budget continues funding at \$3.0m to fight blight. For youth jobs programs and an expansion of Library hours, the budget has been increased by \$150K and \$475K respectively. The Memphis City Council (the council) has distributed \$2.7m in community grants to support many community services and spur economic development.

Other divisions receiving additional funding include Parks which will add additional emphasis on the Park maintenance, golf courses and swimming pools; Public Works which added over \$500K for Hospitality Hub

(a program that puts the homeless to work), and Clean Path (blight) initiatives; Information Technology (IT) which is including additional funding to maintain technology initiatives with Office 365 and other technology updates.

Through our priority initiatives the overall goal for the City of Memphis is to ensure that City services stimulate business success and enhance the standard of living for all Memphians.

The Economic Impact on Budget Planning

The City uses the University of Memphis in addition to our internal staff to forecast revenues in particular. A brief synopsis of their findings will note that the Memphis economy is diverse and the City is attracting new businesses. There is a correlating response in the performance of our local economy with that of the national economy. As such, The City of Memphis' FY 2018 Budget is presented in the context of current economic conditions that are impacting the U.S. economy. Consequently, this budget is predicated on the continuing assumption that the Memphis MSA will experience moderate growth during FY 2018, which is reflective of the anticipated economic performance of the U.S. economy in general. In the FY 2018 budget this translates into moderate revenue growth for our local economy. Therefore, we are ever more diligent in balancing services to match expected revenue resources. In summary, the economic outlook for Memphis is slow but steady growth.

Additional discussion pertaining to our economy, from the University of Memphis, can be found later in this section.

Performance Accountability Plans

The City's Mission: To provide a safe environment, efficient and effective services, and clean neighborhoods, to the citizens of Memphis. With newly elected leadership this mission may change slightly, however, at its core our leadership's goal is to be brilliant at the basics. The priorities associated with this mission were discussed above. How then does the City monitor the effectiveness of its mission and priorities?

The City of Memphis is committed to continuous improvement and transparency. To that end, the City of Memphis uses a comprehensive performance measurement system that builds on The City's previous performance data initiatives. The MEMFacts provides leadership a dynamic, top-down view of the full range of City operations, and the ability to evaluate progress against service delivery goals and strategies developed to meet the needs of our customers. It also enables customers to see and download performance data on the City operations that matter most to them.



PERFORMANCE MANAGEMENT IN MEMPHIS

To make good use of its integrated performance data, the City has established a business process that includes regular and recurring performance reviews to address divisional issues, as well as issues that cross divisional lines.

To increase transparency about our performance, in 2014 the administration established an Office of Performance Management to manage the performance review process as well as the public-facing and internal MEMFacts performance dashboards. The Office of Performance Management works to provide the public and City staff with easy access to the information they need and new management accountability tools for both operational and fiscal management.

Throughout this document, we identify each general fund division’s key performance indicators (KPIs) and goals to measure effectiveness. These KPIs represent a selection of the indicators that we use to monitor organizational performance. The highest priority indicators are reviewed monthly by senior management to track the city's progress and identify areas that need further attention in order to reach our goals.

A More Detailed Discussion of the Numbers

General Fund Discussion

Revenues

The FY18 adopted revenue budget total excludes State Street Aid Revenue. This is now recorded as an expense reduction. The revenue budget therefore reflects an accounting change. For comparison purposes two scenarios are presented below: Scenario 1 compares the adopted FY18 revenue budget to the adopted FY17 revenue budget without restatement to the same basis as the prior year (FY17 budget). This scenario does not provide a clear picture of revenue growth between the two budgets. Scenario 2 compares the adopted FY18 revenue budget to the adopted FY17 revenue budget on the same basis as the prior year. This provides a better indication of the revenue growth budget over budget as detailed in the “notable budget revenue changes”.

The revenue budget was developed relying on management’s trend experience and economic research by the University of Memphis (U of M), with particular focus on the forecast and trends for the top ten revenue sources.

The FY2018 General Fund Revenue Budget is \$668.8M compared to FY2017 adopted budget of \$667.4M. Generally revenues are increasing because of an improved local economy. This is noted in increases in local and state tax revenue, automobile registrations, PILOT revenue from Memphis Light Gas and Water (MLGW), a one-time payment from the Memphis Area Transit Authority (MATA), and strategic uses of fund balances are new revenues that were not in last year’s budget. A State Income Tax , the Hall Tax , is being phased out over the next five years and will show declines now and in the future. A summary of the major revenue variances is shown below.

REVENUES

Fund Type	FY2017 ADOPTED	FY2018 ADOPTED	Inc./ Dec
General Fund - New Budgeting Plan	\$ 667,424,999	\$ 668,836,251	\$ 1,411,252
General Fund - Same basis as FY17 Budget	\$ 667,424,999	\$ 685,236,251	\$ 17,811,252

Notable FY2018 Budget Revenue Changes:

- \$ 1.0 million- Ad Valorem Taxes
- \$ 4.0 million- Local Sales Taxes
- \$.5 million- Beer Sales Taxes
- \$ 1.0 million- Mixed Drink Tax
- \$ 2.5 million- Gross Receipts Business Tax
- \$ 2.5 million- State Sales Tax
- \$ 1.0 million- Auto Registration Fees

Budget Overview

BUDGET OVERVIEW

- \$.9 million- Court Fees/Court Costs
- \$.5 million- In Lieu of Taxes-Sewer
- \$ 2.0 million- MATA
- \$.5 million- Utility Warranty Program
- \$ 3.5 million- MLGW PILOT
- \$ 1.0 million- Unemployment
- \$ 2.4 million- Use of Fund Balance for Property Appraisal
- \$ 1.0 million- Various
- \$ (1.0) million- PILOT
- \$ (2.0) million- State Income Tax (Hall Tax)
- \$ (2.0) million- Fines & Forfeitures
- \$ (.5) million- Debt Fund Transfer In

Expenditures

The FY18 adopted expenditure budget total includes an expense recovery for State Street Aid formerly recorded as revenue. The expenditure budget therefore reflects an accounting change. For comparison purposes two scenarios are presented below: Scenario 1 compares the adopted FY18 expenditure budget to the adopted FY17 expenditure budget without restatement to the same basis as the prior year (FY17 budget). This scenario does not provide a clear picture of total expenditure changes between the two budgets. Scenario 2 compares the adopted FY18 expenditure budget to the adopted FY17 expenditure budget on the same basis as the prior year. This provides a better indication of the expenditure changes budget over budget as detailed in the “notable budget expenditure changes”.

The FY 2018 General Fund Expenditure Budget is \$668.8M. For FY2018 the budget adds spending for safety, technology, public transportation, community programs and increased payments to the pension ARC. Throughout this document many divisions may have large increases or decreases; however this is primarily caused by realignment of some divisions and not aggressive increases or decreases. While these are major changes to the budget, spending remains aligned with priorities and maintaining sufficient resources for core government services, such as safety.

EXPENDITURES

Fund Type	FY2017 ADOPTED	FY2018 ADOPTED	Inc./ Dec
General Fund - New Budgeting Plan	\$ 667,424,999	\$ 668,836,251	\$ 1,411,252
General Fund - Same basis as FY17 Budget	\$ 667,424,999	\$ 683,467,951	\$ 16,042,952

Notable FY2018 Expenditures Changes:

- \$ 10.0 million- FY18 COLA
- \$ 1.2 million- Overtime
- \$ 1.2 million- Outside Computer Services

- \$.9 million- Pers Computer Software
- \$.4 million- Legal Services/Court Cost
- \$.4 million- Security
- \$ 3.2 million- Professional Services
- \$.9 million- Insurance
- \$.4 million- Sec 108 Loans
- \$ 1.8 million- Shelby County Assessor
- \$.6 million- Community Initiative Grants
- \$.5 million- Ambassadors Fellowship
- \$.8 million- Library Pension
- \$ (1.0) million- Benefits Adjustments/Payroll Reserve
- \$ (.7) million- Health Insurance
- \$ (.5) million- Advertising
- \$ (.5) million- Demolitions
- \$ (.9) million- City Shop Fuel
- \$ (.6) million- Utilities
- \$ (2.1) million- Other Misc. Reductions

Debt Service Fund Discussion

The Debt Service Fund provides for the accumulation of resources for the payment of principal, interest, and other costs of the City’s debt. A major source of Debt Service Fund revenue is provided by an apportionment of the property tax rate. Recently the City’s debt has been certified by Moody’s Investor Services as Aa2, S & P Global Ratings as AA and Fitch Ratings Inc. as AA-.

The total Debt Service Fund expenses will be slightly lower at \$161.4M for FY2018.

DEBT FUND

Fund Type	FY2017 ADOPTED	FY2018 ADOPTED	Inc./ Dec
Debt Fund Expenses	\$ 162,272,415	\$ 161,484,410	\$ (788,005)

Enterprise Funds Discussion

Enterprise Funds account for the acquisition, operation and maintenance of the City’s facilities and services that are entirely or predominantly supported by user fees. Strategies for the enterprise funds include paying for capital requirements. In the Sewer Fund, capital expenses for FY2018 will again be paid for without the issuance of Sewer Revenue bonds. Therefore debt service payments in the Sewer Fund will continue to decline. Capital purchases for the Storm Water Fund will be financed by G.O. bonds; however the debt service for those bonds will be paid by Storm Water Fund revenues. FY2018 Expenses in the Sewer

and Storm Water funds will increase by \$5.5M and \$0.6K respectively. Revenues for both operations will also increase beginning six-month into the fiscal year to handle the capital pay go plans and future capital spending.

ENTERPRISE FUND

Fund Type	FY2017 ADOPTED	FY2018 ADOPTED	Inc./ Dec
Sewer Treatment Expenses	\$ 87,881,635	\$ 93,393,598	\$ 5,511,963
Storm Water Expenses	\$ 23,844,591	\$ 24,484,637	\$ 640,046
	<u>\$ 111,726,226</u>	<u>\$ 117,878,235</u>	<u>\$ 6,152,009</u>

Fiduciary Fund Discussion

The full implementation of OPEB changes leaves a fund that provides for only those pre-65 retirees unable to obtain Medicare or meeting certain special circumstances. This has decreased our OPEB liability significantly. The budget presented below reflects cost after the structural changes. There is also a move to transition some retirees to private exchanges with enhanced benefits to the retiree. There is still a premium to cost imbalance in this fund which will be addressed in the coming months, however costs are declining significantly as a result of aggressive management of this cost.

FIDUCIARY FUND

Fund Type	FY2017 ADOPTED	FY2018 ADOPTED	Inc./ Dec
OPEB Fund Expenses	\$ 26,276,256	\$ 19,915,580	\$ (6,360,676)

Internal Service Funds Discussion

Internal Service Funds (ISFs) are used to budget for services provided by the fund to other general fund City divisions. The City of Memphis' ISFs are the Healthcare Fund, the Fleet Fund and the Unemployment Compensation Fund. The costs of these funds are reimbursed by the divisions utilizing the goods and services provided by the ISFs.

Cost saving initiatives such as the employee clinic have contributed to better cost control in the Healthcare Fund. The Healthcare expenses for FY2018 are higher as the Healthcare Fund will support the OPEB fund income to expense imbalance. This was not the case in the adopted budget of FY 2017. The Fleet Fund contains inventory purchases for fuel and lower expenses reflect the decreased cost of fuel. The Unemployment Fund reflects a plan to provide \$1.0M to the general fund for FY2018.

INTERNAL SERVICE FUND

Fund Type	FY2017 ADOPTED	FY2018 ADOPTED	Inc./ Dec
Health Care Fund Expenses	\$ 75,174,655	\$ 83,693,635	\$ 8,518,980
Fleet Mgmt. Expenses	\$ 24,973,090	\$ 22,866,864	\$ (2,106,226)
Unemployment Expense	\$ 350,000	\$ 1,200,000	\$ 850,000
	<u>\$ 100,497,745</u>	<u>\$ 107,760,499</u>	<u>\$ 7,262,754</u>

Special Revenue Funds Discussion

Special Revenue Funds (SRFs) budget revenues and allocate expenses to support the purpose for the revenue received. Solid Waste (SW) and Metro Alarm are the major Special Revenue Funds. The SW fund shows increasing expenses as labor agreements are changing and capital spending is planned to increase. The State Street Aid Fund has been reengaged and will be used to receive and then transfer state revenues for road maintenance to the general fund for expense reduction. The Electronic Traffic Citation Fund is a new fund that apportions part of the ticket revenue to police and the clerk's office for technology purchases. The Hotel/Motel Fund and the New Memphis Arena Fund show increased expenses which are reflective of new revenues that are purposed to support improvements to the convention center. Other funds that make up the Special Revenue Fund have no material variances from the FY 2018 adopted budget.

SPECIAL REVENUE FUND

Fund Type	FY2017 ADOPTED	FY2018 ADOPTED	Inc./ Dec
State Street Aid Expenses	\$ -	\$ 16,400,000	\$ 16,400,000
Solid Waste Expenses	\$ 59,012,898	\$ 61,121,784	\$ 2,108,886
Drug Enforcement Fund Expenses	\$ 4,100,800	\$ 3,752,875	\$ (347,925)
Metro Alarm Fund Expenses	\$ 466,578	\$ 600,066	\$ 133,488
Park Special Services Fund	\$ 166,752	\$ 166,752	\$ -
Hotel/Motel Occupancy Tax Fund Expenses	\$ 12,362,589	\$ 12,908,600	\$ 546,011
New Memphis Arena Expenses	\$ 8,787,564	\$ 12,217,200	\$ 3,429,636
Electronic Traffic Citations	\$ -	\$ 331,715	\$ 331,715
	<u>\$ 84,897,181</u>	<u>\$ 107,498,992</u>	<u>\$ 22,601,811</u>

The 2017-2018 Economic Outlook

The 2017-2018 City of Memphis fiscal year will see the outlook for positive economic growth, income and job creation continue as a result of the steady expansion of the national economy. The Memphis economy historically expands during periods of sustained national economic growth. The stronger the nation grows, the stronger the Memphis economic expansion will be in 2017-2018. The 2017-2018 U.S. economic outlook is for continued expansion at a modest 2.5% pace—high enough to have a positive impact on the Memphis economy. The growth plans of businesses over the next year will reflect the economic forecast for the year.

The threat is rising that the national economy will slip into a recession over the next two years. Political and economic uncertainty, inflated stock prices and multiple interest rate increases will set the stage for a serious correction—not unusual after a long period of sustained expansion.

The Memphis economy seems well positioned to take advantage of the economic opportunities that will be generated domestically and internationally over the next few years. Investments in new plants and capital equipment will be generated in nearly every sector while interest rates remain low and markets accommodate expansion. Memphis's major employers operate in global markets (FedEx, AutoZone and International Paper and many of others) and depend on economic conditions around the world.

Low oil prices are expected to continue despite temporary production agreements. Low fuel and natural gas prices will be a positive stimulus for the Memphis economy, reducing operating costs for many transportation businesses in Memphis while also increasing the disposable income of a quarter of a million local households.

Inflation, traditionally seen as a sign of an overheated economy, will increase but will remain relatively low over the next year. Global competition will remain high in 2017-2018 and put downward pressure on wages, prices and profits.

In general, the economic trends expected for the U.S. in 2017-2018 include the following:

- Continued economic and job growth;
- Rising inflation;
- Rising interest rates;
- Low unemployment;
- Growth in housing, including new construction;
- Income growth will be slow but positive.

The economic trends expected for Memphis include the following:

- Tax revenues will grow more rapidly this year;
- The MSA population will grow while the Memphis population slowly declines;
- Job growth in the MSA will improve slightly—approximately 7-8,000 net new jobs;
- The out-migration of people and jobs will continue;

- Job creation in be particularly strong in the service industries;
- High quality-low cost housing will continue to be asset;
- Transportation connections to the nations heartland will continue to drive Memphis industries forward.

Memphis enjoyed the ride up the economic elevator during 90’s. But, the Memphis economy also experienced a tremendous slow down with the Great Recession. While the post-Great Recession recovery has been slow, Memphis should see some positive gains in employment and income this year.

The data in Chart 1 show the seasonal employment ups and downs for the Memphis MSA over time. Peak to peak employment occurs repeatedly in November and December as seasonal employment spikes occur following by employment declines in January. Looking past seasonal variations at the trend line reveals a slow but steady growth path over the past few years. The outlook for 2017 is for a continuation of the growth path of the last six years—a positive increase of 7-8,000 net new jobs. The forecasted 2017 growth will push the Memphis employment numbers beyond the pre-recession peak.

Chart 1. Memphis MSA Employment (000), January 2011-December 2016

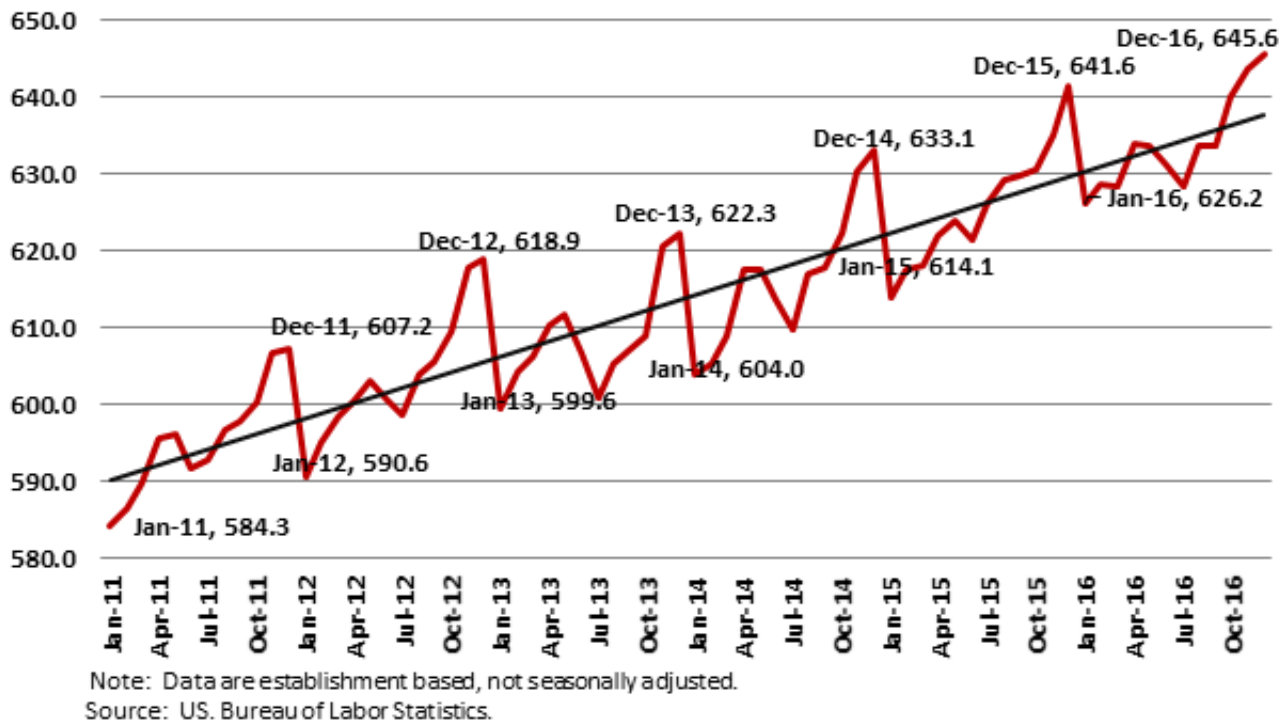
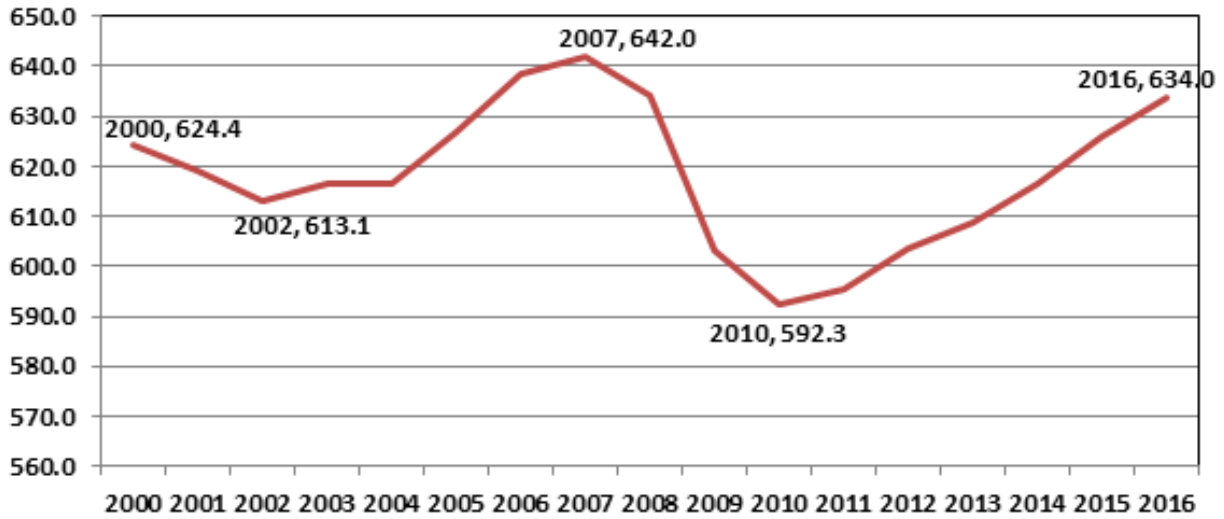


Chart 2 reveals the major reason why current economic conditions may not feel very good in comparison to other economic recoveries. Employment in the Memphis MSA peaked at nearly 641,000 jobs in 2007, while bottoming out in 2010 at just over 592,000. After losing nearly 50,000 jobs, the MSA has gained back 41.7 thousand jobs as of 2016. The hardest hit industries have not completely recovered since the recession. Fortunately, Memphis MSA employment levels should match the pre-recession peak in 2017.

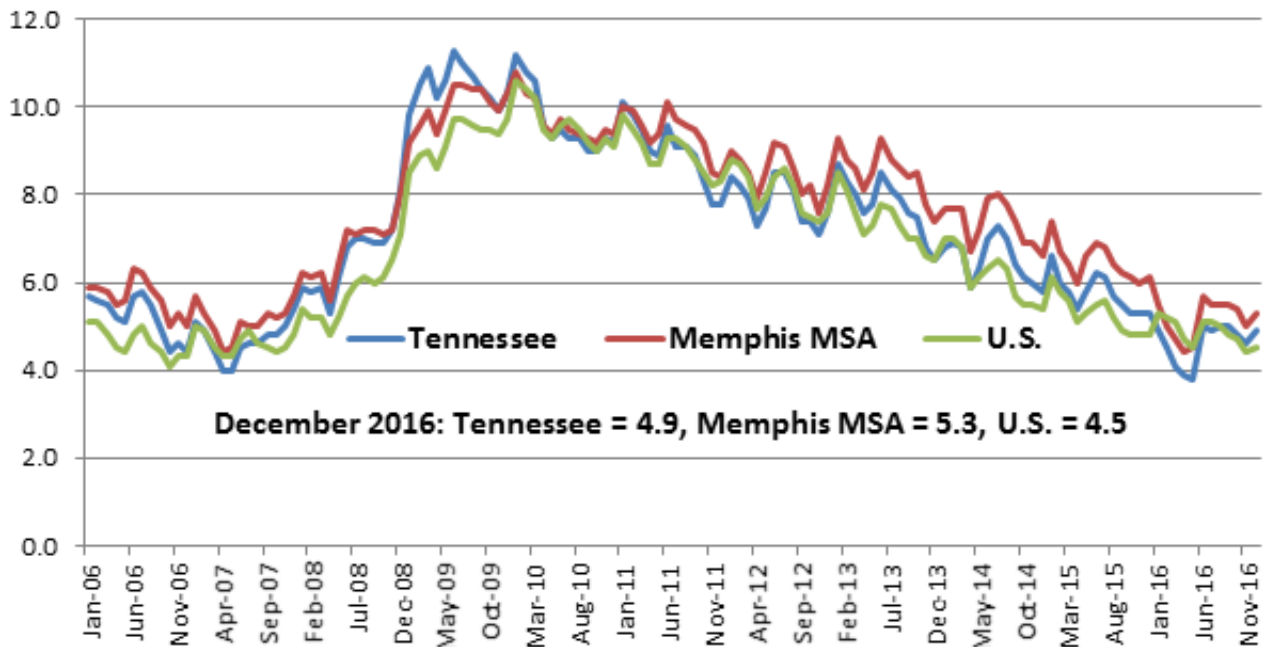
Chart 2. Annual Memphis MSA Employment (000), 2000-2016



Note: Data are establishment based, not seasonally adjusted. Data for 2016 is preliminary.
 Source: U.S. Bureau of Labor Statistics.

Chart 3 shows the trends for unemployment rates for Memphis, Tennessee and the nation. It is clear that employment growth has had a positive impact in reducing unemployment in every area. Unemployment rates for the Memphis MSA and Tennessee peaked in the summer of 2009 – about the same time the Great Recession officially ended. While some of the declines in unemployment were associated with reductions in the number of people looking for work, the overall labor market was improving for most of the last eight years.

Chart 3. Unemployment Rate, U.S., Tennessee, Memphis MSA, January 2006-December 2016



Note: Data are household based, not seasonally adjusted. Data for 2016 is preliminary.
 Source: U.S. Bureau of Labor Statistics

Table 1 provides more detailed employment data by industry in December 2016 and reflects an improvement in the local economy (0.6% employment growth). In percentage terms, the mining and construction industry was the biggest winner with 5.0% growth. Employment in retail trade experienced 4.1% growth over the last year. The now open Memphis IKEA is bringing both retail tourism and tax dollars, adding to the strong momentum of Bass Pro in The Pyramid. Further, the re-birth of the area housing industry (5.0% growth in construction related employment in 2016) should also boost retail stores as home buyers purchase additional furnishings and supplies. Locally three industries shrank in 2016: information (-1.7%), financial activities (-2.5%), and professional and business services (-3.4%).

Table 1. Memphis MSA Employment by Industry, December 2016 and 12 Month Percent Change

	Total Employment (000)	12 Month Percent Change
Total Nonfarm	645,600	0.6%
Mining & Construction	23,200	5.0%
Manufacturing	45,100	0.4%
Retail Trade	70,300	4.1%
Transportation & Utilities	72,600	0.6%
Information	5,800	-1.7%
Financial Activities	27,400	-2.5%
Professional & Business Services	99,200	-3.4%
Education & Health Services	92,500	0.8%
Leisure & Hospitality	66,200	1.4%
Other Services	24,500	1.7%
Government	80,700	0.0%

Source: U.S. Bureau of Labor Statistics. Data are NOT seasonally adjusted.

U.S. trade and financial policy changes will also impact the City. As Memphis' largest private employers, any policy change that substantially impacts FedEx, AutoZone, International Paper and other global enterprises will also impact Memphis. FedEx and our other global businesses have experienced strong employment and revenue growth globally. Falling fuel costs coupled with the introduction of other efficiency measures should keep private sector businesses in Memphis growing in the coming year.

Memphis International Airport continues to see increases in domestic and international cargo, airlines and seat capacity in the Memphis market. While the loss of the Hub certainly eliminated a substantial number of flights and passenger volume, the loss has been partially offset by lower fare airlines and larger aircraft. In real terms, airfare peaked at \$539.80 in Q1 of calendar year 2012 and fell 26.1 percent to \$398.98 in Q1 of 2016. The airfare cost reductions will benefit Memphis businesses, visitors and residents in 2017 and beyond.



Budget Development Process

The Budget Office uses financial data provided by city divisions to facilitate the review and approval of the Operating and Capital Improvement Budgets. The Budget Office is responsible for monitoring the operation of all general fund divisions, and certain other funds, within financial guidelines established by Administrative policy and City Council legislation. The Budget Office, along with the Office of Financial and Strategic Planning, is also responsible for forecasting all revenues for the City.

The Operating Budget is established annually. The process begins in January for the following fiscal year. Divisions are asked to enter Personnel, Materials & Supplies and Capital outlay requests into the Budget System over a three week period. The information is then analyzed and divisions are consulted with respect to noticeable budgetary changes. The process continues in January with a second quarter forecast of the current operating year for comparison and revision to the next year's operating budget request. Administrative reviews are held in March to examine each division's request and to make final revisions. After the reviews are completed, the Budget Office finalizes the Proposed Operating Budget, which the Mayor submits to the Council on the third Tuesday in April. The Council conducts its own hearings throughout May and June to scrutinize the budget. With Council's revisions and approval, a budget spending ordinance is adopted and the process is complete. Funding approvals are limited to one fiscal year.

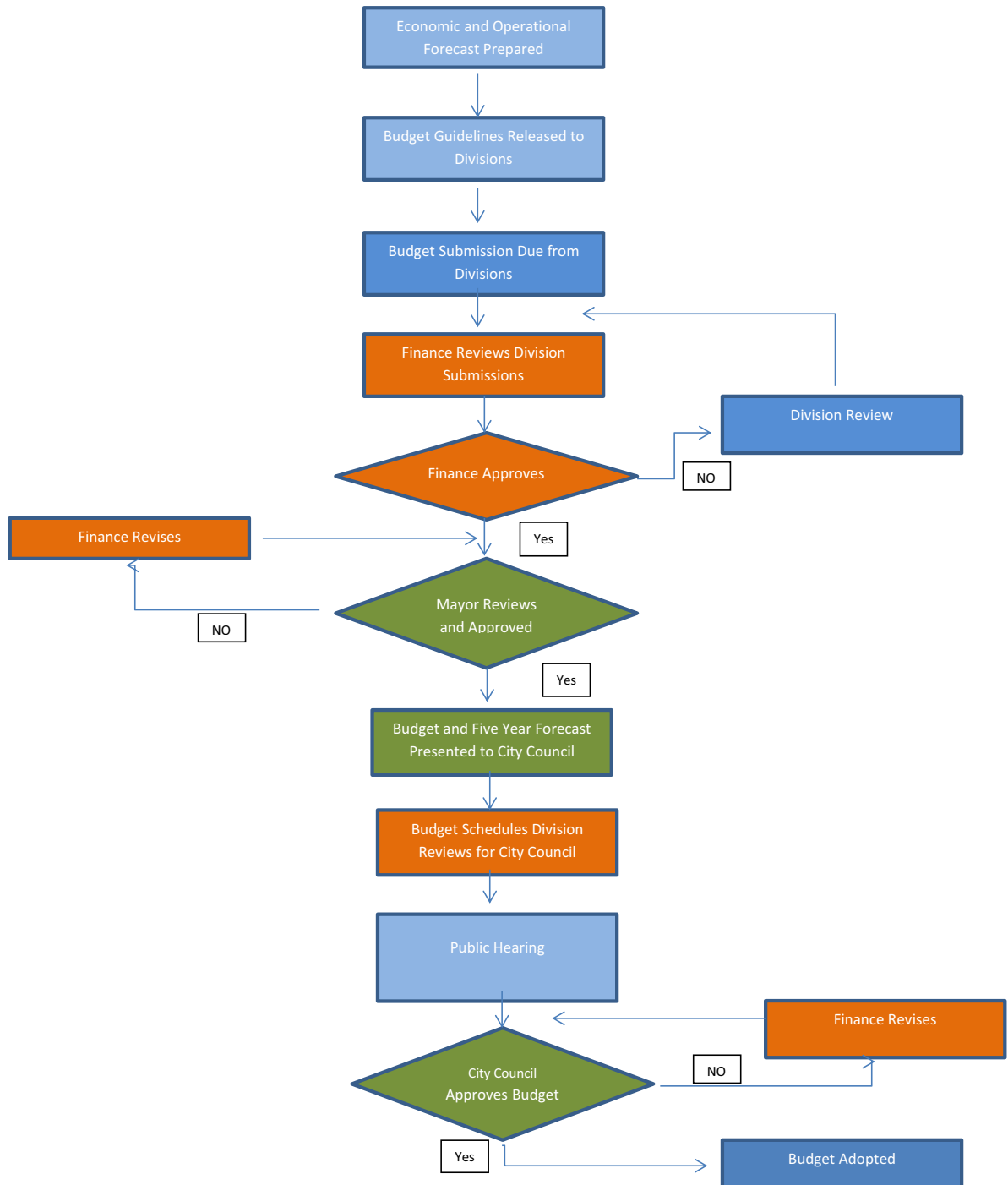
The Capital Improvement Program (CIP) is a five-year plan for capital allocations, which is reviewed annually for priority and project changes and additions. This plan examines each project in which the City participates and specifies the source of financing for the projected expenditures. The process for the CIP begins in November when a cross divisional CIP committee is assembled to understand the city's needs and meet with divisions (starting in January) to review their requests. Requested projects are analyzed by the finance division, external bond counsel, and then reviewed with the Mayor before a CIP budget plan is compiled and presented, by the Mayor, to Council along with the operating budget. After finalizing revisions, the CIP Budget is presented to Council in April. The Council then conducts its own hearings, as described above, and after adjustments adopts a CIP resolution. The Council's adoption of the CIP resolution authorizes a portion of engineering, architecture, land acquisition and development costs, and rolling stock through administrative appropriation. Funds for construction costs, equipment, and acquisition contracts as allocated but are subject to additional authorization by the Council before appropriation. Prior and current CIP allocations will remain in the plan until the Division in charge of the project or Council determines that the project is completed or is not needed.

The Budget Office ensures operational spending, within the legally established financial guidelines, by monitoring the budgets monthly. Quarterly reports on financial operations are provided to the City Council. The Budget Office also monitors the operating budget, and certain fund budgets, through forecasts provided by division management personnel. This enables the Budget Office to project citywide surpluses and deficits. These forecasts help the Administration to determine which divisions require additional assistance in planning or funding.

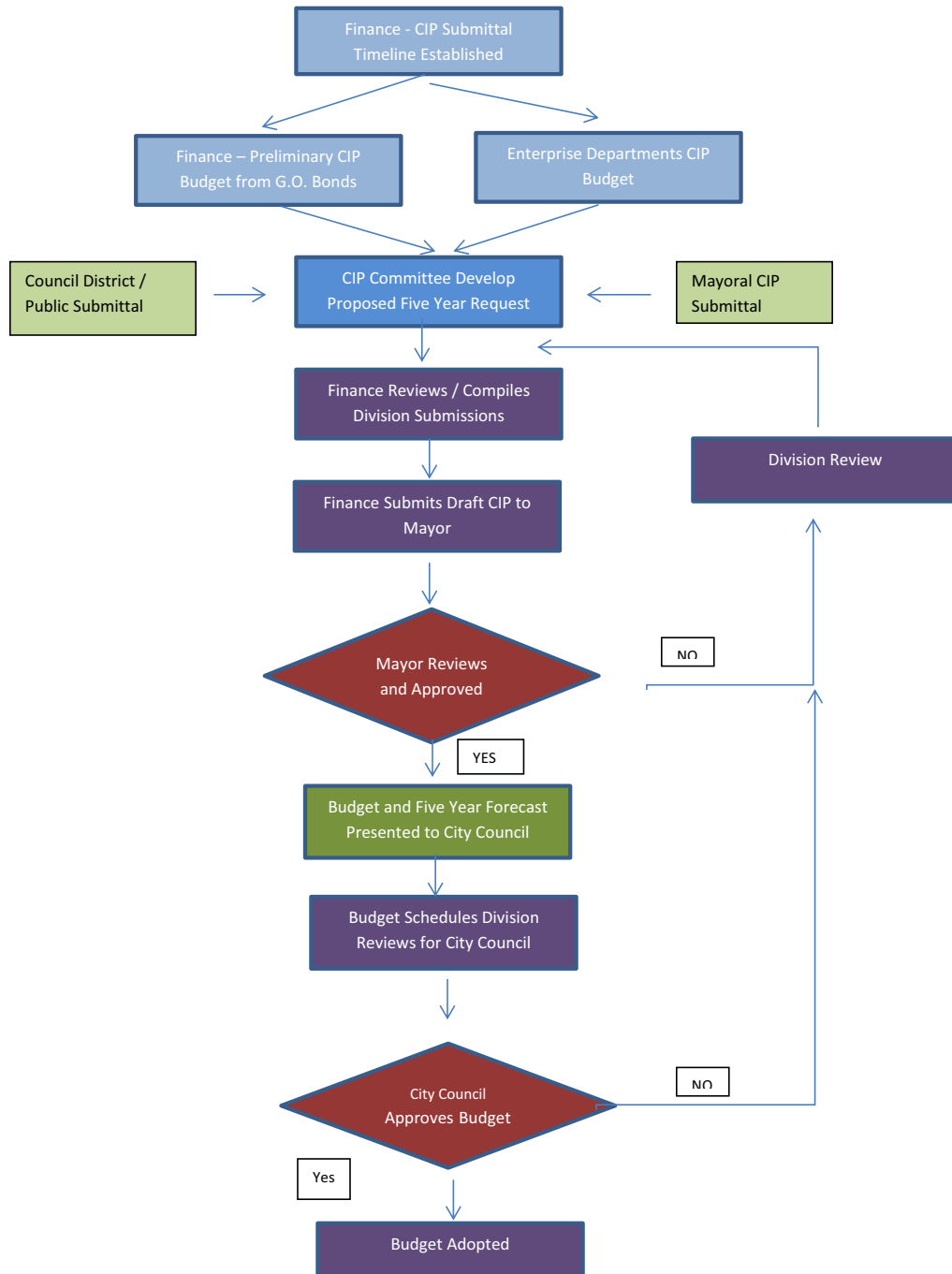
The Budget Office monitors the CIP by using tracking reports, which are usually completed during budget submission and may be requested at various intervals during the year. Both CIP and Operating Budgets may change during the fiscal year when user service centers submit resolutions and obtain approval from Council.

The Budget Office routinely revises reference materials and provides training to division personnel responsible for budget submission to reflect technology advances and refined processes. Documentation of the past years' budgets is available for review electronically, in the Annual Report, and in Appropriation Ordinances.

OPERATING BUDGET PROCESS



CAPITAL PREPARATION PROCESS



Budget Calendar

JULY – AUGUST

- Preparation of final documents for the new budget are completed. This includes the Adopted and CIP Budget Books.
- Submission of Budget documents to the State Comptroller's Office.
- Budget planning for the next year's budget.

SEPTEMBER

- Initial revenue trends and projections for the current year begin.
- Budget training material developed.

OCTOBER

- Current Year 1st Quarter Actuals reviewed and review of revenue trends with external analyst begins.

NOVEMBER

- Finance submits 1st Quarter Operating results of the new budget to the City Council.
- Divisions submit CIP needs to the CIP Committee.
- Overview of the next year's budget priorities given to Division Chiefs and Directors.

DECEMBER, JANUARY

- Revenue projections updated for current year and next year.
- Budget meeting with divisions for 2nd Quarter forecast and next year's budget request.
- Operating Budget training and initiation dates provided to Divisions.
- CIP Budget training and initiation dates provided to Divisions.

FEBRUARY, MARCH

- Operating Budget/CIP Administrative hearings with divisions.
- Operating Budget/CIP review with Mayor, and COO.
- Final recommendations made and budget documents prepared.

APRIL

- The Mayor presents the Proposed Operating Budget and CIP Budget request to the City Council on the third Tuesday in April.
- Ordinances and Resolutions covering the Proposed Budget are presented to Council.
- Notifications of the Proposed Budget is published in the local newspaper.
- Current year 3rd Quarter Actuals reviewed and a final full year forecast prepared for the current year.

MAY

- Budget hearings with the City Council Operating Budget and CIP Committee to review the Proposed Budget.

JUNE

- Final Adopted Budgets are approved by the City Council.
- Ordinances and resolutions associated with the Operating and CIP Budgets are finalized.

Budgeting And Appropriations Revision Process

The financial plans of the City are included in the annual operating and capital budgets. These budgets project all receipts and disbursements, and frames the level of governmental services that can be provided at the approved funding levels.

Operating Budget

The Administration is responsible for proposing programs and recommending funding levels to the Council and for implementing service programs in accordance with established goals and objectives. The City Council has final responsibility for approving the annual Operating Budget and the Capital Improvement Program, and setting the tax rate and fees for services.

Each division provides services through smaller units known as “program levels.” The adopted budget ordinance appropriates spending and provides for budgetary control at program levels. Program budgets cannot be exceeded without the approval of the City Council. Strict budgetary compliance is maintained by an automated accounting system to assure effective fiscal management and accountability. All requests for purchases or payments are checked by the budgetary control system to assure that funds are available. Purchase Orders and contracts are encumbered prior to their release to vendors. Those Purchase Orders and contracts that exceed appropriated amounts cannot be executed until additional appropriations are made available, either by transfer of existing appropriations or by a resolution granting additional appropriations by Council. The system controls are maintained at the program levels and are basically set up within Personnel, Operations and Maintenance and Capital categories.

Changes to the Operating Budget

The Operating budget is a guideline or plan of operation for each division. However, budget changes may be necessary during the fiscal year (for example, new grant monies can be made available or changes in a service center’s personnel can disrupt an otherwise successful budget). When unforeseen circumstances arise, changes can be made to the budget two ways: Intra-Category Line Item Transfer (Black Line) or Inter-Category Line Item Transfer (Red Line).

INTRA-CATEGORY LINE ITEMS TRANSFERS

Intra-category line item transfers, called administrative transfers, are used to transfer budgeted funds within the same category. Administrative transfers are necessary when transferring small amounts of funds within a legal level (program), such as moving \$1,000 from document reproduction to City Hall printing within a service center. The Request for Transfer of Budget Appropriation Intra-Category Line item Transfer must be completed in full including a justification of the transfer. The explanation should address why surplus funds are available and why funds are needed. This form must be signed by the division director and forwarded to the Budget Office for approval.

INTER-CATEGORY LINE ITEM TRANSFERS

Inter-category line item transfers, called council transfers, are used to transfer funds from one legal level (program) to another or between categories. Inter-Category transfers are used to transfer budgeted funds

from one expenditure to another as long as the transfer is within the same legal level (program) and does not exceed \$50,000 between categories or a cumulative total of \$100,000 for the year. For the personnel category only one \$50,000 inter-category transfer can be made. The council transfer form is very similar to the administrative form. Since the changes require approval of the City Council, each transfer must be accompanied by a resolution and a Council Agenda Check-Off Sheet.

Capital Improvement Budget

The Capital budget and Capital Improvement Program are prepared annually to present the capital expenditures planned for each of the next five fiscal years. The total costs of each project and the sources of funding (local, state, federal and private) required to finance each project are estimated. The Capital Improvement Program is prepared after a rigorous review and evaluation of all proposed projects by the Capital Review Committee. Building Design and Construction reviews the scope of all requests involving construction or major renovations to City owned structures. Debt Management studies the fiscal feasibility of the projects submitted for future funding needs. The single year Capital Improvement Plan allocates the capital expenditures to be made in the current budget year. The Capital Budget must be in full conformity with that part of the Capital Improvement Program applicable to the fiscal year which it covers.

Additional authorizations (appropriations) for each capital project in the Capital Budget must precede the expenditures of construction funds.

Changes to the CIP Budget - Transferring Allocations & Appropriations

Once the CIP has been adopted by the City Council, the data is loaded into the City's Accounting System. During the life of the project, it may be necessary to provide additional allocations or transfer funds to aid in the completion of the project. Two methods are used to transfer or establish allocation and/or appropriations.

- 1 The Capital Improvement Budget Request for Administrative Transfer or Appropriation form (Black Line) is used to:
 - A Record the initial appropriation of the planning lines (A/E, land development, land acquisition) upon the adoption of the CIP by the City Council.
 - B Transfer allocations and appropriations within planning lines or within construction lines (contract construction, latent conditions, and other costs).
 - C Transfer allocations from "cover-line" project planning lines to the new project planning lines and the appropriation of the lines.
- 2 The Capital Improvement Budget Request for Council Transfer and Appropriation form (Red Lines) is used to:

- A Appropriate all construction lines.
- B Transfer allocations and appropriations between projects.
- C Increase/decrease allocations or appropriations of a project.

Changes to the operating budget (exceeding the prescribed administrative levels), or the CIP budget must be done through resolutions.

Budget Resolution Review Process (Operating & CIP)

Resolutions

A resolution is a document asking the City Council to amend the Appropriation Budget Ordinance or Capital Improvement Budget. A resolution is written in two sections: the “WHEREAS” section and the “RESOLVED” section. The WHEREAS section explains why the change is necessary, what the money will be spent for, and why funds are available and where the funds will come from. The RESOLVED section includes the statements that actually change the Budget Ordinance.

A resolution details the action requested by Council and should answer one or more of the following questions:

- What is the purpose of the change?
- Why is the change necessary?
- What will the funds be used for?
- Why are funds available?

A resolution shall be written in clause format. Each clause in the preamble shall begin with the word “WHEREAS”, include a brief statement answering one or more of the above questions, and continue with “AND,” an adopting clause. “NOW THEREFORE BE IT RESOLVED”, shall summarize all information as requested regarding changes to the City Resolution. The adopting clause may be followed by several additional clauses.

After finalizing a Resolution, a Council Agenda Check-Off sheet must be prepared which summarizes the Resolution and includes all organizational date, account numbers, and dollar amounts.

Council Agenda Check-off Sheet

The Council Agenda Check-Off Sheet must accompany all documentation that goes before Council. The originating division/service center must complete the form and have it signed by the appropriate service center manager and division director.

Routing and Handling of Transfers

- 1 Administrative Transfers and Appropriations
 - Division Directors
 - Budget Office
 - Comptroller's Office
- 2 Council Transfers and Appropriations

The budget resolution package (Council Agenda Check-Off Sheet, original resolution, red line forms-including appropriate signatures from the division director) should be forwarded to the Budget Office one week before the Council Committee meets. From there the documents will be forwarded as follows:

- 1 Director of Finance and Administration.
- 2 City Attorney.
- 3 Chief Operating Officer (COO).
- 4 Mayor's Office – Resolutions appropriating or transferring CIP funds must be received by the Mayor's Office by noon on Thursday for Council Committee action on the following Tuesday.
- 5 Council Committee reviews monetary transfers and makes recommendations to the full Council.
- 6 The Mayor's Office forwards the resolution to Council Records after the Council Committee recommendation (s) are made. Then the resolutions are placed on the Council Agenda for consideration by the full Council on the following Tuesday.

Council's approval of the resolution gives legal authority to amend the fiscal year's budget.

Resolutions may be returned to the originating division/bureau for corrections at any time during the process.

The need for accuracy in the completion of all appropriate forms and recognition of time constraints is crucial in processing transfers. The Budget Office may be contacted for further assistance and/or information.

Fiscal Policy

Policies for Fiscal Control

- **Basis of Budgeting.** The City budgets in accordance with the Municipal Budget Law of the State of Tennessee. This law requires a cash basis budget and the budget must be balanced. The budget for the respective funds in this document are presented on a cash basis.
- **Balanced Budget.** It is the fiscal policy of the City of Memphis to adopt a balanced budget. For State law a balanced budget requires that the beginning Unassigned Fund Balances plus estimated revenues must be greater than or equal to appropriations. If necessary budgets can be balanced with revenues from the fund balance, however, the fund balance shall remain positive and the use of fund balance for future budgets shall not be recurring.
- **Financial Management.** The City will manage and account for its Operating and Capital Budgets in accordance with principles and standards set forth by the Governmental Accounting Standards Board (GASB) and Generally Accepted Accounting Principles (GAAP).
- **Accounting Method.** The City will maintain its accounting records for general governmental operations on a modified accrual basis, with revenues recorded when available and measurable and expenditures recorded when services or goods are received and the liabilities incurred. The City actual expenditures, compared to budget, are on a “modified accrual plus encumbrances” basis, which treats encumbrances as actual expenditures at the time the funds are encumbered. Accounting records for proprietary fund types and similar trust funds are maintained on the accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt of payment of cash. For governmental-type funds, revenues and expenditures are also monitored internally on a “budgetary” basis to ensure compliance with legal limitations.
- **Internal Accounting Controls.** The City will develop and manage its accounting system to provide reasonable assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. “Reasonable assurance” recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.
- **Audits.** The City will ensure the conduct of timely, effective, and periodic audit coverage of all financial records and actions of the City, its officials and employees in compliance with local, State, and Federal law.
- **Fund Balance.** The City of Memphis strives to maintain a General Fund balance of 10% of expenditures as a standing fiscal policy.

Policies for Revenue and Program Funding

- **Revenue Projections.** The City will estimate revenues in a conservative manner in order to minimize the adverse impact of a revenue shortfall.

- **Property Tax Rates.** The City will maintain stable tax rates that avoid wide annual fluctuations as economic and fiscal conditions change.
- **Intergovernmental Revenue.** The City will aggressively seek a fair share of available State and Federal financial support unless conditions attached to that assistance are contrary to the City's interest.
- **Cash Management.** The City will maintain sophisticated and aggressive cash management and investment programs in order to achieve maximum financial return on available funds. Cash will be pooled and invested on daily basis at best obtainable rates; investments will be generally limited to federal debt instruments, fully collateralized repurchase agreements, or highest quality bankers' acceptances and commercial paper.

Policies for Expenditures and Allocation of Costs

- **Contents of Budgets.** The City will include in the Operating Budget all programs and facilities not specifically eligible for inclusion in the Capital Improvement Program.
- **Expenditure Growth.** The City will budget expenditures for necessary and essential public purposes only, holding expenditure growth to levels consistent with realistic prospects for the community's ability to pay, both in the upcoming fiscal year and in the ensuing years as well.
- **Allocation of Costs.** The City will balance the financial burden of programs and facilities as fairly as possible between the general taxpayers and those who benefit directly, recognizing the common good that flows from many public expenditures, the inability of some citizens to pay the full costs of certain benefits, and the difficulty of measuring the relationship between public costs and public or private benefits in some services.
- **Expenditure Reduction.** The City will seek expenditure reductions whenever possible through efficiencies and through the reduction or elimination of programs, policies, and practices which have outlived their usefulness.
- **Public Investment in Infrastructure.** The City will, within available funds, plan and budget for those facilities and infrastructure necessary for a healthy economy and for support of public programs determined to be necessary for the quality of life desired by its citizens.
- **Procurement.** The City will make purchases, directly or indirectly, through a competitive process except when an alternative method of procurement is specifically authorized by law.

Policies for Debt Management

- **Debt Management.** The City will minimize debt service costs through the judicious use of available debt instruments, consistent with the desirability of maintaining stable current tax rates and distributing the costs of certain long-lived facilities among all users, present and future.
- **Debt Incurrence.** The City will limit the amount of new general obligation debt it will plan for and issue in any six-year period to that which can be supported by the community under conservative fiscal and economic projections and to that which will maximize the likelihood of sustaining the City's "AA" credit rating

Policies for Governmental Management

- **Productivity.** The City will measure and seek to increase the productivity of City Programs in terms of quantity and quality of services relative to resources expended, through program evaluation, employee training and incentives, and other strategies.
- **Risk Management.** The City will control its exposure to financial loss through a combination of commercial and self-insurance; will self-insure against all but highest cost risks; and will aggressively control its future shares among agencies through loss history.
- **Employee Compensation.** The City will seek to provide equitable pay among comparable jobs and City agencies and between employees in collective bargaining units and those outside of such units, and will seek to contain the growth of compensation costs through organizational efficiencies and productivity within the workforce.
- **Pension Funds.** The City will, through judicious management and diversified investment, assure the security of the assets of the Employees Retirement System toward its solvency and regular benefits for future as well as present retirees and will continue to evaluate the accrued liability and adjust the funding rate when necessary.
- **Surplus Property.** The City will maximize the residual value of land parcels or buildings declared excess to current public needs through efforts at public reuse, lease to appropriate private organizations, or sale toward returning them to the tax base of the City. Deposition of goods that have become obsolete, unusable, or surplus to the needs of the City will be made through bid, auction or other lawful method to the purchaser offering the highest price except under circumstances as specified by law.
- **Resource Management.** The City will seek continued improvement in its budgetary and financial management capacity in order to achieve the best possible decisions on resource allocation and the most effective use of budgeted resources.

Governmental Accounting

Overview

Government accounting has many similarities to commercial accounting. For example, governmental accounting uses the double-entry system, journals, ledgers, trial balances, financial statements, internal control, etc. Differences arise due to the objectives and environment of government. The major differences include:

- 1) The absence of a profit motive, except for governmental enterprises, such as utilities
- 2) A legal emphasis which involves restrictions both in raising and spending revenues
- 3) An emphasis of accountability or stewardship of resources entrusted to public officials
- 4) The recording of the budget in some funds
- 5) The use of modified accrual accounting in some funds

Fund Accounting

There are three principles that deal specifically with fund accounting. These principles cover 1) Definition of a fund 2) Types of funds 3) Number of funds.

A fund is defined by the Governmental Accounting Standards Board as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The City of Memphis reports the following funds that are classified into three general types.

Governmental Fund		Proprietary Funds		Fiduciary Funds	
1	General	5	Enterprise	7	Pension Trust
2	Special Revenue	6	Internal Services	8	Investment Trust
3	Debt Service				
4	Capital Projects				

The City does not currently utilize Permanent, Private-purpose Trust or Agency Funds.

In the governmental funds, the objective is to provide services to the public. All of these funds are expendable, i.e., they are not concerned with preserving capital or measuring “net income.” Governmental funds are concerned with the availability of resources to provide services, and the emphasis is on working capital flows. Usually, only current assets and current liabilities are accounted for in the governmental funds. Fixed assets and long-term liabilities of governmental funds are reported only in the government-wide financial statements. The proprietary funds use accounting and reporting techniques similar to commercial enterprise. The fiduciary funds are accounted for like proprietary funds.

The City does not currently utilize Permanent, Private-purpose Trust or Agency Funds.

In the governmental funds, the objective is to provide services to the public. All of these funds are expendable, i.e., they are not concerned with preserving capital or measuring "net income." Government funds are concerned with the availability of resources to provide services, and the emphasis is on working capital flows. Usually, only current assets and current liabilities are accounted for in the governmental funds. Fixed assets and long-term liabilities of governmental funds are reported only in the government-wide financial statement. The proprietary funds use accounting and reporting techniques similar to commercial enterprise. The fiduciary funds are accounted for like proprietary funds.

Budgets and Their Impact upon the Accounting System

The GASB, in one of its basic principles, states 1) An annual budget(s) should be adopted for every government unit 2) The accounting system should provide the basis for appropriate budgetary control 3) A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

Generally Accepted Accounting Principles (GAAP) requires a budgetary comparison for the general fund and for each major individual special revenue fund for which an annual (or biennial) budget is legally adopted. The City Council annually approves a budget ordinance that includes the City of Memphis General, Special Revenue, Debt Service and Enterprise Funds. Internal Service Funds are also included in the Adopted Budget. These budgetary accounts are incorporated into the governmental accounting system to provide legislative control over revenues and other resource inflows and expenditures and other resource outflows.

In order to prevent the overspending of an item in the appropriations budget, an additional budgetary account is maintained during the year. The account is called "Encumbrances." When goods or services are ordered, appropriations are encumbered. The "Encumbrances" account does not represent expenditure; it is a budgetary account which represents the estimated cost of goods or services which have yet to be received. In effect, the recording of encumbrances represents the recording of executory contracts, which is essential to prevent overspending of an appropriation (normally, illegal act). Encumbrances of governmental funds outstanding at year end are re-appropriated during the subsequent fiscal year.

Financial Statements for State and Local Governments

The City of Memphis prepares a Comprehensive Annual Financial Report (CAFR) that includes Basic Financial Statements, Required Supplementary Information, Combining and Individual Fund Statements and Schedules, Supplementary Schedules, Single Audit, Statistical Section and the Management Discussion and Analysis (MD&A) as prescribed by GASB.

Accrual basis accounting is recognition of revenues in the accounting period the revenues are earned and recognition of expenses in the accounting period the expenses are incurred. In addition, revenues and expenses have to be measurable in order to be reported. The following funds use full accrual accounting:

Proprietary Funds

Enterprise
Internal Service

Fiduciary Funds

Pension Trust Funds
Investment Trust Funds

All of the funds that use accrual accounting (except the Trust Funds) are non-expendable, i.e., an objective of each of the funds is to maintain capital.

The *modified accrual basis* of accounting on the other hand, recognizes: **1)** Revenues in the accounting period in which they are both measurable and available to finance expenditures made during the current fiscal period **2)** Expenditures in the accounting period in which the liabilities are both measured and incurred.

The modified accrual basis is used in the following funds:

Governmental Funds

General

Special Revenue

Debt Service

Capital Projects

All of the funds which use the modified accrual basis are expendable and do not, therefore, have a capital maintenance objective.

The General Fund is the most significant Government Fund. It accounts for all transactions not accounted for in any other fund. Revenues come from many sources and the expenditures cover major functions of government.

Special Revenue Funds account for earmarked revenue as opposed to many revenue sources which are accounted for in the General Fund. The earmarked revenue is then used to finance various authorized expenditures. Many federal and state grants are reported in Special Revenue Funds.

The Debt Service Fund handles the repayment of general obligation long-term debt and interest. This type of debt is secured by the good faith and taxing power of the governmental unit. Repayment of enterprise and internal service long-term debt is accounted for in these individual funds. Consequently, the type of debt for which the Debt Service Fund is established usually is the result of issuing general obligation bonds for capital projects.

Capital Projects Funds account for the acquisition and use of resources for the construction or purchase of major, long-lived fixed assets, except for those which are financed by Enterprise, Internal Service, and Non-expendable Trust Funds. Resources for construction or purchase normally come from the issuance of general long-term debt and from governmental grants.

Enterprise Funds account for activities by which the government provides goods and services which are (1) rendered primarily to the general public, (2) financed substantially or entirely through user charges, and (3) intended to be self-supporting. They are usually established for public utilities, transit systems, golf courses, etc.

Internal Service Funds are established to account for the provision of goods and services by one department of the government to other departments within the government on generally a cost reimbursement basis. Uses of Internal Service Fund services are budgeted through the budgets of the user departments.

Trust Funds are used to account for monies held for others, generally being used when assets are held for substantial periods of time. Trust Funds do not generally record their budgets formally.

Fund Balance

Fund Balance (the difference between assets and liabilities in the governmental fund financial statements) is among the most widely and frequently used information in state and local government financial reports.

The GFOA recommends an unreserved Fund Balance of 8 to 17 percent (i.e. one to two months) of regular general fund operating expenditures. The City of Memphis strives to maintain a General Fund balance of 10% of expenditures as a standing fiscal policy.

The City uses the classifications that have been developed by the Governmental Accounting Standards Board (GASB) and described in GASB Statement No. 54. Statement 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

The GASB developed Statement 54 to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting across governments. To reduce confusion, statement 54 establish a hierarchy of fund balance classifications based primarily on the extent to which government is bound to observe spending constraints imposed upon how resources in governmental funds may be used.

Statement 54 distinguishes fund balance between amounts that are considered completely "nonspendable" such as fund balance associated with inventories, and other "spendable" amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts are reported in the following classifications.

- **Nonspendable**- amounts that cannot be spent because they are either (a) not spendable form or (b) legally or contractually required to remain intact.
- **Restricted**-amounts constrained by external parties, constitutional provision, or enabling legislation. Effectively, restrictions may only be changed or lifted with the consent of the resource provider.
- **Committed**- amounts formally constrained by a government using its highest level of decision-making authority (i.e. City Council). The commitment of these funds can only be changed by the government taking the same formal action that imposed the constraint originally.
- **Assigned**- amounts a government intends to use for a particular purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority (Finance Director).
- **Unassigned**- residual amounts that are otherwise not constrained at all will be reported in the general fund. These are technically available for any purpose.

