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

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# Budget Overview

The City of Memphis continues moderate and sturdy economic growth with tax revenues, jobs returning to the Bluff City, and cultural amenities continuing to blossom. The Fiscal Year 2017 (FY2017) budget conservatively embraces economic positives and carefully apportions increased investments in the City's priorities 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 shows appreciation to our employees, dedicated public servants working to carry out the City's mission to the citizens of Memphis.)

Public safety, which encompasses our Police and Fire divisions, is 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 have already stepped up to donate sky cameras to the City of Memphis, we have taken their lead and included \$407k for 70 Sky Cameras to be deployed in each council district. This budget has also increased funding for the divisions of Police and Fire to recruit and ensure the maintenance of a work force at effective staffing levels.

Investments to create a vibrant community are represented in this budget through blight funding, public transportation and community grants. This budget continues funding at \$3.0m to fight blight and increases the City Attorney's staff by three persons to litigate blight more effectively. In public transportation the budget for Memphis Area transit Authority (MATA) has been increased by \$2.5m. Funding for community service grants and assistance for middle income housing is included at \$1.8m. The community service grants will impact the economy and also many of the grants are targeted at youth initiatives.

Employees are valued. Cost of living adjustments (COLAs), which began in FY2016, are in full year effect for FY2017. General increases for all employees are in this plan, and for our current and retired public servants we are doing our part to fund pensions so they are there when needed. Pension funding in FY 2017 will increase by \$4.0m. This represents a payment of 92% of the annual required contribution (ARC). Just two years ago we were at 58%.

## **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 2017 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 2017, which is reflective of the anticipated economic performance of the U.S. economy in general. In the FY 2017 budget proposal, this translates into low to 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, we have implemented a comprehensive performance measurement system that builds on the City's previous performance data initiatives. The new system, MEMFacts, will give 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 will also enable 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, we established an Office of Performance Management to manage the performance review process as well as the public-facing and internal MEMFacts performance dashboards. This will provide the public and City staff easy access to the information they need, and serve as new management accountability tools for both operational and fiscal management.

Throughout this document each general fund division’s key performance indicators (KPI’s) and goals to measure effectiveness are identified. These KPI’s represent a portion of the public facing performance dashboards indicators. The public facing dashboards are reviewed monthly by senior management.

**A More Detailed Discussion of the Numbers**

**General Fund Discussion**

**Revenues**

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 FY2017 *General Fund Revenue Budget* is \$667.4M compared to the FY2016 adopted budget of \$644.7M. Generally revenues are increasing because of an improved local economy. This is noted in increases in Local and State tax revenue. Bass Pro rental income, a one-time payment from the Memphis Area Transit Authority (MATA), and Graceland Tourism Development Zone (TDZ) are new revenues that were not in last year’s budget. PILOT revenue from Memphis Light Gas and Water (MLGW) is expected to decrease slightly.

**REVENUES**

| Fund Type    | FY2016 ADOPTED | FY2017 Proposed | Inc./ Dec     |
|--------------|----------------|-----------------|---------------|
| General Fund | \$ 644,771,442 | \$ 667,424,999  | \$ 22,653,557 |

Notable FY 2017 budget revenue increases and decreases are as follows:

- ❖ \$ 3.6 million – Ad Valorem Taxes
- ❖ \$ 5.0 million – Local Sales Tax Growth
- ❖ \$ 5.5 million – State Sales tax Growth
- ❖ \$ 3.0 million - State Income Tax Growth
- ❖ \$ 1.0 million - Bass Pro Rental Income
- ❖ \$ 1.9 million - Graceland TDZ
- ❖ \$ 3.0 million - MATA
- ❖ \$ 3.0 million - Ambulance, Auto Registrations, Gross Business Fees- \$1.0m ea.
- ❖ \$ (1.3) million - Court Fees and Court costs
- ❖ \$ (3.3) million – MLGW PILOT

**Expenditures**

The FY 2017 *General Fund Expenditure Budget* is \$667.4M. This is 1.4% greater than the FY 2016 adopted budget of \$658M. 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.

For FY2017 the budget adds spending for safety, technology, public transportation, community programs and increased payments to the pension ARC.

**EXPENDITURES**

| Fund Type    | FY2016 ADOPTED | FY2017 Proposed | Inc./ Dec    |
|--------------|----------------|-----------------|--------------|
| General Fund | \$ 658,055,169 | \$ 667,424,999  | \$ 9,369,830 |

Notable expenditure changes are as follows:

Expenditure Increases:

- ❖ \$ 8.4 million – Full implementation of FY 16 COLA’s and FY 17 COLA’s
- ❖ \$ 4.2 million – Pension ARC Funding
- ❖ \$ 1.4 million – Overtime
- ❖ \$ 2.5 million – MATA
- ❖ \$ 1.0 million – Technology – Replacement of Obsolete Equipment
- ❖ \$ 1.0 million – Insurance
- ❖ \$ 2.2 million – Initiatives including Sky Cameras, Community Grant,

Expenditure Decreases:

- ❖ \$ - 6.4 million – Pensioners insurance and OPEB Transfers
- ❖ \$ - 2.2 million – *Various*
- ❖ \$ - 1.8 million – Lower Fuel Costs \$1.5m; Lower Rent \$300k
- ❖ \$ - 1.0 million – Lower Utility Costs and Discontinued Grants

**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-.

## BUDGET OVERVIEW

The total Debt Service Fund expenditures for FY2017 will be slightly higher at \$162.2M for FY2017.

### DEBT FUND

| Fund Type              | FY2016 ADOPTED | FY2017 Proposed | Inc./ Dec    |
|------------------------|----------------|-----------------|--------------|
| Debt Fund Expenditures | \$ 161,234,105 | \$ 162,272,415  | \$ 1,038,310 |

### 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 FY2017 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. FY2017 Expenses in this fund will increase slightly from the FY2016 adopted budget.

### ENTERPRISE FUNDS

| Fund Type                | FY2016 ADOPTED | FY2017 Proposed | Inc./ Dec       |
|--------------------------|----------------|-----------------|-----------------|
| Sewer Treatment Expenses | \$ 103,775,750 | \$ 87,881,635   | \$ (15,894,115) |
| Storm Water Expenses     | \$ 23,281,145  | \$ 23,844,591   | \$ 563,446      |
|                          | \$ 127,056,895 | \$ 111,726,226  | \$ (15,330,669) |

### 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 still a premium to cost imbalance in this fund which will be addressed in the coming months.

### FIDUCIARY FUND

| Fund Type          | FY2016 ADOPTED | FY2017 Proposed | Inc./ Dec       |
|--------------------|----------------|-----------------|-----------------|
| OPEB Fund Expenses | \$ 41,611,826  | \$ 26,276,256   | \$ (15,335,570) |

### 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.



## BUDGET OVERVIEW

Healthcare expenses for FY2017 are lower than the FY2016 adopted budget. Cost saving initiatives such as the employee clinic has contributed to better cost control. The Fleet Fund contains inventory purchases for fuel. Lower expenses reflect the decreased cost of fuel. This change will result in the Fleet Fund achieving a positive fund balance now and into the future.

### INTERNAL SERVICE FUNDS

| Fund Type                 | FY2016 ADOPTED | FY2017 Proposed | Inc./ Dec      |
|---------------------------|----------------|-----------------|----------------|
| Health Care Fund Expenses | \$ 78,326,820  | \$ 75,174,655   | \$ (3,152,165) |
| Fleet Mgmt. Expenses      | \$ 27,279,007  | \$ 24,973,090   | \$ (2,305,917) |
| Unemployment Expenses     | \$ 650,000     | \$ 350,000      | \$ (300,000)   |
|                           | \$ 106,255,827 | \$ 100,497,745  | \$ (5,758,082) |

### 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 Alarms are the major Special Revenue Funds. The SW fund shows decreasing expenses as labor agreements are changing to assist in cost effectiveness. The State Street Aid Fund shows no expenses as the budget proposes to close this fund. State Street Aid transactions will be absorbed into the general fund operations. 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 Funds have no material variances from the FY 2016 adopted budget.

### SPECIAL REVENUE FUND

| Fund Type                                   | FY2016 ADOPTED | FY2017 Proposed | Inc./ Dec       |
|---|----------------|-----------------|-----------------|
| State Street Aid Expenditures               | \$ 16,568,300  | \$ -            | \$ (16,568,300) |
| Solid Waste Expenditures                    | \$ 63,220,891  | \$ 59,012,898   | \$ (4,207,993)  |
| Drug Enforcement Fund Expenditures          | \$ 4,227,500   | \$ 4,100,800    | \$ (126,700)    |
| Metro Alarm Fund Expenditures               | \$ 385,599     | \$ 466,578      | \$ 80,979       |
| Park Special Services Fund                  | \$ 166,752     | \$ 166,752      | \$ -            |
| Hotel/Motel Occupancy Tax Fund Expenditures | \$ 5,554,530   | \$ 12,362,589   | \$ 6,808,059    |
| New Memphis Arena Expenditures              | \$ 4,554,530   | \$ 8,787,564    | \$ 4,233,034    |
|   | \$ 94,678,102  | \$ 84,897,181   | \$ (9,780,921)  |





### The 2016-2017 Economic Outlook

The 2016-17 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 2016-17. While the economic malaise in Europe, Asia and most of the developing world limits global opportunities, the 2016-17 U.S. economic outlook is for continued expansion at a modest 2-2.5% pace. This national growth rate will have a positive impact on the Memphis economy. The threat of the national economy slipping into a recession will most likely postpone any additional interest rate increases during this year. The growth plans of businesses over the next year will reflect the economic forecast for the year. Stronger growth will be met with stronger expansion plans while weaker growth will be associated with weaker expansion plans for businesses in Memphis and the nation.

While corporate profits continue to be strong, profit expectations for the coming year remain constrained by the threats to economic growth. Multiple rounds of quantitative easing will sow the seeds for both economic expansion and inflation in many areas of the world. The U.S. 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 with the possible exception of the petroleum industry. Low oil prices are a strong positive for most people and businesses in Memphis. Low natural gas prices will help keep the winter energy bills for families low. Low fuel prices will keep gas expenditures low for households that depend on cars for transportation. Low fuel prices will help FedEx and other transportation companies to be more profitable this year.

Inflation, traditionally seen as a sign of an overheated economy, will remain low over the next year. The ability of companies to increase prices and still sell goods and services will be limited by domestic and global competition. Competition will remain high in 2016-17 and put downward pressure on wages, prices and profits. Like businesses, communities will be challenged to do more with less as job creation, income, and tax revenue grow slowly.

In general, the economic trends expected for the U.S. in 2016-17 include the following:

- 1) Sustained economic and job growth;
- 2) Little inflation;
- 3) Low interest rates;
- 4) Unemployment rates near full employment levels;
- 5) The housing recovery will continue;
- 6) Income growth will be slow but positive.

The economic trends expected for Memphis include the following:

- 1) Tax revenues will grow more rapidly this year;

- 2) The MSA population will continue to grow while the Memphis population declines;
- 3) Job growth will improve;
- 4) The out-migration of people and jobs will continue;
- 5) Job creation will be particularly strong in the service industries;
- 6) Low cost of living and housing remain assets for Memphis;
- 7) Low taxes continue to make Memphis attractive;
- 8) Abundant cultural amenities help offset the long term problems of high poverty and crime.

Memphis enjoyed the ride up the economic elevator during the 90’s and the early part of the first decade of the 21st century. And, as in most major U.S. cities, the Memphis economy and its employment experienced a tremendous slow down with the housing bust and the Great Recession. While the post-Great Recession recovery has been painfully slow, 2016-17 should see some positive gains in employment and income for Memphis.

Chart 1 shows that the Memphis MSA has enjoyed year over year growth since January of 2012. 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 followed by employment declines in January. Looking past seasonal variations at the trend line reveals a slow but steady growth path.

**Chart 1. Memphis MSA Employment (000), January 2010-December 2015**

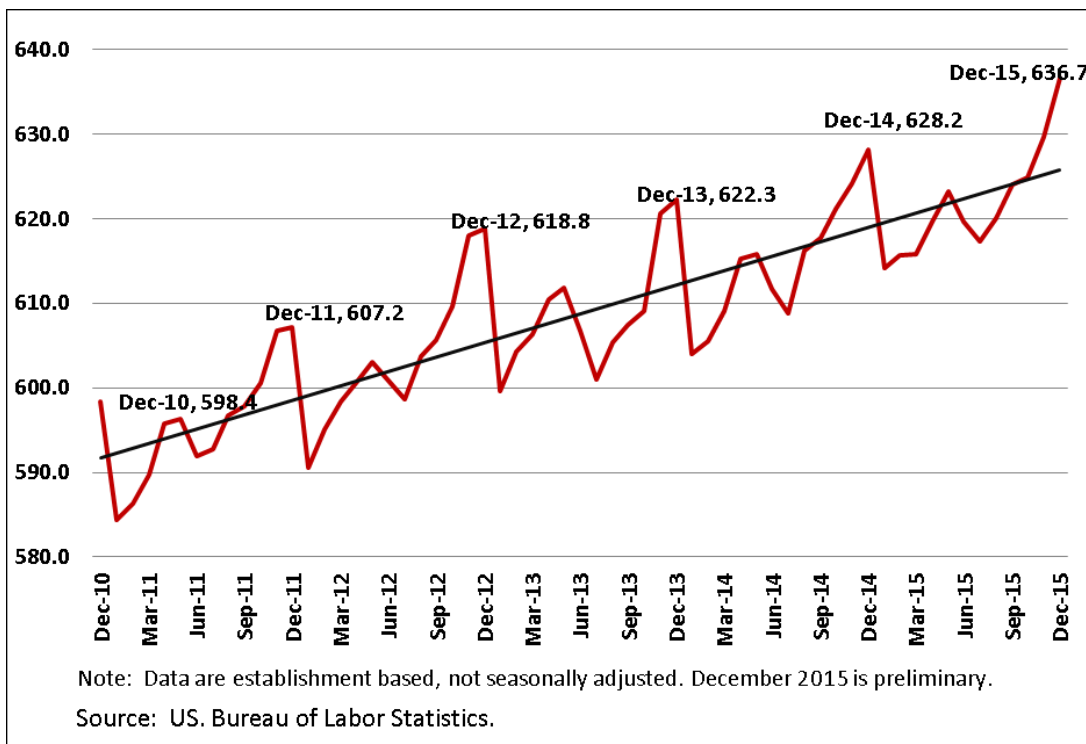


Chart 2 reveals the major reason why current economic conditions may not feel very good in comparison to other economic recoveries. Employment in the Memphis MSA peaked at nearly 641,000 jobs in 2007, while bottoming out in 2010 at just over 590,000. After losing 51,000 jobs, the MSA has gained back 31.6 thousand since the recession ended but the hardest hit industries have not completely recovered since the recession.

**Chart 2.** Annual Memphis MSA Employment (000), 2000-2015

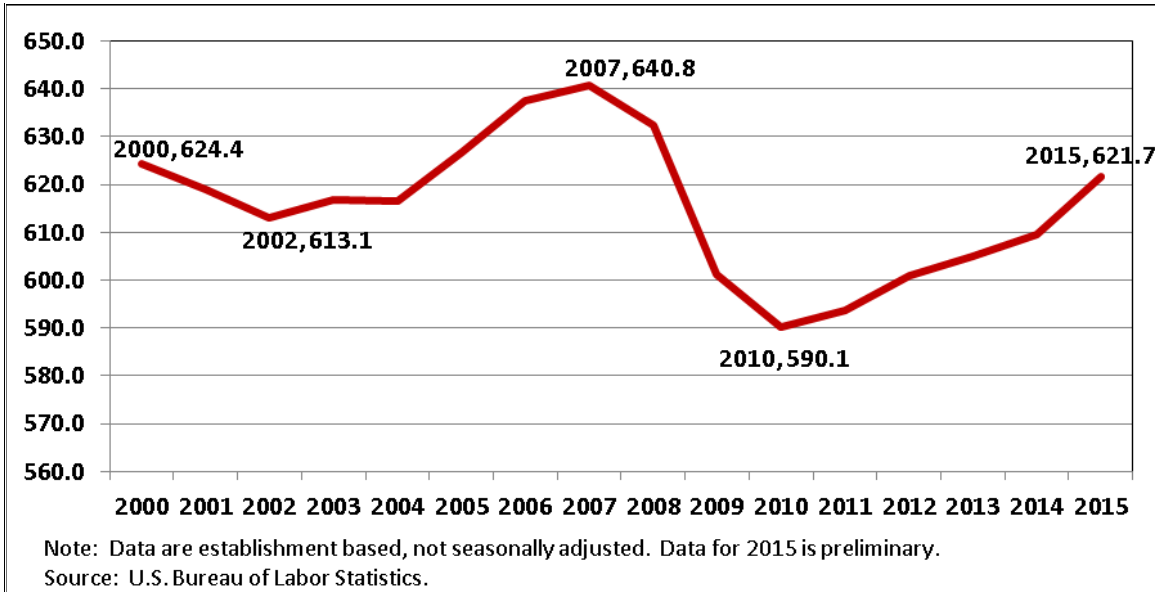


Chart 3 shows the trends for unemployment rates for Memphis, Tennessee and the nation. It is clear that employment growth has had a positive impact in reducing unemployment nationwide and in the Memphis MSA. Ironically unemployment rates for the Memphis MSA and Tennessee peaked in the summer of 2009 – about the same time the Great Recession officially ended. While some of the declines are associated with reductions in the number of people looking for work, the national job situation is improving steadily and will continue to improve in Memphis as well in 2016-2017.

**Chart 3.** Annual Memphis MSA Unemployment Rate Trends, 2000-2015

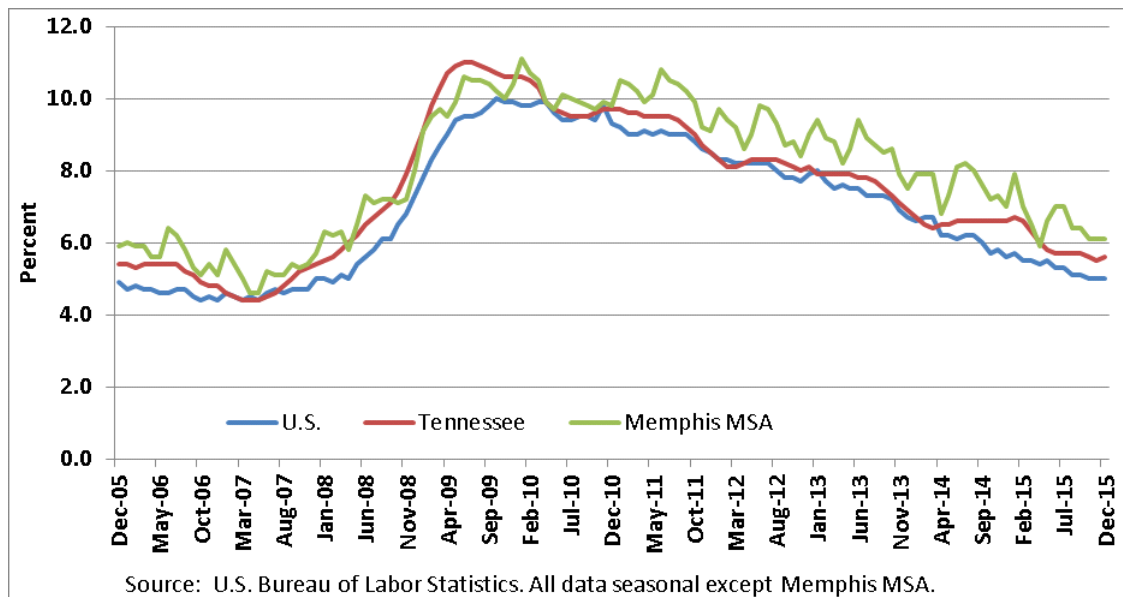


Table 1 provides more detailed employment data by industry in December 2015 and reflects an improvement in the local economy. In percentage terms, financial activities was the biggest winner with 6.8% growth over 2014 while employment in leisure and hospitality was second with 2.4% growth. In comparison, national growth in financial activities was only 1.9%. Locally four sectors shrank in 2015: manufacturing (-3.1%), information (-1.6%), government (-1.0%), and professional and business services (-0.1%). While there are some local bright spots in manufacturing, manufacturing overall is likely to continue on a downward trend as is the case nationally.

**Table 1: Memphis MSA Employment by Industry, December 2015 and 12 Month Percent Change**

|                                  | Total Employment (000) | 12 Month Percent Change |
|----------------------------------|------------------------|-------------------------|
| Total Nonfarm                    | 636,700                | 1.4%                    |
| Mining & Construction            | 21,600                 | 0.0%                    |
| Manufacturing                    | 43,400                 | -3.1%                   |
| Retail Trade                     | 68,100                 | 0.9%                    |
| Transportation & Utilities       | 70,300                 | 2.3%                    |
| Information                      | 6,000                  | -1.6%                   |
| Financial Activities             | 29,700                 | 6.8%                    |
| Professional & Business Services | 99,500                 | -0.1%                   |
| Education & Health Services      | 90,000                 | 2.2%                    |
| Leisure & Hospitality            | 64,500                 | 2.4%                    |
| Other Services                   | 23,800                 | 0.8%                    |
| Government                       | 82,900                 | -1.0%                   |

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

Bass Pro’s successful opening in The Pyramid in 2015 generated positive momentum for the local economy and especially for the downtown area of the city. Redevelopment of the Tennessee Brewery building and other downtown structures will translate into a higher quality of life for local residents as well as a favorable impression on visitors. The expected opening of IKEA in the fall of 2016 will also bring with it retail tourism and tax dollars. Additionally, Memphis International Airport continues to add airlines and seat capacity to the Memphis market, making it easier for visitors to come to town and making Memphis more attractive to business as well. Memphis is well on its way to a full recovery in the coming year.

