



Members of the City Council and Citizens of Memphis,

With this letter, I am submitting the administration's proposed Operating Budget for the fiscal year beginning July 1, 2014 and ending June 30, 2015 (the FY 2015 Operating Budget), as well as, the Capital Improvement Plan budget (FY 2015 CIP Budget). Both budgets reflect the challenging times in which we live. While these difficult financial times force us to prioritize and cut operating expenditures, we have strategically funded our budget to place emphasis on our essential priorities: to create safe and vibrant neighborhoods, grow prosperity and opportunity for all, invest in our young people and advance a culture of excellence in government.

Moreover, the balanced budget of \$597 million that I am presenting to you today is \$17 million less than the FY 2014 budget. This is the second year in a row that there has been a decrease in spending. Additionally, since 2009, the number of employees has dropped 6 percent with minimal layoffs.

The administration's proposed budget is designed to get us closer to restoring the City's financial stability. In 2009, in the wake of the Great Recession, financial markets fell, real estate values plummeted (sharply cutting property tax revenues), unemployment rose sharply, incomes fell and the value of our employee pension plan declined by over half a billion dollars. Since 2009, the condition of our pension fund has worsened to the point that it is now the City single biggest financial issue. Over the same period, the costs of our medical plans - for employees and retirees - have skyrocketed. The proposed 2015 Budget is designed to address these challenges by rebalancing our priorities to reflect this new reality.

The proposed FY 2015 Operating Budget includes an increase of approximately \$15 million to help fund our pension system. Combined with a FY14 contribution of \$20 million, pension payments will be approximately \$35 million. Since 2008, financial constraints have prevented us from paying the full Actuarially Required Contribution (ARC) needed to maintain solvency long-term. The current ARC is approximately \$95 million. Under newly enacted Tennessee law, the City will be required to ramp up our annual contributions until we reach 100%, no later than 2020.

The FY 2015 Operating Budget includes fundamental changes to medical benefits provided to current and former employees. First, the FY 2015 Budget assumes that the city will no longer pay 70% of the health care premium of retired, Medicare-eligible employees, their spouses and dependents. These retirees will have options: remain on the City's plan; join plans offered by either their current employers or their spouses' employers; purchase Medicare supplement plans; or join the new Affordable Care Act's health insurance exchanges or private exchanges. This change will save approximately \$27 million in FY 2015. Also, it will be the first step toward eliminating the \$1.3 billion unfunded OPEB (Other Post Employee Benefits Programs) liability. Second, the Budget assumes that we implement long overdue changes to the base health plan that will result in an additional \$4 million savings in FY 2015.

The FY 2015 Operating Budget holds spending on public safety (Police and Fire) basically flat. Spending and headcount in Police and Fire have been trending downward for the past two years and are at or near levels recommended by experts. We are evaluating cost-saving opportunities that would result from shifting certain public safety services to other City departments, where the work can be done more cost effectively. Also, we will be reorganizing within Police and Fire, shifting more of the work to non-commissioned staff. The goal is to keep the "boots on the street" when and where they are needed, and move non-core work to

other divisions or to civilian workers. Over time, we believe this effort will yield significant savings without compromising public safety.

Regarding revenue, there are modest increases that reflect an improving economy, which include increases for licenses and permits and revenue from the new parking initiative. These increases total approximately \$2.7 million.

It is envisioned these modest increases in revenue and substantial changes to medical benefits provide us much needed financial flexibility. In this proposed FY 2015 Budget, we proactively created a Pension/ Public Safety Reserve of approximately \$15 million to address any issues that may arise from either the implementation of the medical reforms or from unforeseen expenses in public safety. This strategy prepares us to meet our growing pension obligation (ARC) in FY2016.

As we reprioritize and economize our Operating Budget, we must keep an eye on the future and continue to help grow our economy through strategic and visionary capital investments. Our FY 2015 CIP Budget is \$83 million. Most significantly, I have proposed the purchase, demolition and redevelopment of the old Raleigh Springs Mall property. In its place will be a new multi-purpose government service / shopping center that will include a police precinct, a new library, and a community center. The adjoining property will be available for retail development. This \$24 million investment will help stabilize the area and provide the momentum to help surrounding neighborhoods become safer, healthier and more vibrant communities. The cost is significant, but the payoff will be even greater.

Our goal in the years ahead will be to continually access our service delivery model to ensure the most efficient and effective service possible, and direct all savings to our pension obligations. We will work to capture more revenue from a recovering and growing economy, and allocate additional revenue gains to pay our pension obligations and enhance core services.

In summary, our ability to sustain a financial recovery will depend in large part on reforming our pension system. In March, after six months of presentations and discussion, I presented my ordinance to move to a Defined Contribution Plan for unvested and new employees. It is ready for a vote. I urge the City Council to pass that ordinance, clear away the dark cloud that hangs over our City so that we can see our way to a more vibrant future. This proposed budget is a significant step toward financial stability and continued growth.

Having emerged from one of the worst financial crises our country's history, we are remain well-positioned for the possibilities of the future. And, this future will rise or fall based upon our vision and collective will.

In closing, I want to thank every employee of the City of Memphis for their hard work and continued dedication during this difficult period. I look forward to working with the City Council to produce a budget that will help restore Memphis as a City of Choice in which we all will want to live, work and play.

We are a strong city, and with your commitment, we will emerge stronger through this budgetary process.



A C Wharton, Jr.

Mayor, City of Memphis

**Note: The Mayor's transmittal letter was written at the time that the Proposed Budget was submitted to Council. This schedule shows the amendments made to the Proposed Budget.**

<b>FY2015 Operating Budget</b>	<b>Proposed Budget</b>	<b>Amendments</b>	<b>Adopted Budget</b>
<b>General Fund Revenues</b>			
Unallocated Revenues	566,874,762	4,835,750	571,710,512
Divisional Revenues	46,208,040	-	46,208,040
<b>Total Revenues</b>	<b>613,082,802</b>	<b>4,835,750</b>	<b>617,918,552</b>
<b>General Fund Expenditures</b>			
City Attorney	9,628,516	112,013	9,740,529
City Council	1,608,901	(5,249)	1,603,652
City Court Clerk	7,183,744	33,014	7,216,758
City Judges	631,524	10,001	641,525
Engineering	9,099,681	148,028	9,247,709
Executive	6,051,188	(91,192)	5,959,996
Finance	5,099,591	140,017	5,239,608
Fire Services	160,826,321	4,778,418	165,604,739
General Services	21,334,640	638,075	21,972,715
Grants & Agencies	43,278,003	3,292,996	46,570,999
Housing and Community Development	4,470,227	10,001	4,480,228
Human Resources	5,442,489	88,011	5,530,500
Information Services	16,277,963	(279,996)	15,997,967
Parks and Neighborhoods	49,625,373	829,458	50,454,831
Police Services	238,470,374	10,950,582	249,420,956
Public Works	17,748,388	406,047	18,154,435
<b>Total Expenditures</b>	<b>596,776,923</b>	<b>21,060,224</b>	<b>617,837,147</b>
<b>Contribution/(Use) of Fund Balance</b>	<b>16,305,879</b>	<b>(16,224,474)</b>	<b>81,405</b>
<b>Total CIP Revenues</b>	<b>257,054,118</b>	<b>(4,608,000)</b>	<b>252,446,118</b>
<b>Total CIP Expenditures</b>	<b>257,054,118</b>	<b>(4,608,000)</b>	<b>252,446,118</b>



