

## Budget Overview

The Fiscal Year 2015 (FY 2015) budget reflects the difficult choices we face in the wake of the great recession of 2008 – 2009, and the ever-growing liabilities associated with the City's pension and retiree health care plans. One of the highest priorities of the FY 2015 Budget is to ensure the solvency of the pension plan – a moral and legal imperative for the City and, for many retirees, their sole source of retirement income. In order to ensure the solvency of the pension system, difficult cuts have been made to our employee and retiree health care plans on the premise that there are health care alternatives, but no pension alternatives. The plan is to ensure that employees, retirees and dependents have access to adequate medical care at a reasonable price. The savings realized in health care have been reallocated to shore-up the pension system. The FY 2015 Budget allocates the remaining resources to deliver essential services such as Police and Fire, all without burdening the public with higher tax rates.

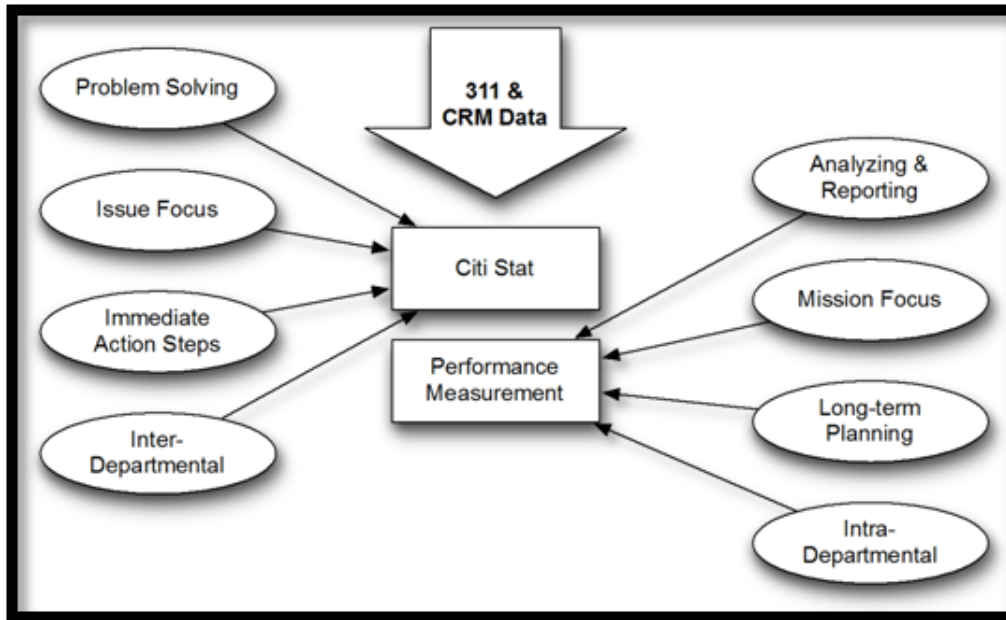
### **The Economic Impact on Budget Planning**

Although the Memphis economy is diverse and the City is attracting new businesses, (we look forward to Bass Pro Shops opening one of its largest stores nationwide), 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 2015 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 slow to moderate growth during FY 2015, which is reflective of the anticipated economic performance of the U.S. economy in general. In the FY 2015 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 an external source, can be found later in this section.

### **The City's Mission and Priorities**

The City of Memphis strives to be a high performing organization. As a result, city employees embraced a new way to utilize, analyze, and synthesize data to measure effectiveness. We designed a performance management model that combines Citi-Stat, performance metrics, and 311/CRM data in a coordinated effort to enhance internal performance and external customer service. The illustration below describes how the main tenants of the model work together. These platforms serve dual purposes as management instruments and accountability tools for both operational and fiscal management.



**Performance Accountability Plans**

The performance accountability plans, which fall under the performance measurements component of the aforementioned model, are a mechanism for analyzing and reporting data on how resources are used and how specific outcomes are achieved based on divisional missions and strategic, long-term planning. Moreover, the performance accountability plans align each division’s mission and performance objectives to the overarching city mission and priorities. In each Division budget presentation, located as sub sections in the General Fund Expenditures section, performance objectives and metrics are reflected with the associated Legal Level that will execute the priority area of the metric. The City’s mission and priorities are described below.

*The City’s Mission:* to provide responsive and cost effective services through the enhancement of employees, neighborhoods, youth and business development.

*The City’s Priorities:*

1. Create safe and vibrant neighborhoods – *goal:* To enhance crime prevention, provide support for at-risk and ex-offender populations, and promote community partnerships and citizen participation.
2. Grow prosperity and opportunity for all – *goal:* Improved business incentives and business-related government processes and the elimination of barriers related to economic issues.
3. Invest in our young people – *goal:* Education and developing opportunities to retain and attract youth for productive service to our businesses and communities.
4. Advance a culture of excellence in government – *goal:* Reformation of government processes and improvement of organizational coordination, clarification of customer service standards, improving internal quality assessment and accountability, and both increasing and improving opportunities for citizen feedback.

## **General Fund Discussion**

### **Revenues**

The revenue budget was developed relying on, among other considerations, economic research by the University of Memphis (U of M), with particular focus on the forecast and trends for the top ten revenue sources. Based on U of M forecasts and managements' review of actual trends, property tax revenues will increase from normal growth. The growth in property tax revenue, however, is being absorbed by the need for increased revenues in the Debt Service Fund to match the increased cost of debt servicing.

There are also new programs that have been included in the revenue plan. New fees enter into this budget as a result of updating our parking meter system and adjusting its fee structure. In addition, the City will be installing 30 new red light cameras. Miscellaneous and one-time revenues are down when compared to the FY 14 budget as those miscellaneous efforts were one time occurrences. As a result, the FY 2015 *General Fund Revenue Budget* is \$617.9 million dollars. This is \$8.5 million less than the FY 2014 adopted budget of \$626.4 million.

### **REVENUES**

Fund Type	FY2014 Adopted	FY2015 Adopted	Inc/ Dec
General Fund	\$ 626,482,567	\$ 617,918,552	\$ (8,564,015)

Notable FY 2015 budget revenue increases and decreases are as follows:

- ❖ \$ (6.5) million – Local Taxes declined as tax revenue transferred to Debt Fund
- ❖ \$ 1.1 million – State Sales tax growth
- ❖ \$ 1.0 million - Licenses and permits for automobile registrations
- ❖ \$ .8 million - Auto registration fees
- ❖ \$ (.3) million - Parking meter and fee program
- ❖ \$ 1.9 million - Revenues from the installation of 30 new red light cameras
- ❖ \$ (7.1) million – Miscellaneous/Non reoccurring revenues

### **Expenditures**

For FY 2015 our budget reflects the initiation of efforts to fully fund our pension annual required contribution (ARC) and to reduce the unfunded liability of our health insurance or other post-employment benefits (OPEB). The FY 15 budget adds \$26.0 M to our pension contribution, bringing total contribution to the ARC to \$46.0 M from the general fund. The budget pays for the increased pension costs by transitioning out of the OPEB (healthcare) costs. This is a significant change in how we manage employee healthcare. The cost reduction associated with this transition is \$23.0 M. The City will continue to pay for the retiree health-care cost for persons that are not eligible for Medicare, and the City will identify ways to ease this transition of all impacted employees and retirees. In essence, our changes will not leave our past and current employees without viable and effective pension and healthcare options.

This budget also includes additional cost for public safety as funding includes new Police and Fire recruit classes.

While these are major changes to our budget, spending remains aligned with maintaining sufficient resources for core government services, such as safety, and with the current best practices of efficient companies.

## BUDGET OVERVIEW

The FY 2015 *General Fund Expenditure Budget* is \$617.8 million dollars. This is \$4.4 million or less than 1% increase over the FY 2014 adopted budget of \$613.4 million.

### EXPENDITURES

Fund Type	FY2014 Adopted	FY2015 Adopted	Inc/ Dec
General Fund	\$ 613,402,538	\$ 617,837,147	\$ 4,434,609

Notable expenditure changes are as follows:

#### Expenditure Increases:

- ❖ \$ 6.1 million – Police and Fire Recruit Classes
- ❖ \$26.0 million – Pension ARC funding
- ❖ \$ 4.5 million – Healthcare Costs
- ❖ \$ 1.3 million – Various Grants—Includes \$1.0 M to the National Civil Rights Museum

#### Expenditure Decreases:

- ❖ \$ - .6 million – Removal of funding for the Motor Vehicle Inspection Bureau
- ❖ \$ - 4.0 million – Elimination of transfer to the Health Fund Fund
- ❖ \$ - 6.0 million – Street Lighting – *transitioning responsibilities to the utility company*
- ❖ \$ - 23.0 million - Cost reduction from transitioning out of OPEB.

The administration remains committed to seeking and evaluating opportunities to increase efficiencies and ensure the most cost effective service delivery options are in place.

### 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 general obligation bond debt. A major source of Debt Service Fund revenue is provided by an apportionment of the property tax rate. For FY 2015 the property tax revenues are budgeted at \$111.1 million. This is an increase of \$21.8 million from last years \$89.2 million. For FY 2015 the property tax rate for the debt fund is \$1.10842. This is \$0.17 cents higher than the FY 2014 budget. This increase is reapportionment of the general fund tax rate, which was lowered by a commensurate amount. The total tax rate remains the same.

The total Debt Service Fund expenses for FY 2015 will be \$161.2 million. This is \$207.8 million less than the FY 2014 budget which included refinancing costs that are not in FY 15.

### DEBT SERVICE FUND

Fund Type	FY2014 Adopted	FY2015 Adopted	Inc/ Dec
Debt Fund Expenses	\$ 368,971,335	\$ 161,194,967	\$ (207,776,368)



The Debt Service Fund is budgeted to increase its committed fund balance by \$0.4 million to meet future principal and interest payments. The committed fund balance at the end of FY 2015 is expected to be \$22.6 million.

**Enterprise Funds Discussion**

Enterprise Funds account for the acquisition, operation and maintenance of the City's facilities. These funds are entirely or predominantly supported by user fees. Strategies for the enterprise funds include paying for their capital requirements. In the Sewer Fund, capital expenses for FY 2015 will be paid for without the issuance of Sewer Revenue bonds. 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. Total Sewer Fund expenses are budgeted to be \$101.6 million, \$2.5 million less than the FY 2014 adopted budget. The Sewer Fund expects to contribute \$12.0 million to its fund balance. Storm Water expenses are expected to be \$24.2 for FY 2015.

**ENTERPRISE FUND**

Fund Type	FY2014 Adopted	FY2015 Adopted	Inc/ Dec
Sewer Treatment Expenses	\$ 104,250,000	\$ 101,691,000	\$ (2,559,000)
Storm Water Expenses	\$ 24,260,000	\$ 24,260,000	\$ -
	<u>\$ 128,510,000</u>	<u>\$ 125,951,000</u>	<u>\$ (2,559,000)</u>

**Internal Service Funds Discussion**

Internal Service Funds (ISFs) are used to budget for the costs of goods and services provided by one division to other City divisions. The City of Memphis' ISFs are the Healthcare Fund, OPEB, 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 ICFs.

**INTERNAL SERVICE FUND**

Fund Type	FY2014 Adopted	FY2015 Adopted	Inc/ Dec
Health Care Fund Expenses	\$ 78,804,762	\$ 83,642,241	\$ 4,837,479
OPEB Fund Expenses	\$ 48,259,476	\$ 60,879,453	\$ 12,619,977
Fleet Mgmt Expenses	\$ 32,855,922	\$ 30,941,412	\$ (1,914,510)
Unemployment Expense	\$ 650,000	\$ 800,000	\$ 150,000
	<u>\$ 160,570,160</u>	<u>\$ 176,263,106</u>	<u>\$ 15,692,946</u>

The Healthcare Fund is budgeting revenues of \$85.8 million and expenses of \$83.6 million for FY 2015. Healthcare premiums have been increased by 24% to insure that this fund has sufficient revenue to cover cost.

The OPEB Fund also has premium increases to cover rising healthcare costs. As noted earlier, the City is transitioning out of OPEB. Only those retirees unable to obtain Medicare or meeting certain special circumstances will remain in the OPEB Fund. This will decrease our OPEB liability significantly. The budget presented above reflects cost before the changes, initiated in this budget, have taken effect. It is expected that costs will be much lower when the retirees that do not meet criteria for City healthcare have fully transitioned to other coverages.

The Fleet Fund and Unemployment Compensation Funds are budgeted for expenses of \$30.9 million and \$0.8 million respectively. The Fleet Funds lower expenses reflect a change in how personnel costs are

recorded. This change will result in the Fleet Fund achieving a positive fund balance now and into the future.

**Special Revenue Funds Discussion**

Special Revenue Funds (SRFs) budgets revenues and allocates expenses for the revenues received for that specific purpose. Solid Waste and Metro Alarms are the major Special Revenue Funds. The largest fund, Solid Waste (SW) reduced its SW fees in accordance with a prior year agreement which rolled back rates in FY 2014. This reduction continues for FY 2015. The SW fund has increased its expenses to pay for new lease expenses for packers. Other funds that make up the Special Revenue Fund have no material variances from the FY 2014 adopted budget. More information pertaining to the SRFs can be found in the Special Revenue section of this document.

**SPECIAL REVENUE FUND**

<b>Fund Type</b>	<b>FY2014 Adopted</b>	<b>FY2015 Adopted</b>	<b>Inc/ Dec</b>
State Street Aid Expenses	\$ 16,568,300	\$ 16,568,300	\$ -
Solid Waste Expenses	\$ 66,443,242	\$ 68,231,496	\$ 1,788,254
Drug Enforcement Fund Expenses	\$ 4,175,608	\$ 4,058,000	\$ (117,608)
Metro Alarm Fund Expenses	\$ 676,407	\$ 624,425	\$ (51,982)
MLK Improvement Expenses	\$ 235,960	\$ 151,090	\$ (84,870)
Hotel/Motel Occupancy Tax Fund Expenses	\$ 4,151,457	\$ 4,151,457	\$ -
New Memphis Arena Expenses	\$ 3,470,000	\$ 3,470,000	\$ -
	<b>\$ 95,720,974</b>	<b>\$ 97,254,768</b>	<b>\$ 1,533,794</b>

### UNIVERSITY OF MEMPHIS - DISCUSSION

The 2014-15 City of Memphis fiscal year will be facing another round of challenges created by continued slow economic growth and limited job creation. The local economy historically finds it difficult to expand without strong economic growth nationally and internationally. The absence of a powerful economic driver nationally and the economic malaise in Europe, Asia and most of the developing world limits the growth opportunities available locally. Rising interest rates threaten to further weaken the fragile economic balance and limit the expansion or growth plans of most businesses over the next year.

The economic outlook is increasingly negative in all areas of the world. While corporate profits are at record levels, profit expectations for the coming year remain constrained by the threats to economic growth. Rising interest rates will accelerate the slowing of worldwide markets. Real estate has been one of the great success stories since 2000 and also one of the great disasters. Local real estate markets cannot prosper if interest rates rise. Similarly, investing in new plants and capital equipment will be constrained by the rising cost of capital, the absence of pricing power and the weaknesses evident in the demand side for most industries.

Inflation, traditionally seen as a sign of an overheated economy, will remain low over the next year. The ability of companies to sell goods and services will be limited by the challenges faced by consumers and the growing intensity of global competition. Price competition will remain high and downward pressure on wages and prices will remain a challenge for consumers and businesses over the next year or more. Inventories grow as the economy slows and shrink as it expands. Inventories, once a key determinant of the economic outlook for any period, are only one of a series of powerful indicators of economic conditions. Faced with concerns about the direction of the economy and the absence of strong market demand, businesses seek to minimize inventories and streamline the production process. Like businesses, communities will be challenged to do more with less as job creation remains slow and as the lack of income growth constrains further economic expansion.

In general, the economic trends expected for 2014-15 include the following:

1. Slow growth,
2. Little inflation,
3. Low but rising interest rates,
4. Declining unemployment rates and labor force reductions,
5. Weak housing recovery,
6. Modest income growth.

The economic trends expected for Memphis include the following:

1. Tax collections at the state levels will be less than budgeted,
2. Slow or no growth in the local population,
3. Very little job growth,
4. Continued out-migration of people and jobs,
5. Some job creation in manufacturing, construction and services,
6. Low cost of living and housing remain assets,
7. Low taxes and no earned income tax continue to make Memphis attractive,
8. Abundant cultural amenities.

The dependence of Memphis on job creation has been a problem since 2000. The typical expansion pattern has been one that requires heroic efforts to recruit new employers while we lose similar or even better jobs as current employers make reductions, relocate and in some cases close. Standing still is the new measure of success for many communities and Memphis is no exception.

Chart 1 shows the employment patterns for the Memphis MSA over time. The Post recession troughs in January of 2010, 2011, 2012 and 2013 were offset by the recovery of employment during each year. Peak to peak employment occurs repeatedly in November and December as seasonal employment spikes occur following by employment declines in January.

**Chart 1. Memphis MSA Employment (000), January 2009-December 2013**

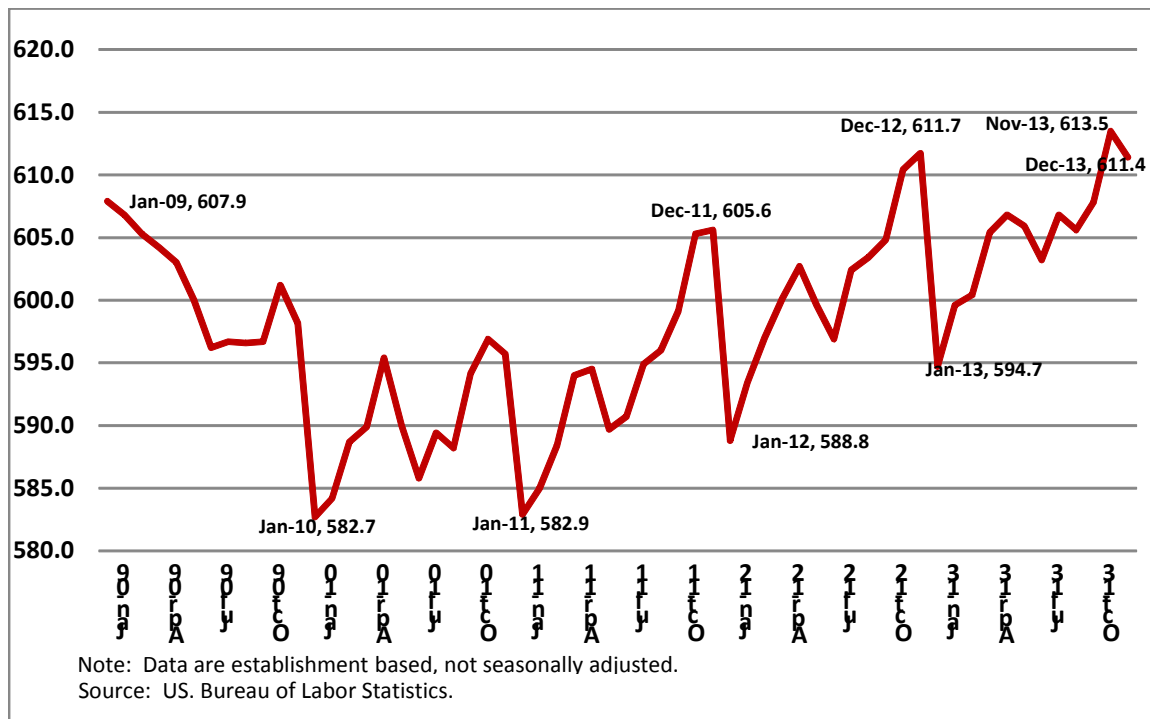


Chart 2 shows the more complex problem associated with long term employment growth patterns. Since 2000, the Memphis MSA has shown little or no job growth. Employment did increase by 16,000 jobs from 2000-2007 but the harm of the recession and the slow recovery from it are evident from the data. The Memphis MSA employment level declined by nearly 50,000 jobs from 2007-2010. Over the last three years, employment rose by 15,000 jobs but remains lower by roughly 15,000 jobs from it's level in 2000 and lower by 35,000 jobs from it's level in 2007. Clearly, creating jobs in the single most difficult and essential issue that the city faces.



Chart 2. Memphis MSA Employment (000), 2000-2013

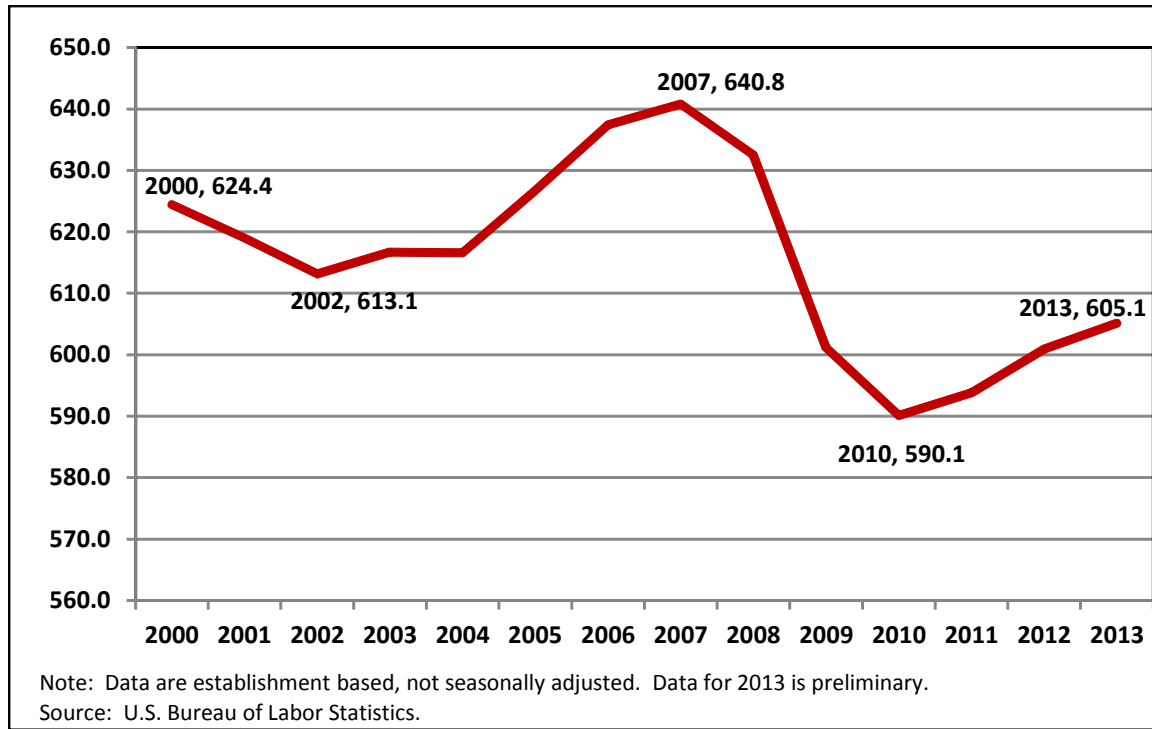
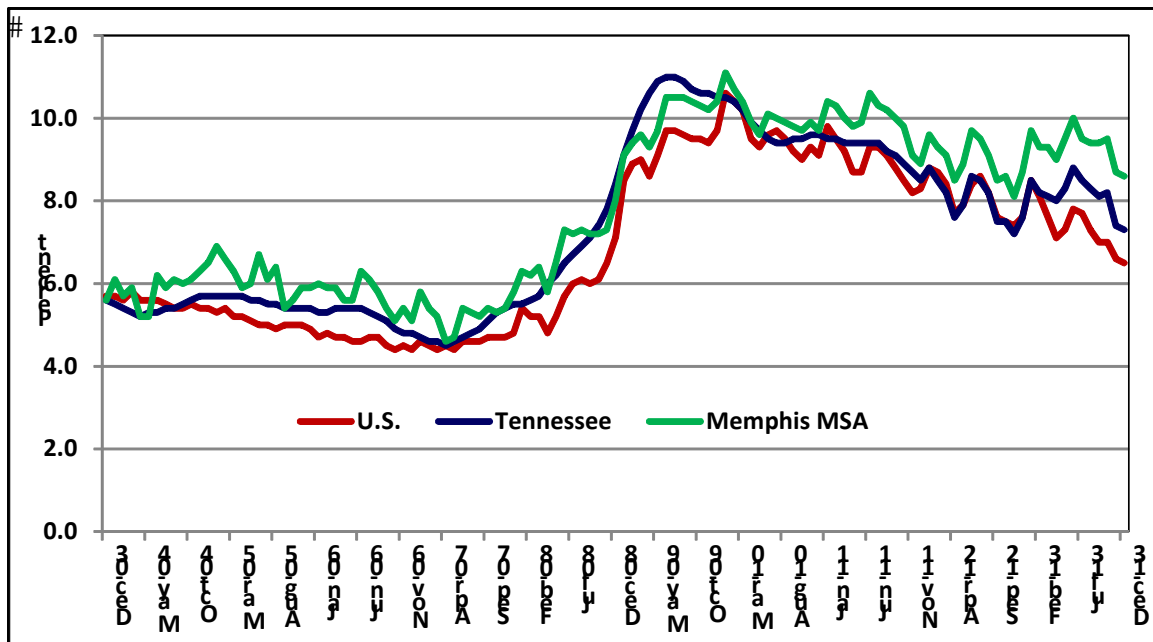


Chart 3 shows the trends for unemployment rates for Memphis, Tennessee and the nation. The impact of the great recession is obvious and the slow recovery has caused unemployment rates to decline slowly. Some of the declines are associated with reductions in the number of people looking for work. The labor force reductions represent pent up demand for jobs.

Chart 3. Unemployment Rate, U.S., Tennessee, Memphis MSA, December 2003-December 2013



If more jobs could be created, the labor force would grow and unemployment rates might increase and not decline. But in general, the slow recovery has not created enough jobs to maintain the labor force and keep people active in the labor market.

Table 1 data provide more detailed employment data by industry. As expected, some sectors grew in 2013 and others shrank. In general, the key growth sectors were manufacturing, trade, financial services, and education and health services. The growth of manufacturing is a anomaly associated with the attracting a few major employers. The long term tend has been for manufacturing employment to decline. Manufacturing employment has declined from 63,300 jobs in 2000 to 44,500 jobs in 2013. Employment declines occurred in mining and construction, transportation and utilities, information, professional and business services and in leisure and hospitality industries. Over all job numbers were stable but did not increase in spite of the continued national recovery. The same trends occurred statewide with a few exceptions being the strong growth of middle Tennessee counties and also the metro areas of east Tennessee.

**Table 1. Memphis MSA Employment by Industry, December 2013 and 12 Month Percent Change**

	Total Employment (000)	12 Month Percent Change
<b>Total Nonfarm</b>	<b>611,400</b>	<b>0.0%</b>
<b>Mining &amp; Construction</b>	<b>20,100</b>	<b>-5.6%</b>
<b>Manufacturing</b>	<b>44,500</b>	<b>2.3%</b>
<b>Retail Trade</b>	<b>66,400</b>	<b>1.7%</b>
<b>Transportation &amp; Utilities</b>	<b>65,100</b>	<b>-3.1%</b>
<b>Information</b>	<b>5,900</b>	<b>-3.3%</b>
<b>Financial Activities</b>	<b>28,800</b>	<b>6.3%</b>
<b>Professional &amp; Business Services</b>	<b>86,800</b>	<b>-1.1%</b>
<b>Education &amp; Health Services</b>	<b>88,900</b>	<b>2.1%</b>
<b>Leisure &amp; Hospitality</b>	<b>61,900</b>	<b>-0.3%</b>
<b>Other Services</b>	<b>23,800</b>	<b>0.0%</b>
<b>Government</b>	<b>85,500</b>	<b>-1.0%</b>

Source: U.S. Bureau of Labor Statistics.

There are a number of bright spots in the local economy that should offset some of the declines. First, Electrolux and Mitsubishi are new manufacturing operations that may help rebuild our manufacturing base. The strong health and education industry is one sweet spot that bids well for the future. Change in the structure of the school system will generate new energy and performance—both desperately needed. The development of the Bass Pro facility in the pyramid generates positive momentum for the local economy and for the downtown area of the city. The presence of an infant recovery in real estate makes that industry a positive growth factor in the coming year and not a drag on the economy like it has been since the recession. Finally our major companies like FedEx and International Paper have strong business models and provide a base of stability for the local economy. Small businesses will continue to grow as opportunities and the entrepreneurial spirit appear.

In general, the outlook for 2014-15 is for a continuation of the local economic trends with slow growth evident in some industries and offsetting declines evident in others. Memphis and the MSA have a pattern of slow demographic and economic growth. Slow stable growth is manageable but generates few luxuries for the residents, businesses or government entities in the community. The current challenges will remain

over the next year with little hope for a return to the powerful growth period of the 90's. Doing more with the same or fewer resources will be the theme faced by Memphis over the next year. Economic expansion or the lack of it will keep the pressure on most businesses and government organizations during the next year.



