

# FINANCIAL SUMMARY

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## Budget Overview

### The City's Mission and Goals

*The City's Mission:* to provide responsive and cost effective services through the enhancement of employees, neighborhoods, youth and business development. *The Vision:* to Create - Grow – Invest – Advance. In Memphis we create safe and vibrant places for people to live, learn, work and play. The mission and vision are the primary drivers of the organizations funding strategies; therefore they impact the City's operating and capital expenditure budgets.

To achieve the City's mission and develop the vision (priorities), the Mayor and the leadership team, have embraced a Strategic Business Model. This model, framed by input from many of the City's business leaders and citizens, was created to identify opportunities for improvement and initiate strategic actions to transform Memphis City Government. This business model and the transformative actions that are considered necessary for efficient government have been shared with the Memphis City Council as a reference for its economic decision making.

While public safety remains the highest priority, our efforts also focus on actions that will promote economic development, functional consolidation, and balance between fees and taxes in city government. The defined priorities for FY 2013 are as follows:

1. Create safe and vibrant neighborhoods – The objective is 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 – Efforts will be aimed at improved business incentives and business-related government processes. Specific communities and work to eliminate barriers related to economic issues will also be targeted.
3. Invest in our young people – This goal focuses on education and developing opportunities to retain and attract youth for productive service to our businesses.
4. Advance a culture of excellence in government – The reformation of government processes and improvement of organizational coordination is the objective of this priority. This goal also focuses on clarifying customer service standards, improving internal quality assessment, accountability and increasing and improving opportunities for citizen feedback.

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Throughout this document operating divisions have established goals and objectives that are consistent with the strategic priorities noted above. To monitor goals and objectives, which are linked to our priorities, operating divisions have incorporated performance measures and metrics as part of their budget. The “priority number” indicated within the division’s performance measures and metrics chart are references to the strategic priorities noted above.

Measures represent the indicators in which identifiable data is tracked to assess progress against predetermined goals and outcomes. Metrics represent the standard to be achieved against an established goal, objective or benchmark. For planning purposes, Divisions have set a performance improvement horizon of three (3) years. This means that a successful outcome will be fully achieved over a three (3) year planning horizon.

### **Impact of the Economy on Budget Planning**

A slight national recovery has been recognized through leading economic indicators, and locally, Memphis labor and housing indicators have shown some signs of recovery. We strive to make Memphis a “City of Choice” by increasing economic investment in the community, adding more jobs, and putting more Memphians to work. However, the City of Memphis continues to face economic challenges similar to other municipal governments across the country. This Fiscal Year (FY) 2013 plan reflects that the recessionary pattern has bottomed out locally and there should be some leveling off of the labor and housing markets with a very slow return to normalcy. More specific details of our economic environment can be noted in the financial summary economic report presented later in this document.

### **Notable FY 2013 Budget Actions-General Fund Discussion**

This budget is built on the assumption that the Memphis Metropolitan Statistical Area (MSA) will have the same slow to moderate growth during FY 2013 as the national economy. The most daunting task our government and many across the nation face is to match the realities of the economic environment with the needs and demands of the citizenry. Supply and Demand. Although the recession is over and signs of positive economic performance are occurring revenues are not meeting the needs of required services. Tough choices continue to be the norm in service delivery.

On the supply side, revenues are still impacted by the lingering effects of a slowly recovering economy. State taxes, for instance, have settled from highs in FY 2009 of approximately \$65 million to the current levels in the mid \$50 millions. Local property taxes have been volatile due to foreclosures, and property reappraisals. These two revenue categories, which are the city’s largest, are not expected to rebound to previous levels, but they

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are expected to show stabilization from the lows of the last two years

With respect to revenues in the FY 2013 budget the primary objective was to match recurring expenses with reoccurring revenues, and to avoid one time revenue measures. Over the past two years, one time revenue sources have been used to fund Memphis City Schools (MCS) at over \$55 million for each year. The tax funding source for MCS was reduced in FY 2009 to transition school funding to the County government. A unified school system will begin in August of 2013 and all education funding will transition to Shelby County Government in FY 2014.

During the transition period the City of Memphis has continued to fund MCS at historical funding levels without a dedicated revenue stream, essentially causing expense reductions and one time revenue measures to sustain historical funding levels. For FY 2013 \$52.7 million of cost is included in this budget to fund schools, along with dedicated tax rate that directs ten cents (.10) to MCS. The tax rate is budgeted to generate \$10.7 million for MCS.

This budget also continues a revenue stream, initiated last year, the sale of delinquent property taxes (\$13 million), and \$1.0 million for expense recovery of Motor Vehicle Inspection costs.

The demand for services yet continues. Citizens demand safety, better infrastructure, good education and an economy that produces jobs. In addition, costs that are outside of the control of government such as fuel to operate police cars, fire engines, sanitation equipment and the like, as well as, healthcare costs continue to increase.

Our budgeted expenses are \$648.5 million. This includes a cost of \$52.7 million that will be transferred to the education fund for MCS. To incorporate the school funding the city's operating division's budgets are priority focused but they reflect shared sacrifice reductions to operate within our existing tax rate for general government. The FY 2013 Operating Expense Budget provides for core services delivery and our public safety initiatives. Through reductions we have absorbed our economic cost drivers for FY 2013. Increasing fuel cost and healthcare have been included in our projections. Reductions that assisted in presenting a balanced budget include:

- Eliminating the direct payment of Pensioner's Insurance premiums \$20.0  
*We will pay the premiums by drawing on our OPEB trust fund*
- Taking two fire companies out of service - \$4.5 million
- Eliminating all "non - essential" vacancies - \$1.9 million



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- Eliminating a variety of Human Service Grants -\$500k

A host of other reductions that impact all areas of service from contract services to maintenance services, to partial closures of golf courses round out the actions taken to control cost growth.

Consistent with our priorities and our efforts to use tax dollars efficiently, this budget contains two major structural transformations; the elimination of two operating divisions. The Divisions of Community Enhancement and Public Services and Neighborhoods are now consolidated with the Division of Public Works and the Division of Parks and Neighborhoods, respectively. This consolidation is designed to eliminate overlapping services and to streamline response to the needs of citizens.

Another service efficiency incorporated in the budget is the implementation of a 3 -1 -1 Call Center. This call center was developed primarily through combining the existing Mayor's Services Center along with the repurposing of personnel from the eliminated Divisions. The objective of the 3 -1 -1 Call Center is to provide citizens with a one stop call center for all needs and to monitor our responsiveness to those needs.

Although, we have exercised fiscal prudence, we expect the quality of our service delivery to remain strong.

We remain committed to seeking and evaluating opportunities to reduce costs and ensure the most cost effective service delivery options are in place.

### **Other Funds Discussion**

#### ***Enterprise Fund***

Enterprise Funds account for the acquisition, operation and maintenance of the City's facilities. The Enterprise Fund revenues, composed of Sewer and Storm funds, will approximate last year's budget as there were no increases proposed for FY 2013. The last revenue increase was in FY 2011. Combined expenses in the Enterprise Fund will be \$22.3 million less than revenues. The positive revenues (\$21.7 million) are primarily generated by the Sewer Fund. These revenues will be used to address federal mandates.

#### ***Internal Service Fund***

Internal Service Funds (ISF) are used to budget for the costs of goods or services provided by one division to other City divisions. The City of Memphis' internal service funds are the Healthcare Fund and the Fleet Fund. These costs in these funds are reimbursed

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by using divisions to the division (fund) providing the service.

The Internal Service Funds proposed budget expenses in the Healthcare Fund and in the Fleet Fund have increased expenses resulting from increased claim cost and increased fuel cost respectively.

### ***Special Revenue Fund***

Special Revenue funds provide budgets for specific revenue sources that are restricted to expenditures for specific purposes. Solid waste, Metro Alarm and the Board of Education Fund (B of E) are the major funds in Special revenue. Other funds that make up the Special Revenue fund can be found in the Special Revenue section of this document. The most notable change in the special revenue fund is that income has been added from a direct tax implementation for Memphis City Schools to the (B of E) fund. An explanation of the funding for MCS is contained in the General Fund discussion above.

### ***Debt Service Fund***

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 and appropriation obligation debt. During FY 2012 the City refunded \$75.4 million in bond anticipation notes and \$85.0 million in general obligation bonds. This accounts for significant variances between the results of FY 2011 and the forecasted results of FY 2012.

FY 2013's adopted budget includes interest and other costs associated with the restoration of the City's Commercial Paper Program.

Summaries of each of the "other funds" discussed above are presented with the all funds summary. The detail of each fund is presented in the other funds section located in this document.

