

# FINANCIAL SUMMARY

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## Budget Overview

### Goals and Objectives

*The City's Mission:* to provide responsive and cost effective services through the enhancement of employees, neighborhoods, youth and business development. *The Vision:* to be recognized globally as the City of Choice in which to live, learn, work and recreate. The mission and vision are the primary drivers of the organization and together they impact the City's operating and capital expenditure budgets.

To achieve the City's mission and vision, the Mayor has embraced a Strategic Business Model, framed by many of the City's business leaders, to initiate strategic actions to transform Memphis City Government. This plan was shared with the City Council, for feedback and modification. The Administration also considered input from the City's operating divisions and citizenry. Now complete, the plan articulates the mission, vision and values of the City of Memphis in coordination with the necessary transformative actions. The strategic model creates a paradigm that matches the realities of today's economic environment and the strategic priorities.

While Public safety remains the highest priority, the Mayor has defined other priorities that will promote economic development, consolidate functionally and balance fees versus taxes in the government. The priorities for FY 2012 are:

1. Jobs/Economic Development – 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.
2. Public Safety – The objective is to enhance crime prevention, provide support for at-risk and ex-offender populations, and promote community partnerships and citizen participation.
3. Customer Focus – This goal focuses on clarifying customer service standards, improving internal quality assessment, accountability and increasing and improving opportunities for citizen feedback.
4. Government Efficiency – The reformation of government processes and improvement of organizational coordination continue to be the objective of this priority.

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.

Throughout this document operating divisions have established goals and objectives that are consistent with the Mayor's priorities. To monitor goals and objectives, operating divisions have incorporated metrics and measures as part of their budget.

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.

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

While a slight national recovery has been recognized through leading economic indicators, 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 economic challenges for the City of Memphis are similar to municipal governments across the country. This 2012 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 Memphis 2011, A Year of Recovery Report, presented later in this document.

Our budget planning incorporates a balanced approach of expense reduction and new revenue generation to meet our priorities. For the third year in a row, the City is budgeting over \$55 million for support of the Memphis City Schools. This “maintenance of effort” funding is a true cost increase as the tax rate, which generated funding, was removed in fiscal year 2009. There has been no revenue source for this expense since the 2009 school tax rate was removed. As a result the City’s support of schools has been absorbed in the budget primarily through expense reductions.

To accommodate school funding and other priorities the administration has made tough choices for the FY 2012 budget. Expenses were reduced through a 4.6% salary reduction to all employees, including public safety. This generated \$16.9 million in savings. Layoffs were also a part of our expense reductions generating \$9.0 million in savings. A reduction of hours in our community centers and libraries, as well as outsourcing three of our city operated golf courses are also strategies being used to reduce expenses. While these represent tough choices to fund the education priority, we will continue to deliver quality services to our Citizens.

With respect to revenues the 2012 budget introduces new revenue streams from the sale of delinquent property taxes (\$20 million), and a \$0.18 cents one time tax increase for city school funding. The \$20.1 million generated from this increase will be identified as committed funds in our fund balance.

Other revenue strategies include an increase in court costs, implementation of a stronger parking enforcement program, and the outsourcing of parking ticket collections. Together the other revenue strategies generate approximately \$8.1 million.

## **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 2012 as the national economy.

Revenue growth is moderate for sales taxes and is approximately \$9 million more than last year’s budget. As mentioned in the economic impact discussion, the FY 2012 revenue plan does include a one time \$0.18 cents property tax increase to support Memphis City Schools. Net property taxes (including the impact of foreclosures) will increase by approximately \$15.3 million. These two revenue categories, which are the city’s largest, are not expected to rebound to previous levels, but they are expected to show stabilization from the lows of the last two years.

The FY 2012 revenue plan is virtually flat when compared to the FY 2011 adopted budget. The FY 2011 adopted revenue budget included approximately \$50 million proceeds from bond refinancing to support the



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school funding commitment. In the FY 2012 budget these proceeds are only \$20 million, a \$30 million decrease.

The FY 2012 Operating Expense Budget provides for core services delivery and our public safety initiatives. Increasing fuel cost and healthcare costs, our traditional economic cost drivers, have been efficiently absorbed in the FY 2012 budget.

Other expense increases, as noted earlier, reflect our commitment to education, and economic development. For the third year we are budgeting over \$55.0 million to “maintenance of effort” in our support of Memphis City Schools. We have paid for our expense increases through a 4.6% salary reduction to all employees, including public safety. This generated \$16.9 million in savings. Layoffs were also a part of our expense reductions generating \$9.0 million in savings. A reduction of hours in our community centers and libraries, as well as outsourcing three of our city operated golf courses are also strategies used to reduce expenses.

Although, we have exercised fiscal prudence, we expect the quality of our service delivery to remain strong. Without our education expenditure our expense budget goes from \$661.4 million to \$606.4 million. The FY 2011 budget, including education funding, was \$673.1; therefore our actions have produced a FY 2012 budget that is decreasing by \$11.7 million.

We remain committed to seeking and evaluating opportunities to restructure costs to insure the most cost effective 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 proposed for FY 2012 in the Sewer Fund increased by approximately 36.0% this growth is a result of a rate increase implemented in FY 2011 to meet federal requirements. The full impact of the rate increase is presented for FY 2012.

### ***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. These costs are reimbursed by using divisions to the division (fund) providing the service. This year the internal services funds do not include the Printing Fund. This fund was incorporated into the General Fund for FY 2012.

The Internal Service Funds proposed budget increase is primarily due to the Healthcare Fund which is increasing by 8.4% as a result of funding included for a Medicare buy back strategy. The Fleet Fund will have only moderate increases as measures have been taken to make the Fleet Fund more efficient.

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

Special Revenue funds provide budgets for specific revenue sources that are restricted to expenditures for specific purposes. The FY 2012 proposed revenue budget is \$66.2 million which reflects a 2.1% increase



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from the FY 2011 adopted budget.

## ***Debt Service Fund***

The Debt Service Fund provides for the accumulation of resources for the payment of general long-term debt principal, interest and related costs. There is a 47.7% or \$62.3 million increase in total expense when comparing the FY 2012 proposed budget with the FY 2011 adopted budget. The primary increase in expense is due to the retirement of a refunded note. There is corresponding income for this retirement therefore there is no fund impact.

