May 9, 2012

City of Memphis
FY 2013 Budget Overview 2

"Big Issues" Discussion

The Administration's Budget Request

Expenditure Funding Level: $ 628.3 M

Recurring Revenue Stream Needed:

- ❑ Fund Memphis City Schools
- ❑ Pay Debt Obligations in FY 2013 (2014-2016)
- ❑ Public Safety Initiatives
- ❑ Restore Salary Reductions

Note: The next countywide property reappraisal will occur in FY 2014. There is a strong probability that property values will continue to decline. Property tax revenue will also be negatively impacted, if the tax rate is not adjusted upwards to offset the decline in assessed property values.

Why is a Recurring Revenue Stream Required?

Reason I

- Council reduced the tax rate dedicated to school funding in FY 2009 by $ 0.63:
  - Amount transferred to City Government $ 0.45
  - Amount returned to citizens $ 0.18

How we used the $0.45

Revenues Declined	Expensed Increased	
$6.0 M	Salary increase	$17.1 M
	Fuel / Utility Cost	3.2 M
	OPEB Trust	6.0 M
	Public Safety Initiatives	4.1 M
	Healthcare Premium Inc.	3.0 M
	Total	$33.4 M

City Council Initiatives	
Living Wage Ordinance	$2.5 M
Operation Safe Community	1.3 M
MCS Literacy Programs	2.4 M
Utility Assistance Program	2.5 M
Total	$ 8.7 M

Note: The salary increase was effectively offset by a general salary reduction in FY 2012.

Why is a Recurring Revenue Stream Required? (cont'd)

Reason II

- The City of Memphis lost the "Maintenance of Effort" Lawsuit thus requiring payment of an annual funding obligation to MCS. The City Administration has met its MCS Maintenance of Effort obligation since 2010 with a variety of **one-time** revenue measures and unsustainable actions.

FY 2010	FY 2011	FY 2012 (Budgeted)
$22.0M General Fund Reserve	*$45.0 M Debt Service Reserve*	*$20.0 M Debt Service Reserve*
$23.0 M Direct tax Rate	*$22.0 M Direct tax Rate*	*$20.0 M One Time Assessment*
$18.0 M Budget Cuts	$15.0 M Budget Cuts	*$17.0 M Salary Reductions*
$ 1.5 M TVB Revenues	$ 1.0 M TVB Revenues	$ 4.0 M Layoffs
		$13.0 M Budget Cuts
		$ 1.5 M TVB Revenues
$64.5 M Total Funding	$83.0 M Total Funding	$75.0M Total Funding

Non-Sustainable Actions Sustainable Actions

Why is a Recurring Revenue Stream Required? (cont'd)

Reason III

- Future Challenges on the Horizon
  - Debt Service Costs
  - Healthcare Costs
  - Salary / Wage Pressures

Property Tax Rate History

Property Tax Rate History

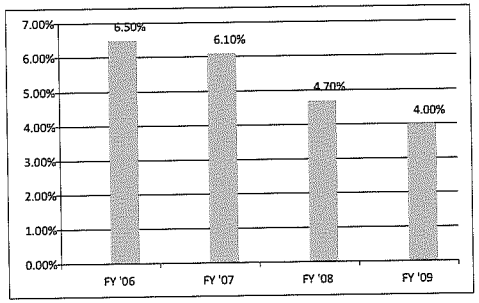
The last increase in property taxes occurred in fiscal year 2006. Over this seven year period costs were managed without a tax increase.

Measures to avoid a property tax increase

- Increased reliance on user fees
  - Created Storm Water Fund
  - Increased Solid Waste Management Fees to cover cost
- Shifted regional cost to Shelby County Government
  - Health Department Funding
- Aggressively managed expenditures for other operating Divisions
  - Decreased employee salaries by 4.62% in FY 2012
  - Laid off 125 City Employees in FY 2012
  - Reduced planned OPEB funding in the last two years

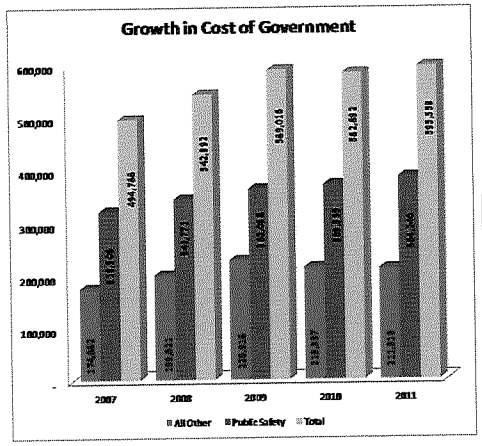
Major Cost Drivers since last Tax Increase

- Unfunded mandates paid - MCS total $153.5 M
- City Debt Outstanding increased by $718.1 M
- Healthcare costs increased by 21.3%



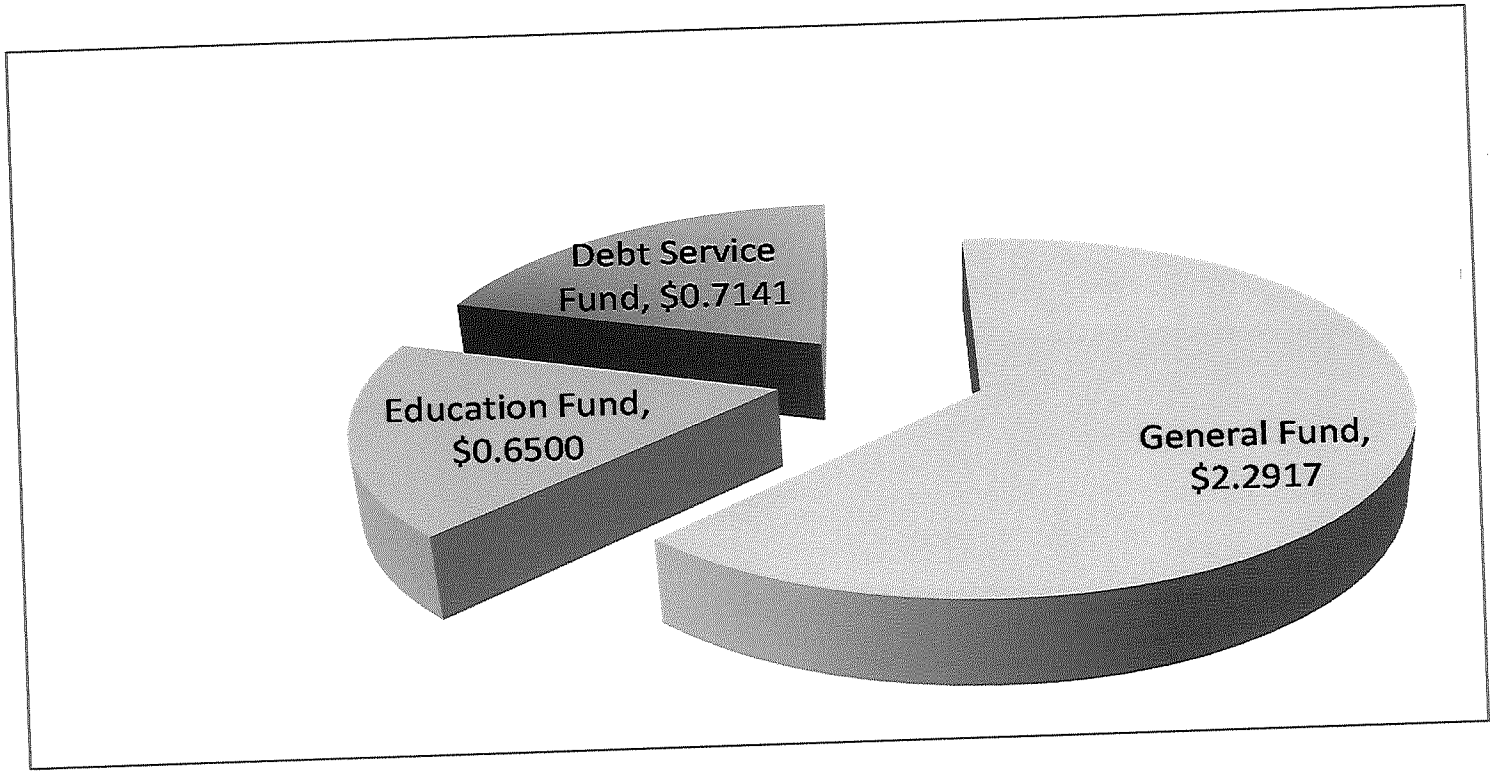
Source Center for Medicare and Medicaid Services
Office of the Actuary
Data Released January 6, 2011

- Public Safety costs increased by 20% (or $64.3 M) from FY 2007 to FY 2011.



Year	All Other		Public Safety		Total	
2007	174,882		319,906		494,788	
2008	199,621	14%	342,771	7%	542,392	10%
2009	226,918	14%	362,098	6%	589,016	9%
2010	213,337	-6%	369,555	2%	582,892	-1%
2011	211,313	-1%	384,240	4%	595,553	2%

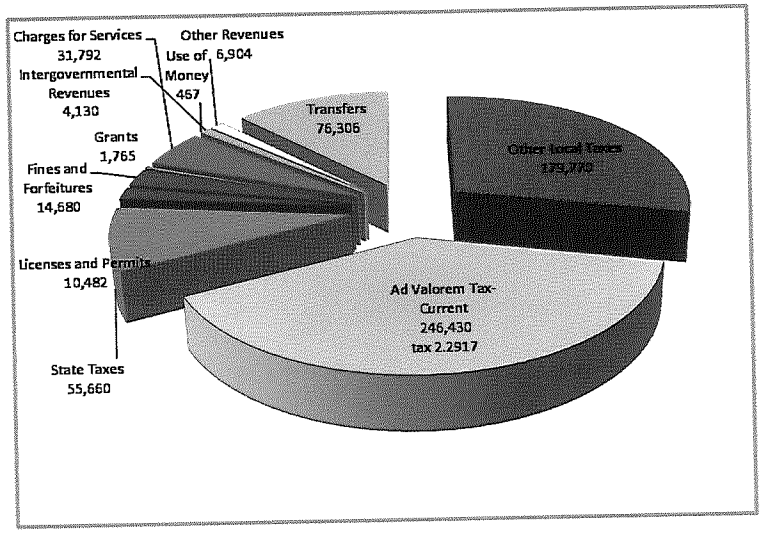
Original Proposed Tax Structure
$3.66



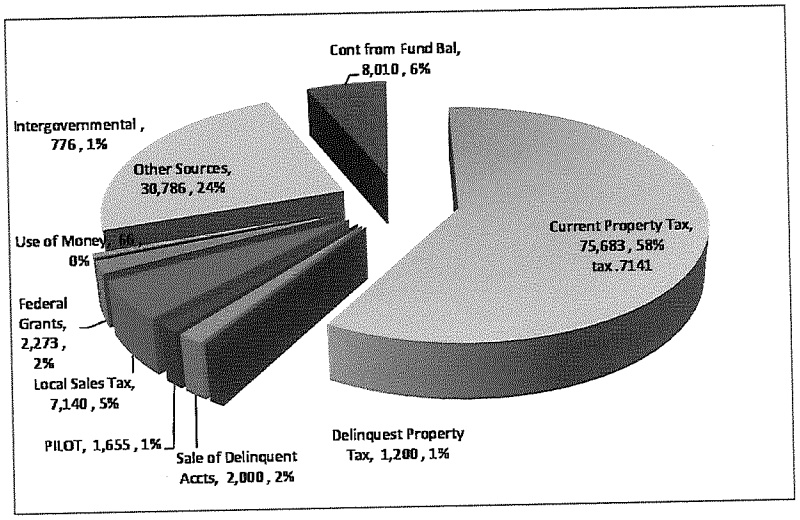
Note: Capital Pay Go of $ 0.0031 not reflected due to immateriality.

Original Proposed Tax Structure

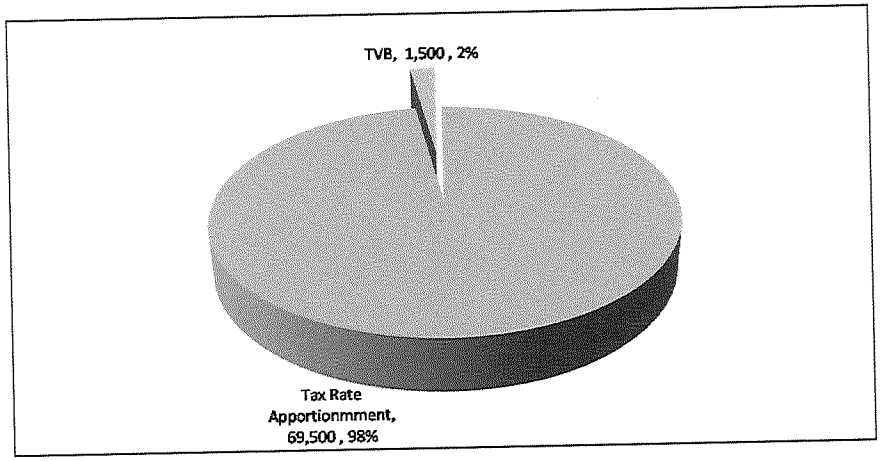
Where the Money comes from: REVENUES



General Fund (in 000's)



Debt Fund (in 000's)



Education Fund (in 000's)

Tax increase on residential property

Tax Rate Increase	Appraised Market Value	Assessed Value 25% of Market	Annual Property Tax
Current Tax Rate			
3.19	50,000	12,500	398.75
	70,000	17,500	558.25
	100,000	25,000	797.50
	150,000	37,500	1,196.25
Incremental Tax Increase			
0.4700	50,000	12,500	58.75
	70,000	17,500	82.25
	100,000	25,000	117.50
	150,000	37,500	176.25
Proposed Total Tax Rate			
3.66	50,000	12,500	457.50
	70,000	17,500	640.50
	100,000	25,000	915.00
	150,000	37,500	1,372.50

Increase of **$117.50** per year or **$9.80** per month or **$2.26** per week.

Tax Rate Increase Alternatives

Use Two Alternatives to Reduce $ 0.47 tax rate increase

1. Depot Sale Proceeds
2. OPEB Funding Bonds

Option Analysis: Depot Sale Proceeds

Budgetary Relief: $9.0 Million

Description: Use the proceeds from the sale of the Depot to fund a portion of the City's Maintenance of Effort funding obligation.

Advantages:

- Reduces requested tax rate requested by $0.08 (est'd)

Disadvantages:

- This is not a recurring Funding Source.
- Reduces fund balance and limits future financial flexibility.
- Reduces available cash balance.

Option Analysis: OPEB Funding Bonds

Budgetary Relief: $20.0 Million

Description: This is a borrowing program.

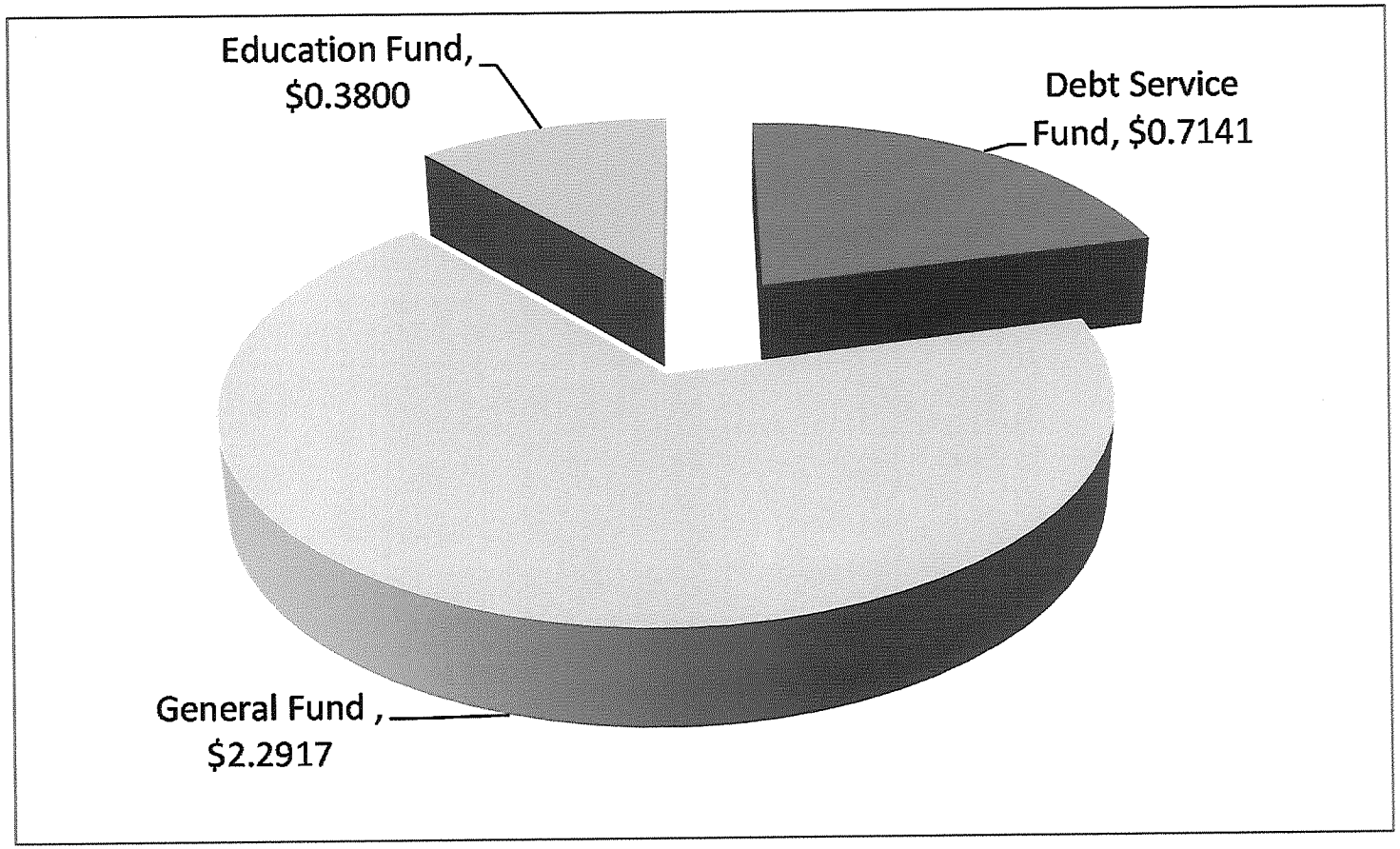
Advantages:

- Reduces tax rate request by $0.19 (est'd)

Disadvantages:

- This is not a recurring Funding Source.
- Increases the City's outstanding debt obligation.
- One time measure that would require funding the City's retiree healthcare costs with general revenues in 2014 and beyond.
- Will require future repayment of principal and interest.
- Potential Negative impact on the City's bond rating if this fund is not replenished in the future.

Potential Revised Tax Structure
$3.39



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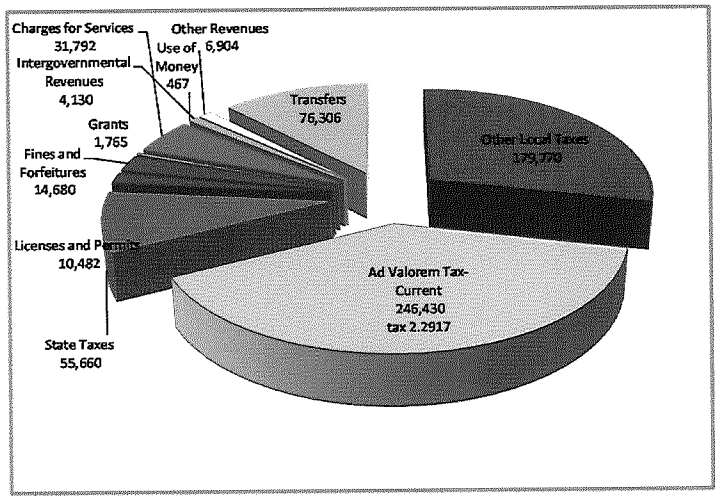
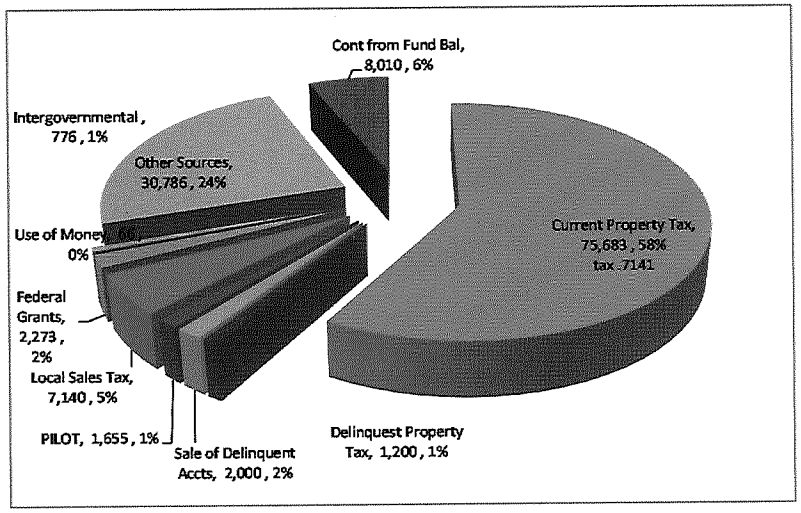
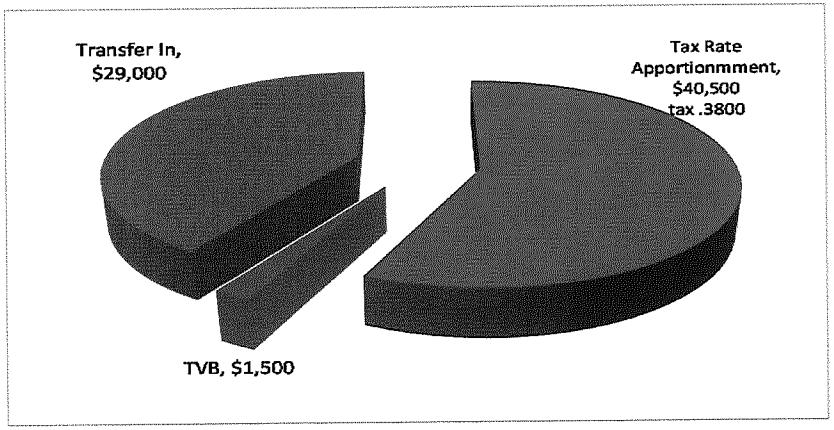
Potential Revised Tax Structure



General Fund (in 000's)



Debt Service Fund (in 000's)



Education Fund (in 000's)