Budget Retreat: Financial Update

February 11, 2021

All Information except forecasts is “as of” 6/30/20
Agenda

- Understanding the Budget
  - Structure of the Budget (Funds)
  - General Fund
  - Fund Balance
  - Where the Money Comes From
  - Where the Money Goes
- Pension Fund
- Pandemic Effect on Market Driven Sources of Revenue
- Forecast
- Budgetary Factors
- Budget Timeline
Budget Structure

- Governmental
  - General Fund
  - Special Revenue
  - Debt Service
  - Capital Projects

- Proprietary
  - Enterprise
  - Internal Service

- Trust/Fiduciary Funds
## FY 20/21 Adopted Budget

**Focus Area**

- **General Fund (net)**: $234,589,040
- **Special Revenue Funds**: $37,182,680
- **Debt Service Funds**: $25,085,570
- **Capital Projects Fund**: $24,073,540
- **Enterprise Funds**: $63,187,860
- **Internal Service Funds**: $50,773,740
- **Total Budget**: $434,892,430

*City of Knoxville*
Fund Balance
(as of 6/30/20 - audited)

Unassigned Fund Balance is $20M but $11.7M held as best practice to maintain credit ratings. Only leaves $8.3M available for potential use.
Current Bond Ratings

- **Fitch:** AAA
- **Moody’s:** Aa1
- **Standard & Poor’s:** AA+

<table>
<thead>
<tr>
<th>Moody's</th>
<th>Standard &amp; Poor's</th>
<th>Fitch Ratings</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>AAA</td>
<td>AAA</td>
<td>Prime Investment</td>
</tr>
<tr>
<td>Aa1, Aa2, Aa3</td>
<td>AA+, AA, AA-</td>
<td>AA+, AA, AA-</td>
<td>High Grade Investment</td>
</tr>
<tr>
<td>Baa1, Baa2, Baa3</td>
<td>BBB+, BBB, BBB-</td>
<td>BB+, BBB, BBB-</td>
<td>Lower Medium</td>
</tr>
</tbody>
</table>
General Fund Revenue vs Expenditures
(actual & projected assuming no additional revenue)

Average annual growth of GF revenue is 1.06% for last 3 FY’s
Average annual growth of GF expenditures is 2.84% for last 3 FY’s
Factors in new debt cost approx. $2.25M this FY & $3.8M/ FY thereafter

COVID $$$, careful spending & cautiously optimistic revenue estimates
• Adequate shape at present due to COVID $$ & lower than anticipated expenditures due to pandemic but must stop expenditure growth from outpacing revenue growth

• In addition to our stabilization account (a.k.a. “Reserve”) which equates to 20% of the General Fund, we must maintain another 5% of general fund ($11.7M currently) as unassigned fund balance to retain ratings

• Max available in unassigned fund balance right now is approx. $18M w/o endangering bond ratings.
Caution

Approx. $12M (5% of GF) must remain unspent to maintain bond ratings.
WHERE THE MONEY COMES FROM
## FY 20/21 General Fund Budgeted Revenues & Sources

By Source (Dollars Rounded to Nearest Million)

<table>
<thead>
<tr>
<th>ESTIMATED REVENUE</th>
<th>AMOUNT</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$ 103,165,600</td>
<td>43.98%</td>
</tr>
<tr>
<td>Local Option Sales Taxes</td>
<td>$ 42,168,090</td>
<td>17.98%</td>
</tr>
<tr>
<td>KUB PILOT</td>
<td>$ 23,500,000</td>
<td>10.02%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>$ 27,917,600</td>
<td>11.90%</td>
</tr>
<tr>
<td>State Shared Sales Taxes</td>
<td>$ 14,930,000</td>
<td>6.36%</td>
</tr>
<tr>
<td>Hall Income Tax</td>
<td>$ 1,600,000</td>
<td>0.68%</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$ 5,243,010</td>
<td>2.23%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>$ 4,591,960</td>
<td>1.96%</td>
</tr>
<tr>
<td>Fund Balance</td>
<td>$ 11,472,780</td>
<td>4.89%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$ 234,589,040</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

- **Gone in FY 22**: Not revenue — use of fund balance.
General Fund Total Revenues
By Source

- Total Budgeted Amount = $234,589,040
- Property Taxes 44%
- Local Option Sales Taxes 18%
- KUB PILOT 10%
- Other Taxes 12%
- State Shared Sales Taxes 6%
- Hall Income Tax 1%
- Intergovernmental 2%
- Other Revenues 2%
- Fund Balance 5%

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WHERE THE MONEY GOES
General Fund Expenditures
(Excludes Transfers)

63% Workforce Related

Salaries 46%

Other Charges 12%
Supplies 4%
Healthcare 8%
Pension 5%
Other Benefits 4%
Utilities 3%
Grants 6%
Fleet 9%
Risk 3%
Estimated Future Pension Contributions

Unfunded Pension Liability Paid Off
Market Driven Sources of Revenue

Local Option Sales Tax:
- 3 Yr Average: $20,566,917
- Last FY (FY 20): $21,316,885
- Current FY (FY 21): $22,258,072

State Shared Sales Tax:
- 3 Yr Average: $7,757,506
- Last FY (FY 20): $8,118,769
- Current FY (FY 21): $8,544,437

Beer Tax:
- 3 Yr Average: $3,828,812
- Last FY (FY 20): $3,862,780
- Current FY (FY 21): $3,828,750
# Market Driven Sources of Revenue

<table>
<thead>
<tr>
<th>Source</th>
<th>3 Yr Average</th>
<th>Last FY (FY 20)</th>
<th>Current FY (FY 21)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Admissions Tax</td>
<td>$918,656</td>
<td>$971,258</td>
<td>$244,275</td>
</tr>
<tr>
<td>Hotel/Motel Tax (City)</td>
<td>$2,190,190</td>
<td>$2,286,876</td>
<td>$1,460,127</td>
</tr>
<tr>
<td>Hotel/Motel Tax (County)</td>
<td>$468,289</td>
<td>$487,202</td>
<td>$290,936</td>
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<tr>
<td>Business Taxes</td>
<td>$835,489</td>
<td>$926,071</td>
<td>$583,747</td>
</tr>
<tr>
<td>Business License Fees</td>
<td>$103,240</td>
<td>$107,821</td>
<td>$289,503</td>
</tr>
<tr>
<td>Wholesale Liquor Inspection Fee</td>
<td>$1,954,934</td>
<td>$2,077,810</td>
<td>$2,532,672</td>
</tr>
<tr>
<td>Mixed Drink Tax</td>
<td>$1,016,162</td>
<td>$1,106,594</td>
<td>$801,139</td>
</tr>
<tr>
<td>Alcoholic Beverage Tax</td>
<td>$84,051</td>
<td>$98,400</td>
<td>$112,014</td>
</tr>
</tbody>
</table>

Must refund $189K to UT
Property Tax Revenue

Property Tax Revenue Table:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Commercial</th>
<th>Industrial</th>
<th>Residential</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Year Avg (as of 12/31)</td>
<td>$85.2</td>
<td>$47.6</td>
<td>$1.8</td>
<td>$35.6</td>
</tr>
<tr>
<td>Last FY (as of 12/31)</td>
<td>$86.0</td>
<td>$48.1</td>
<td>$1.8</td>
<td>$36.0</td>
</tr>
<tr>
<td>Current FY (as of 12/31)</td>
<td>$85.3</td>
<td>$47.7</td>
<td>$1.8</td>
<td>$35.7</td>
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</tbody>
</table>
COVID Expenditures
(Spent & Pending)

GRAND TOTAL: $21.05M

- Transit Assistance, $(13,264,902), -63%
- Housing Assistance, $(1,905,788), -9%
- Homelessness Shelter & Services, $(1,251,971), -6%
- Revenue Loss, $(520,077), -2%
- Non-Profit Support, $(1,200,000), -6%
- COVID Pay, $(1,644,162), -8%
- Virus Protection, $(586,812), -3%
- Education & Employment, $(200,000), -1%
- Food Assistance, $(325,250), -3%
Expenditure forecast lower than originally thought. Revenue forecast higher due to one time COVID $$.

Total & Unassigned Fund Balance forecasted to grow by approx $10M.
Caution

Approx. $12M (5% of GF) must remain unspent to maintain bond ratings.
Budgetary Factors

- Expenditure growth rate (2.84%) continues to outpace revenue growth (1.06%) causing us to spend fund balance

- Property tax dollars are worth 42 cents less in real dollars than back in FY 11 due to slow but steady inflation

- This is last FY for Hall Tax. Historic proceeds ranged between $4M & $11.6M

- Unassigned Fund Balance dropped in FY 19 & FY 20 and would drop this FY were it not for one time COVID dollars & lower expenditure rates due to the pandemic
Budgetary Factors

• Recently issued new debt so debt service payments will increase by approx. $3.8M/year beginning in FY 21/22

• Property tax collections were strong in Oct but Nov/Dec were slower than prior year. Will monitor through Feb

• State Shared Sales Tax, Local Option Sales Tax, and some other revenue sources doing better than anticipated despite pandemic

• Must strike the right balance between addressing compensation issues, continuing basic services at a high standard, and maintaining our unassigned fund balance at a proper level
Budget Timeline

February 11, 2021  Budget Retreat.
March, 2021  Mayor available to meet individual council members re budget
March 23 – 25, 2021  Mayor’s Budget Hearings
April 23, 2021  Mayor’s State of the City Address
May 4, 2021  First reading of proposed budget & tax ordinances
May 13, 2021  Knoxville-Knox Planning Commission Hearing on CIP
May 13 – 14, 2021  Legislative budget hearings
May 14, 2021  Public Hearing
May 18, 2021  Second reading of proposed budget & tax ordinances
June 15, 2021  Last possible day to approve Budget/Tax Ordinances
July 1, 2021  New Fiscal Year Begins

City of Knoxville
Questions?