
Executive Summary

The FY 04/05 budget, like all budgets, serves as a vision for the future. The decisions that shape this budget have a lasting impact. Good decisions result in increased investment and future positive returns while poor decisions limit future flexibility and may result in unanticipated consequences and problems.

The FY 04/05 budget is designed to address the financial constraints facing the City, while promoting the goals of this administration. The focus of the FY 04/05 budget is improving the climate for economic development in the City, and improving efficiency in government.

GENERAL OVERVIEW

Revenues and Expenses

The proposed property tax rate for FY 04/05 is \$3.05 per hundred dollars of assessed value. Of this amount \$0.81 goes to the Debt Service fund to pay for bonded debt costs. The proposed tax rate is an increase of \$0.35. The average residential property in the City of Knoxville is appraised at \$70,521. For the average residential homeowner the cost of the tax increase is \$61.71 and the total taxes paid will equal \$537.72. When adjusted for the impact of inflation and countywide reappraisals, the proposed tax rate is actually lower than it was ten years ago.

The total operating budget in Fiscal Year 2004/05 is \$286,726,090. The net budget, i.e., excluding interfund transfers and charges, which are effectively double counted within the budget, is \$212,487,310. The budget for the General Fund, which is the main operating fund of the city, equals \$144,237,400.

Funding Issues

A number of challenges presented themselves during the preparation of this budget. Over the past two years the City will have drawn down its General Fund fund balance by approximately \$11 million or over one-third. While still at satisfactory levels, this trend could not con-

tinue without jeopardizing the City's bond ratings and creating potential cash flow problems. The FY 04/05 budget, unlike previous budgets, does not propose to utilize fund balance to fund projects.

Despite the utilization of fund balance in past years, some capital investments have been deferred. Although this strategy may be acceptable over the short term, it can cause long-term difficulties and end up costing more than it might have otherwise. This budget attempts to reverse that trend as well. The budget includes \$3 million to restore the City's paving program. This funding enables us to return a regular, orderly paving schedule. Also included are funds for bridge repair/replacement, traffic signal improvements, continued drainage improvements, roof replacement of city buildings, as well as replacement of older equipment at the Coliseum/Auditorium.

Over the past few years the City has been hit with cost increases in certain fixed expenditures. The cost of health care coverage has grown at a dramatic level. The City is now expecting its third consecutive year of double digit health care cost increases. Based upon current trends we have built in a twenty-percent increase at mid-year. The estimated impact of these increases upon the City is \$1.2 million with employees assuming another \$0.6 million. At this time it is likely that these increases will continue unless changes are made. One change incorporated into this budget is a shift in the way the City's medical clinic works. The focus will be on preventive medicine and regular treatment of chronic illness. It is believed that this focus will slow the rate of growth in these costs. The budget proposes to set aside \$1.3 million to establish a reserve in the Health Care fund. This will allow the City more flexibility in health care prevention and cost containment in the future.

The City maintains a pension fund for its employees. The recent performance of the stock market has affected the portfolio of this plan and has made it necessary to increase the

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City's contribution rate this year to maintain full funding of the plan. The additional cost of doing this is approximately \$1.8 million. Barring a major upturn in the markets it is likely that additional increases will be required in future years.

The impact of the increase in fixed operating costs has made it necessary to reduce other expenditure areas. As part of the budget process each department was asked to reduce three-percent from its FY 03/04 budget level. This was done in a variety of ways. However, given the high portion of costs devoted to labor, most of the reductions occur in personnel. As part of the FY 04/05 budget the personnel count of the City drops by 18 full-time positions and 5 part-time positions. Most of the reductions occur through attrition. The reductions have been done in a way so as to minimize the deleterious effect upon city services. At the same time the budget includes a 2.5% salary increase for all non-probationary employees effective for the full fiscal year. The budget also provides funding to implement the recommendations of the City's salary survey. These funds will primarily benefit entry level and lowered paid workers.

Improved Efficiency

As mentioned earlier, one of the primary objectives of this budget is to increase efficiency. In the short term this requires some capital investment, which will generate savings and improved operations later. Funding is included for a new one-call center, which will allow citizens to easily report problems and track progress in resolving those problems. Funding is provided to replace the City's outdated financial reporting system. Training for Police Officers and Firefighters will be improved through new investments at the respective training facilities. Funding is provided for energy improvements at the Convention Center, which should have a very rapid payback.

The City is also undertaking a more extensive performance measurement system. The costs of doing this are incorporated into existing

budgets but it is expected to result in improvements in future years.

The budget also proposes a reduction in the number of vehicles. This will lower maintenance costs and allow us to focus more on maintenance of the remaining vehicles. The City will also be purchasing more fuel efficient vehicles in order to lower costs.

Economic Development

A solid economy is essential for any city. The first phases of downtown redevelopment have been very positive, and this budget provides funding to continue the momentum of these efforts. Specifically the budget provides \$2 million to fund phase 3 of the Market Square development project. The budget also includes funding to build a downtown transit center.

The City will continue its efforts to renovate and promote the World's Fair Park area. Included in the budget is \$1 million for this cause, which is expected to be used on repairs to the Sunsphere.

Preservation of our history is also important and a portion of this budget is dedicated to historic preservation efforts in our downtown. It is vitally important that we continue to recognize our past as well as plan for our future, and we hope to do this with a \$1 million contribution to be used in the renovation of the Tennessee Theatre. This continues the donation begun in FY 02/03. This represents the final installment of a \$4 million contribution to this project.

The budget also continues the financial commitment to the Tourism and Sports Development Corporation to help promote tourism efforts and to attract visitors to the new Convention Center. Enhancing cultural opportunities also effects economic development. The budget continues funding of \$210,000 for improvements to the East Tennessee Historical Museum, part of a multi-year \$1 million commitment. Operating contributions are made to

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the Knoxville Symphony, City Ballet, the Art Museum, the Tennessee Theatre and several other arts and cultural groups.

Job creation is a key objective of the Haslam administration. The proposed budget includes \$400,000 for the Jobs Now campaign, as well as other funding to aid the Chamber Partnership in their economic development efforts.

Neighborhood Improvements

Improving the quality of life in our neighborhoods is vital. This budget includes \$250,000 for the initial phase of a traffic calming program. Funding of \$150,000 is provided for ballpark improvements in parks throughout the City. Funding of \$100,000 is included for the Ashley Nichole dream playground, which is designed to be accessible to children of all skills and abilities. Funding of \$150,000 is included to improve accessibility to city owned facilities and \$250,000 is included to continue the curb cut program. Funding for the sidewalk safety improvement is included as well as money to complete the Bearden vehicle trip reduction program. A total of \$100,000 is provided for improvements to the Eastside Recreation Center.

Accounting Changes

There are some accounting changes which affect comparisons between the FY 03/04 and FY 04/05 budgets. These changes primarily deal with the reorganization implemented by the Haslam administration.

The numbers of departments have been reduced and reorganized. Several former departments are now listed as divisions under new departments. The budgeted amounts at the division level are generally comparable. Exceptions to this are the Facilities Maintenance Section, which has moved from the Public Service Division to the Engineering Division, and the Development Services division, which is now reconstituted in several other divisions.

CONCLUSION

The remainder of this budget includes additional summary material, and a more detailed discussion of revenue and expenditure trends. It is hoped that these materials will provide the reader with a more thorough understanding of the proposed operating budget.