

GENERAL FUND REVENUES

Total General Fund revenues for FY 04/05 equal \$144,237,400. This represents approximately an 8.33% increase when compared to the budgeted FY 03/04 revenues of \$133,196,180. The proposed FY 04/05 budget, unlike the FY 03/04 budget does not include the use of fund balance to cover expenditures. This is due to a significant decline in the General Fund balance over the past two years. Comparing actual operating revenues between FY 04/05 and FY 03/04 shows an increase of \$15,764,790 or 12.3%. Revenues are projected to increase by \$12,879,270 when compared to estimated actual revenues in FY 03/04. The economy is experiencing a slight rebound, which, when combined with a change in the property tax rate, accounts for the change in projected revenues in FY 04/05.

TAXES

The largest single category of revenue to the General Fund is taxes. This one category equals \$122,090,520 or approximately 84.65% of the total revenue to this fund.

Property Taxes

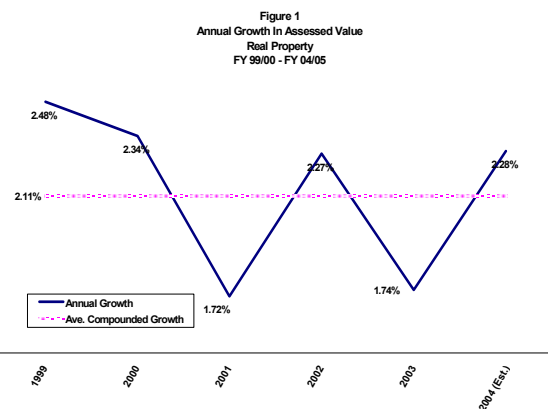
The largest revenue source within this category is property taxes. Property taxes are, in turn, divided into three types: taxes on real property, taxes on personal property, and taxes on public utilities.

There are four factors that determine revenues from property taxes:

- 1) The assessed value of property;
- 2) The state equalization rate;
- 3) The collection rate on property taxes;
- 4) The tax rate itself.

Assessed Value and Equalization Rate: Since 1983, the average growth in real property values has fluctuated widely. Growth was almost non-existent in the years between 1985 and 1988. This changed in the early 1990's with increases in the two to three percent ranges. The mid to late

1990's and early 2000's have been characterized, with the exception of reappraisal years, by this same fairly moderate growth. We expect this to continue into the new fiscal year and estimate the overall growth in real property to be approximately 2.26%. Higher growth is expected for commercial property but this is offset in part by a slightly lower growth rate for residential property and by a projected continual decline in the value of industrial property. For FY 04/05 the projected assessed value of real property is \$2,537,224,890. In projecting the FY 03/04 numbers we lacked informa-



tion from the Knox County Property Assessor. The final 2002 tax roll came in slightly lower than expected and this is reflected in the revised estimates for FY 03/04. The projected amounts for FY 04/05 are based upon the latest available data from the Assessor's Office.

The Property Assessor is unable to supply final estimates on the assessed value of personal property until after the adoption of the budget. Personal property tax growth rates have shown much more volatility than real property. In the 1980's the annual growth rate of this revenue source was frequently in the mid-teens. A change in state law in 1990, implemented a new accelerated depreciation schedule, and made other changes in the calculation of this tax. This change essentially halted the growth of this revenue

source for several years. As a result of increased audits, an upward trend began in 1998. For the upcoming year we forecast the growth in assessed value to be approximately 2.1%. As with real property, we did not have final numbers from the Property Assessor's Office until after passage of the budget. The actual tax roll grew at a higher rate than we had projected, which explains the increase in forecasted FY 03/04 revenues from the FY 03/04 budget.

The third set of property tax revenues comes from taxes on public utilities, which are assessed by the Division of State Assessed Properties under the Office of the State Comptroller. These values are supplied in December and have typically varied little from year to year, unless affected by a change in the equalization rate. Recent trends, however, have been negative, the result of many successful appeals of the state appraisals. This created a larger decline in assessed value in FY 03/04 than was expected. We now expect this downward trend to recur in the upcoming year and are forecasting a 2.9% drop in assessed value in this category.

Collection Rate: Historically, the City has collected an average of 93.9% of real property taxes, 94.3% of personal property taxes, and 98.4% of the taxes upon public utilities in the year in which they are levied. We utilize these averages in making our forecasts.

Tax Rate: For FY 04/05 the budget is based upon

a total tax rate of \$3.05 per hundred dollars of assessed value, which is 35 cents more than the FY 03/04 rate. The tax rate is apportioned between the Debt Service Fund and the General Fund. In FY 04/05, \$0.81 of the tax rate goes directly to the Debt Service Fund, unchanged from FY 03/04. The portion of the tax rate used for General Fund purposes is \$2.24. Combining all factors yields the

budgeted revenue from property taxes as illustrated in Table 1.

When compared to the FY 03/04 budget, current projected property tax collections are up by \$10,626,500 in the General Fund, or approximately 21.3%.

Tax Discounts

The City offers a one percent discount on property taxes paid before the end of October. For FY 04/05 the anticipated discount in the General Fund is \$280,200, which is \$37,870 more than the FY 03/04 budgeted amount. The greater amount is due to the change in the tax rate, as we do not believe the percentage of individuals receiving a discount will deviate much from the current year.

This discount represents a reduction in the amount of revenues available to the General Fund. The discount allows the City to better manage cash flow, avoid the need to issue tax anticipation notes, and increase interest earnings.

Payments In Lieu Of Taxes

Other revenues within the tax category include the payment in lieu of taxes from the Knoxville Utilities Board (KUB) and Knoxville's Community Development Corporation (KCDC). The payment from KUB is based upon two components, one being the estimated property value owned by KUB and the second being an average of overall revenues. In FY

04/05 the KUB payment is expected to be \$11,578,160, which is \$2,113,280 or 22.3% above the budget for FY 03/04. This change is based upon modest growth in property held by KUB, the change in the tax rate, and anticipated growth in average revenues. The payment from KCDC is projected at \$73,740, which is \$11,860 less than budgeted in FY 03/04. A non-profit has opened a senior citizen housing complex and is also subject

	Estimated Assessed Valuations	Est-Coll. Rate	Tax Rate per \$100	FY 04/05 Budgeted Revenue
Real Property	\$2,537,224,890	93.9%	\$2.24	\$53,372,300
Personal Property	315,457,050	94.3%	2.24	6,664,700
Public Utilities	<u>145,984,310</u>	98.4%	2.24	<u>3,072,400</u>
TOTAL	<u>\$2,998,666,250</u>			<u>\$63,109,400</u>

to a payment in lieu of taxes. The amount expected from this complex is \$33,200.

Sales Taxes

The City imposes, as the result of local referenda, a 2.25% local option sales tax on all sales within the city limits. Approximately 72% of the proceeds from the tax go to the Knox County School District, with the balance flowing to the City's General Fund. The revenues from this source comprise the second largest source of revenue within the tax category. In FY 04/05, local option sales tax revenues are expected to equal \$30,528,600 or 21.2% of total General Fund revenues. The City, like the rest of the nation, has witnessed a decline in sales based revenues during recent years, but we are beginning to experience a slight upturn locally. We are forecasting a growth rate of 2.5% over adjusted FY 03/04 collections.

Other Taxes

Revenues from the beer tax, mixed drink tax, and the alcoholic beverage tax grew at a rapid pace in the early 1990's, but the rate of growth has been tempered somewhat in recent years. We have, however, experienced a huge increase in beer taxes in the past two years. We expect this to continue in FY 04/05, and revenues from beer taxes are expected to increase by \$179,930 when compared to the FY 03/04 budget. Total revenues from the beer tax are forecast at \$5,738,530. Alcoholic beverage taxes have also grown at a faster than expected rate and are expected to generate \$1,791,700 in FY 04/05. This is \$139,100 more than the amount budgeted in FY 03/04. Mixed drink taxes have increased at a slightly higher pace than expected in FY 03/04 and estimated actual revenues are higher than budgeted. In FY 04/05 revenues from this source are expected to grow at a 0.5% rate from the estimated actual amount, and are now budgeted at \$880,000 in FY 04/05.

The improvement in the economy has also led to higher business tax collections. We currently expect to end FY 03/04 approximately \$415,000 above the budgeted amount. For FY 04/05 we are now projecting continued (1.5%) growth over expected FY 03/04 collections. Projected revenue from this source in FY 04/05 is \$3,747,400, which is \$470,000 more than budgeted in FY 03/04.

Cable television franchise taxes are down for the year and we expect only modest growth in the new fiscal year. These revenues are now forecast at \$1,173,800, which is \$82,400 or 6.6% less than the amount budgeted in FY 03/04. The fiber optic business has been hard hit by the economic downturn and franchise fees have declined in turn. For FY 04/05, the budgeted amount from this source is now zero.

INTERGOVERNMENTAL REVENUE

The second largest revenue category of the General Fund is intergovernmental revenue, i.e., revenue that comes from another governmental unit, primarily the State of Tennessee. This category of revenue accounts for \$17,218,910 or 11.9% of total revenue. Unlike the past year we do not expect any additional cuts in state shared revenue. Instead, we expect this category of revenue to be up by \$562,730 or 3.4% when compared to the FY 03/04 budget.

The largest single revenue within this grouping is the state shared sales tax. This revenue source is recovering somewhat from losses in FY 02/03, and is now expected to exceed the budgeted amount for FY 03/04 by approximately \$340,000. As is similar to local sales tax collections, we are forecasting only a very slight growth over expected FY 03/04 collections. The estimated amount from this source is \$10,321,250, which is \$492,980 or 5.0% above the budgeted FY 03/04 amount.

The second largest source of intergovernmental revenue is the city's portion of the Hall Income Tax. In the 1990's this revenue grew rapidly, mirroring the performance of stock markets and changes in interest rates. However, the recent performance of the stock markets, reductions in dividends paid, and the declines in interest rates have greatly affected this revenue source. We have also experienced the reclassification of a number of taxpayers from the City to Knox County and the Town of Farragut. In FY 04/05 we are expecting revenue from this source to generate \$2,404,700. This is the same level as the FY 03/04 budget.

The City also receives a number of other state-shared revenues. Revenue from alcoholic beverage tax is also expected to be up and is budgeted at \$93,680 or \$32,300 more than in FY 03/04.

Similarly revenues from beer taxes, are expected to experience an increase and is budgeted at \$90,400 or \$19,100 above the level of FY 03/04.

Revenue from the state excise tax, a tax upon the net earnings of state and national banks chartered in Tennessee, is, on the other hand, revised downward for FY 03/04. For FY 04/05 this is expected to generate \$347,400 or \$33,400 less than budgeted in FY 03/04.

Revenue from the special petroleum products tax is expected to increase slightly. This revenue is budgeted at \$403,910 or \$7,020 more than in FY 03/04. The City's share of TVA gross receipts is also to be up when compared to FY 03/04.. The expected amount from this source is up from forecast levels and, consequently, we have revised our FY 04/05 projections upward. The result is an anticipated increase of \$15,960 or 1.4% when compared to the FY 03/04 budget.

The City receives money from the federal government to help offset the cost of several police department positions. This money is listed as federal contribution and is budgeted at

\$1,385,300. Also included in this amount in money to help pay overtime of officers working in the KCDC housing areas. This revenue is down slightly when compared to the FY 03/04 budget. In the future this revenue source is expected to decline further as existing grants lapse.

The State of Tennessee has provided supplemental pay for police officers and firefighters in past years, and is listed under the category of state contribution in the tables following this narrative. The City has served merely as conduit to pay this supplement. The amount budgeted totals \$382,840 and is exactly equal to planned expenditures in the Police and Fire Department budgets.

Monies for the Senior Aide program come from the federal government and are budgeted at \$432,100 for FY 04/05. This is equal to budgeted expenditures for the upcoming year.

The City's Emergency Management Department is funded in part by a contribution from the U.S. government under the Federal Emergency Management Act (FEMA). The contracted amount for the upcoming year is projected to be \$85,020. Knox County partially funds the balance of the department's budget. The Knox County share is estimated at \$53,000.

OTHER REVENUE

There are four other categories of operating revenue to the General Fund, these being licenses and permits, charges for services, fines and forfeits, and miscellaneous revenue. Revenues from these sources are budgeted at \$4,927,970, or 3.41% of the total General Fund. A breakdown of these revenues for FY 03/04 and FY 04/05 is shown in Table 2.

	FY 03/04 Budget	FY 03/04 Est. Actual	FY 04/05 Projected Revenues
Licenses & Permits	\$279,600	\$257,660	\$262,670
Charges	\$949,360	\$903,860	\$857,530
Fines & Forfeits	\$2,694,070	\$3,518,760	\$3,108,460
Misc. Revenue	<u>\$946,400</u>	<u>\$693,180</u>	<u>\$699,310</u>
TOTAL	<u>\$4,869,430</u>	<u>\$5,373,460</u>	<u>\$4,927,970</u>

Overall, the category of licenses and permits is down by \$16,930 when compared to the budget for FY 03/04. Most accounts within this

category are expected to be slightly down when compared to the FY 03/04 budget. The largest expected decrease is in tank installation fees, which are budgeted at \$10,880, a decrease of \$5,320. This is partially offset by expected higher amounts from various other charges. For example, solicitation permits and beer privilege taxes are expected to increase by \$1,040 and \$3,200 respectively.

The amount expected to come from charges for services is projected at \$857,530, which is \$91,830 less than the budgeted amount for FY 03/04. This decrease is primarily due to lower reimbursements from the state, and the switch of some athletic fees to a special revenue fund. These are offset, in part, from higher revenue from attorney costs, and parking lot charges.

The category of fines and forfeits represent two types of revenue. One source is a portion of fines that are rebated from the county court. The recent decline in revenue coming from Knox County seems to have resumed and we expect revenues from this source to decline in the next year. Revenues from this source are expected to be \$31,590 from General Sessions fines, \$70,390 from General Sessions costs, and \$54,500 from Criminal Court fines.

The second portion is the amount of revenue in excess of expenditures that is generated by the Municipal Court. Fines and costs collected by the Municipal Court have increased significantly during the past year. We believe that this will taper off somewhat in the upcoming fiscal year, but will still be stronger than the budgeted amount for FY 03/04. Excess City Court fees are now forecast at \$2,867,700 or \$432,430 above the amount budgeted in FY 03/04.

The category entitled miscellaneous revenue is projected at \$699,310, which is \$247,090 or ap-

proximately 26.1% less than budgeted in FY 03/04. Most revenues within this category are expected to be lower, the greatest decline occurring in interest earnings. This decline is attributable to much lower interest rates, and the smaller balances available to be invested. Interest earnings are expected to generate \$120,000 in FY 04/05, this being \$130,000 less than the budget for FY 03/04.

Parking meter revenue has declined in recent years and we are not forecasting any sizeable growth in this source absent an increase in rates. This revenue source is expected to yield \$370,610 in FY 04/05, which is unchanged from expected revenue in FY 03/04, but is down by \$64,690 or 14.9% when compared to the FY 03/04 budget.

APPROPRIATED FUND BALANCE

The FY 04/05 General Fund budget does not appropriate any Fund Balance. This compares to a \$4,675,200 appropriation of fund balance in FY 03/04.