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**Executive Summary**

The FY 05/06 budget, like all budgets, serves as a vision for the future. It is a means by which one establishes priorities and provides a mechanism for delivering on those priorities. 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 05/06 budget is guided by the goals of this administration. The emphasis of the FY 05/06 budget is improving efficiency in government, fostering a climate for economic development in the City, and providing quality services to all the neighborhoods of the City.

**GENERAL OVERVIEW**

**Revenues and Expenses**

The proposed property tax rate for FY 05/06 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 unchanged from FY 04/05. The average residential property in the City of Knoxville is appraised at \$70,521. For the average residential homeowner 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 2005/06 is \$307,783,760. The net budget, i.e., excluding interfund transfers and charges, which are effectively double counted within the budget, is \$233,360,120. The budget for the General Fund, which is the main operating fund of the city, equals \$146,306,780.

Budgeted personnel for FY 05/06 total 1,606 full-time positions and 63 part-time positions. This represents a gain of two full-time positions and six part-time positions.

**Improved Efficiency**

As mentioned earlier, one of the primary objectives of this budget is to increase efficiency. In the short term this requires some operating and capital investment, which will generate savings and improved operations later.

The FY 04/05 budget included funding to begin development of a 311 Call Center. The initial set-up work is nearing completion and the FY 05/06 budget funds the operating costs of this new operation. This center will allow citizens to easily report problems and track progress in resolving those problems. Funding is provided for five new positions. It is expected that this operation will allow us to reduce more than this number of positions in other departments by the end of FY 05/06 fiscal year.

The budget continues to replace old and outdated computer systems. In FY 04/05 funding was provided to replace the City's outdated financial reporting system. In FY 05/06 we will begin the replacement of the City's fleet management system, and to pay for the City's portion of upgrades relating to the Knoxville Geographic Information System.

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. A position of Internal Auditor is added to explore ways to improve operating procedures and processes throughout city operations.

The proposed operating budget includes seed money to develop a "One Stop Shop" facility designed to co-locate City, County, and MPC inspection and permitting operations to better serve citizens.

**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

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efforts. Specifically the budget provides \$1 million to complete the funding of phase 3 of the Market Square development project. The budget also continues to build up money to be used for the construction of a new downtown transit center. Also included is proposed funding (\$525,000) for the Jackson Avenue redevelopment area.

The City will continue its efforts to renovate and promote the World's Fair Park area. Included in the budget is \$1.827 million for this purpose.

Funding is not limited to the downtown area. Included in the budget is \$400,000 to begin the south Knoxville waterfront master plan. The Knoxville Zoo is one of the most visited attractions in the East Tennessee area and the budget contains \$750,000 to be used for renovation of existing facilities and add facilities to the Kid's Cove area. This is the first phase of a multi-year contribution for this project.

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 \$75,000 contribution, year one of a two year commitment, to be used in the renovation of the Bijou Theatre. Funding is included to have MPC conduct an updated inventory of historic properties within the City, and to develop new design guidelines for downtown.

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. Operating contributions are made to the Knoxville Symphony, 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. Toward this end, the budget includes \$3.2 million the City's paving program. This funding enables us to maintain an orderly paving schedule under which all streets will be repaved on a regular basis.

This budget includes \$200,000 to continue the traffic-calming program. Funding of \$200,000 is provided for ballpark improvements in parks throughout the City, while \$450,000 is to be used for the development of a skate park facility. Funding is also provided for park improvements at Lonsdale Park (\$400,000), the development of additional football fields in the Safety City park area (\$400,000), a greenway in the Loves Creek area (\$100,000), and park improvements in the Lower Second Creek area (\$2.68 million). Also included is \$200,000 for public improvements in the Lonsdale area, and \$150,000 for improvements in the Burlington area.

The budget increases funding for sidewalk improvements, one of the most requested improvements noted in the citywide survey. A total of \$200,000 is allocated for repairs and improvements to existing sidewalks. Total funding of \$400,000 is designated for new sidewalks, primarily in the parental responsibility zones near schools. In addition, \$62,000 is allocated for sidewalk improvements in the 100 block of Gay Street and \$250,000 is appropriated to continue the City's curb cut program. Some CDBG project funding is also designated for sidewalk improvements.

The budget also focuses on drainage improvements in the neighborhoods. A total of \$150,000 is provided for phase one of a drainage master plan. In addition, \$250,000 is budgeted to continue the neighborhood drainage program, while \$450,000 is to be used for drainage issues in the Emily Avenue area. A total of \$1 million is designated for land acquisition and design work of the First Creek

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drainage area. Additional funding is expected to be included for this project in the FY 06/07 budget.

The budget continues annual funding of \$650,000 for the bridge replacement program, and appropriates additional bridge money to be used specifically for the replacement of the Church Street Viaduct (\$540,000), and to complete payments (\$750,000) on the replacement of the Gay Street Bridge.

Funding is specifically designated for continued improvements to traffic signals. Also included is match money for various TEA-21 projects, with the main portion being used for improvements on Pleasant Ridge Road. Funding of \$400,000 is also included for road improvements in the northeast corridor.

### Funding Issues

A number of challenges presented themselves during the preparation of this budget. In the recent past the City had significantly drawn upon its General Fund balance (reserves) to cover costs. This trend was stopped in FY 04/05. This budget also does not propose to utilize any General Fund balance. This is done to avoid jeopardizing the City's bond ratings and creating potential cash flow problems.

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 fourth consecutive year of double-digit health care cost increases. Based upon current trends we have factored in a fifteen-percent increase at mid-year. The estimated impact of these increases upon the City is \$1.0 million with employees assuming another \$0.3 million. This City is currently evaluating various ways to lowering these cost increases, and has established a goal of falling below the overall average change for health care costs. The FY 04/05 budget included \$1.3 million to establish a reserve in the Health Care fund. Such a reserve will allow the City more flexibility in health care prevention and cost contain-

ment in the future. We now believe that a sufficient reserve has been funded, and the FY 05/06 budget includes no additional amount for this purpose.

The City maintains a pension fund for its employees. Contributions are based a five year smoothing formula. The prior performance of the stock market has affected the portfolio of this plan and has made it necessary to again increase the City's contribution rate this year to maintain full funding of the plan. The additional cost of doing this is approximately \$0.7 million. Barring a major upturn in the markets it is probable that additional increases will be required in future years.

The high cost of fuel and continuing utility rate increases have made it more difficult to contain costs. The budget assumes that fuel price hikes will not abate and adds approximately \$750,000 to cover the costs of this commodity. Utility costs are also forecast to increase by approximately \$750,000.

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. Total cost of the salary adjustments is approximately \$1.3 million.

### Accounting Changes

There are some accounting changes which affect comparisons between the FY 04/05 and FY 05/06 budgets. These changes primarily deal with some shifts in personnel. For example, Facilities Maintenance operations are shifted from the Operations and Engineering Department to the Public Services Division of the Community and Neighborhood Services Department. The cost of the Senior Aides program is budgeted in a separate fund rather than in the Parks and Recreation portion of the General Fund.

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**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.