

GENERAL FUND REVENUES

Total General Fund revenues for FY 05/06 equal \$146,306,780. This represents approximately a 1.43% increase when compared to the budgeted FY 04/05 revenues of \$144,239,540. The proposed FY 05/06 budget does not include the use of fund balance to cover expenditures. Revenues are projected to increase by \$2,253,080 when compared to estimated actual revenues in FY 04/05. These increases are primarily attributable to general inflationary increases and modest anticipated growth in new residential and commercial property.

TAXES

The largest single category of revenue to the General Fund is taxes. This one category equals \$124,959,370 or approximately 85.41% of the total revenue to this fund.

Property Taxes

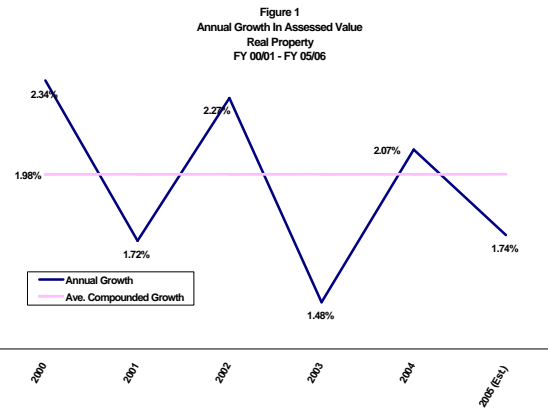
The largest revenue source within this category is property taxes. Property taxes are, in turn, divided into three types: taxes on real property, taxes on personal property, and taxes on public utilities.

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

1.74%. 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 05/06 the projected assessed value of real property is \$2,569,473,070. In projecting the FY 04/05 numbers we lacked information from the Knox County Property Assessor. The



final 2004 tax roll came in slightly lower than expected and this is reflected in the revised estimates for FY 04/05. The projected amounts for FY 05/06 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 slightly higher rate than we had projected, which explains the increase in forecasted FY 04/05 revenues from the FY 04/05 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. 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:

In FY 05/06 the budget is based upon a total tax rate of \$3.05 per hundred dollars of assessed value, which is the same rate as in FY 04/05. The tax rate is apportioned between the Debt Service Fund and the General Fund. In FY 05/06, \$0.81 of the tax rate goes directly to the Debt Service Fund, unchanged from FY 04/05. 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.

The upcoming year is a reappraisal year. In these years a "certified tax rate" is to be adopted. This is the tax rate, which will yield the same revenue after the effects of reappraisal are discounted. This will result in a lower final tax rate than shown here.

As the reappraisal is not yet complete, we are unable to calculate the final tax rate. The final tax rate will, however, be based upon the \$3.95 rate.

When compared to the FY 04/05 budget, current projected property tax collections are up by \$703,400 in the General Fund, or approximately 1.11%.

Tax Discounts

The City offers a one percent discount on property taxes paid before the end of October. For FY 05/06 the anticipated discount in the General Fund is \$310,800, which is \$30,600 more than the FY 04/05 budgeted amount. The greater amount is due to the anticipated growth in real property, 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 05/06 the KUB payment is expected to be \$11,945,300, which is \$367,140 or 3.2% above the budget for FY 04/05. This change is based upon modest growth in property held by KUB, and anticipated growth in average revenues. The payment from KCDC is projected at \$34,620, which is \$39,120 less than budgeted in FY 04/05.

	Estimated Assessed Valuations	Est-Coll. Rate	Tax Rate per \$100	FY 04/05 Budgeted Revenue
Real Property	\$2,569,473,070	93.9%	\$2.24	\$54,051,000
Personal Property	308,905,500	94.3%	2.24	6,526,200
Public Utilities	<u>153,390,070</u>	98.4%	2.24	<u>3,235,600</u>
TOTAL	<u>\$3,031,768,640</u>			<u>\$63,812,800</u>

There are several other entities now making payments in lieu of taxes. These payments are part of the redevelopment strategy of the City. The largest of these payments comes from the Knoxville News-Sentinel and is budgeted at \$76,780. Other payments in lieu of taxes are expected to yield \$20,000.

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 05/06, local option sales tax revenues are expected to equal \$31,834,200 or 21.76% 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 04/05 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 05/06, and revenues from beer taxes are expected to increase by \$225,580 when compared to the FY 04/05 budget. Total revenues from the beer tax are forecast at \$5,964,110. Alcoholic beverage taxes have also grown at a faster than expected rate and are expected to generate \$1,928,390 in FY 05/06. This is \$146,300 more than the amount budgeted in FY 04/05. Mixed drink taxes have increased at a slightly higher pace than expected in FY 04/05 and estimated actual revenues are higher than budgeted. In FY 05/06 revenues from this source are expected to grow at a 0.5% rate from the estimated actual amount, and are now budgeted at \$1,004,200 in FY 05/06.

The improvement in the economy has also led to higher business tax collections. We currently expect to end FY 04/05 approximately \$277,000

above the budgeted amount. For FY 05/06 we are now projecting continued (1.5%) growth over expected FY 04/05 collections. Projected revenue from this source in FY 05/06 is \$4,000,800.

Cable television franchise taxes are in line with projections for the year and we expect only modest growth in the new fiscal year. These revenues are now forecast at \$1,204,000, which is \$82,400 or 2.6% more than the amount budgeted in FY 04/05.

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 \$16,205,650 or 11.1% of total revenue. Overall, we expect this category of revenue to be down by \$1,013,260 or 5.9% when compared to the budget for FY 04/05.

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 04/05 by approximately \$167,000. As is similar to local sales tax collections, we are forecasting only a very slight growth over expected FY 04/05 collections. The estimated amount from this source is \$10,645,460, which is \$324,210 or 3.1% above the budgeted FY 04/05 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 seen the reclassification of a number of taxpayers from the City to Knox County and the Town of Farragut. We expect this latter trend to continue and are forecasting a drop in this revenue as a result. In FY 05/06 we are expecting revenue from this source to generate \$2,100,000, which is \$304,700 lower than the FY 04/05 budget

The City also receives a number of other state-shared revenues. Revenue from alcoholic beverage tax is also expected to be down slightly and is

budgeted at \$88,120 or \$5,560 less than in FY 04/05. Similarly, revenues from beer taxes are expected to experience a decrease and are budgeted at \$86,600 or \$3,800 below the level of FY 04/05.

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 upward from FY 04/05. For FY 05/06 this is expected to generate \$396,800 or \$49,800 more than budgeted in FY 04/05.

Revenue from the special petroleum products tax is expected to decrease slightly. This revenue is budgeted at \$401,650 or \$2,260 less than in FY 04/05. On the other hand, the City's share of TVA gross receipts is forecast to be up when compared to FY 04/05. The expected amount from this source is up from forecast levels and, consequently, we have revised our FY 05/06 projections upward. The result is an anticipated increase of \$83,120 or 7.0% when compared to the FY 04/05 budget.

The City has, in the past, received money from the federal government to help offset the cost of several police department positions. This money is listed as federal contribution.

These grants have now expired and, as such, the amount budgeted from this source declines by \$715,300 to a total of \$670,000. This amount represents funding to pay overtime of officers working in the KCDC housing areas. 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.

In the past, we have budgeted both revenues and expenditures for the Senior Aides program in the General Fund. These were shifted to a separate fund in mid-FY 04/05, and this practice will continue in the upcoming budget. This accounting change is the reason for the drop in this revenue source in FY 05/06 as compared to the budgeted amount for FY 04/05.

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. The combined total from these sources is \$5,141,760, or 3.51% of the total General Fund. A breakdown of these revenues for FY 04/05 and FY 05/06

	FY 04/05 Budget	FY 04/05 Est. Actual	FY 05/06 Projected Revenues
Licenses & Permits	\$262,670	\$266,780	\$269,540
Charges	\$857,530	\$915,020	\$920,700
Fines & Forfeits	\$3,108,460	\$3,266,700	\$3,252,790
Misc. Revenue	<u>\$699,310</u>	<u>\$689,360</u>	<u>\$698,730</u>
TOTAL	<u>\$4,927,970</u>	<u>\$5,137,860</u>	<u>\$5,141,760</u>

is shown in Table 2.

Overall, the category of licenses and permits is up by \$6,870 when compared to the budget for FY 04/05. Roughly the same number of accounts within this category is expected to be up as down when compared to the FY 04/05 budget. The largest expected decrease is in solicitation fees, which are budgeted at \$4,710, a decrease of \$1,070. This is partially offset by expected higher amounts from various other charges. For example, liquor by the ounce fees and beer application fees are expected to increase by \$5,090 and \$2,920 respectively.

The amount expected to come from charges for services is projected at \$920,700, which is \$63,170 more than the budgeted amount for FY 04/05. This increase is primarily due to higher reimbursements from the state, and higher revenue from attorney costs, and rental fees. These are offset, in part, by lower expected revenue from concessions and parking lot fees. The drop in fees from Caswell Park activities is attributable to an accounting change, which results in these revenues flowing to a special revenue fund.

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 abated somewhat and we expect revenues from this source to increase slightly in the next year. Revenues from this source are expected to be \$5,620 from General Sessions fines, \$106,030 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 04/05. Excess City Court fees are now forecast at \$2,993,130 or \$123,290 above the amount budgeted in FY 04/05.

The category entitled miscellaneous revenue is projected at \$698,730, which is \$580 or approximately 0.1% less than budgeted in FY 04/05. Most revenues within this category are expected to be lower. The exception to this pattern is revenue from interest earnings. Interest rates have started to increase and the restoration of balances available to be invested lead to anticipated growth in this source. Interest earnings are expected to generate \$260,000 in FY 05/06, this being \$140,000 more than the budget for FY 04/05.

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 \$330,970 in FY 05/06, which is unchanged from expected revenue in FY 04/05, but is down by \$39,640 or 10.7% when compared to the FY 04/05 budget.

In the past, contributions from E-911, KUB, and other agencies have been made to offset the cost of services provided by City departments to these groups. These services are no longer being provided and thus the revenue from this source disappears.

APPROPRIATED FUND BALANCE

The FY 05/06 General Fund budget does not appropriate any Fund Balance. This is the second consecutive year in which the budget does not include the use of any fund balance.