

GENERAL FUND REVENUES

Total General Fund revenues for FY 06/07 equal \$155,253,980. This represents approximately a 6.11% increase when compared to the budgeted FY 05/06 revenues of \$146,308,600. The proposed FY 06/07 budget does not include the use of fund balance to cover expenditures. Revenues are projected to increase by \$2,746,040 when compared to estimated actual revenues in FY 05/06. 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 \$130,655,180 or approximately 84.16% of the total revenue to this fund.

Property Taxes

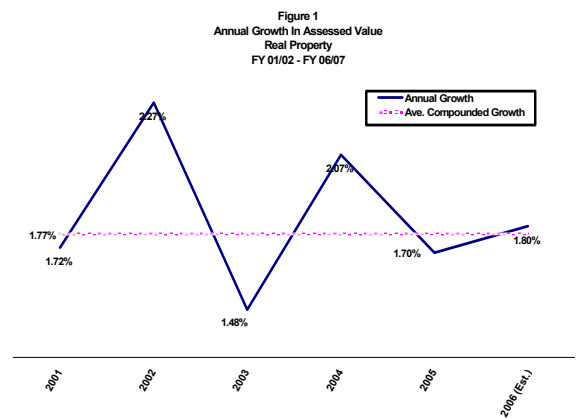
The largest revenue source within this category is property taxes. Property taxes are, in turn, divided into three types: taxes on real property, taxes on personal property, and taxes on public utilities.

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

1.80%. 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 06/07 the projected assessed value of real property is \$2,913,622,590. In pro-



jecting the FY 05/06 numbers we lacked information from the Knox County Property Assessor. The final 2005 tax roll came in slightly higher than expected and this is reflected in the revised estimates for FY 05/06. The projected amounts for FY 06/07 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 a very modest 0.71%. 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 much lower rate than we had projected, which explains the decrease in forecasted FY 05/06 revenues from the FY 05/06 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 3.96% drop in assessed value in this category.

Collection Rate: In recent years, the City has collected an average of 94.0% of real property taxes, 91.9% of personal property taxes, and 97.2% of the taxes upon public utilities in the year in which they are levied. We utilize these averages in making our forecasts. The most notable change in these rates has been an increase in the collection rate for real property, a decrease in the collection rate for personal property, and a slight decrease in the collection rate for public utility property.

Tax Rate:

In FY 06/07 the budget is based upon a total tax rate of \$2.81 per hundred dollars of assessed value, which is the same rate as in FY 05/06. The tax rate is apportioned between the Debt Service Fund and the General Fund. In FY 06/07, \$0.75 of the tax rate goes directly to the Debt Service Fund, unchanged from FY 05/06. The portion of the tax rate used for General Fund purposes is \$2.06. Combining all factors yields the budgeted

revenue from property taxes as illustrated in Table 1.

When compared to the FY 05/06 budget, current projected property tax collections are up by \$1,729,560 in the General Fund, or approximately 2.71%.

Tax Discounts

The City offers a one percent discount on property taxes paid before the end of October. For FY 06/07 the anticipated discount in the General Fund is \$346,500, which is \$35,700 more than the FY 05/06 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.

	Estimated Assessed Valuations	Est-Coll. Rate	Tax Rate per \$100	FY 05/06 Budgeted Revenue
Real Property	\$2,913,622,590	94.0%	\$2.06	\$56,419,390
Personal Property	317,981,630	91.9%	2.06	6,019,840
Public Utilities	<u>154,976,680</u>	97.2%	2.06	<u>3,270,570</u>
TOTAL	<u>\$3,386,580,900</u>			<u>\$65,542,360</u>

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 06/07 the KUB payment is expected to be \$11,976,400, which is \$31,100 or 0.3% above the budget for FY 05/06. 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 \$24,930, which is \$9,690 less than budgeted in FY 05/06.

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 \$27,000.

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 06/07, local option sales tax revenues are expected to equal \$35,028,000 or 22.56% of total General Fund revenues. During the past year we have seen extraordinary growth in this revenue source. We do not believe that this recent growth rate is sustainable. We are forecasting a growth rate of 2.5% over adjusted FY 05/06 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. In the past two years we have seen reasonable growth in beer taxes, but this has been reversed in FY 05/06. We expect only slight growth in FY 06/07, and revenues from beer taxes are expected to decrease by \$29,610 when compared to the FY 05/06 budget. Total revenues from the beer tax are forecast at \$5,934,500. Alcoholic beverage taxes have also grown at a faster than expected rate and are expected to generate \$2,107,500 in FY 06/07. This is \$169,500 more than the amount budgeted in FY 05/06. Mixed drink taxes have increased at a slightly higher pace than expected in FY 05/06 and estimated actual revenues are higher than budgeted. State law has affected this revenue, and we anticipate a restoration of cuts experienced several years ago. We are now budgeted this revenue at \$1,237,400 in FY 06/07, which is 233,200 more than budgeted in FY 05/06.

The improvement in the economy has also led to higher business tax collections. We currently expect to end FY 05/06 approximately \$210,000 above the budgeted amount. For FY 06/07 we are

now projecting continued (1.5%) growth over expected FY 05/06 collections. Projected revenue from this source in FY 06/07 is \$4,247,400.

Cable television franchise taxes from Comcast are in line with projections for the year and we expect only modest growth in the new fiscal year. Knology has begun paying a cable franchise fee and this is reflected in the revised estimates for FY 05/06, and the anticipated figures for FY 06/07. These revenues are now forecast at \$1,373,300, which is \$169,700 or 14.1% more than the amount budgeted in FY 05/06. The estimated revenue for FY 05/06 is skewed because of a back payment from Knology. We have factored this out in our forecast for FY 06/07.

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 \$18,936,560 or 12.2% of total revenue. Overall, we expect this category of revenue to be up by \$2,730,910 or 6.81% when compared to the budget for FY 05/06.

Several of the intergovernmental revenue sources were affected by state reductions several years ago. The Legislature reduced the percentages of these revenues flowing to cities. In FY 05/06 a portion of the cuts were rescinded and we believe the balance of the cuts will be restored in FY 06/07. The largest revenue affected by this change and the largest single revenue within this grouping is the state shared sales tax. This revenue source is now expected to exceed the budgeted amount for FY 05/06 by approximately \$1,664,680. The total estimated amount from this source is \$12,310,140.

The other revenue that is greatly affected by the restoration of the prior percentages is the city's portion of the Hall Income Tax. In FY 06/07 we are expecting revenue from this source to generate \$2,885,700, which is \$785,700 more than the FY 05/06 budget

The City also receives a number of other state-shared revenues. Revenue from alcoholic beverage tax is expected to be down and is budgeted at \$70,500 or \$17,620 less than in FY 05/06. Simi-

larly, revenues from beer taxes are expected to experience a very slight decrease and are budgeted at \$86,300 or \$300 below the level of FY 05/06.

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 05/06. This revenue is also affected by the change in state law. For FY 06/07 this is expected to generate \$695,200 or \$298,400 more than budgeted in FY 05/06.

Revenue from the special petroleum products tax is expected to decrease slightly. This revenue is budgeted at \$397,080 or \$4,570 less than in FY 05/06. On the other hand, the City's share of TVA gross receipts is forecast to be up when compared to FY 05/06. The expected amount from this source is up from forecast levels and, consequently, we have revised our FY 06/07 projections upward. The result is an anticipated increase of \$32,630 or 2.6% when compared to the FY 05/06 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. This estimate shown here represents funding to pay overtime of officers working in the KCDC housing areas. The total amount budgeted for FY 06/07 is \$640,000 which is \$30,000 less than in the FY 05/06 budget.

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.

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 \$2,481,350, or 1.55% of the total General Fund. A breakdown of these revenues for FY 05/06 and FY 06/07 is shown in Table 2.

Overall, the category of licenses and permits is up by \$28,330 when compared to the budget for FY 05/06. Roughly the same number of accounts within this category is expected to be up as down

	TABLE 2		
	FY 04/05 Budget	FY 04/05 Est. Actual	FY 05/06 Projected Revenues
Licenses & Permits	\$269,540	\$295,170	\$297,870
Charges	\$920,700	\$960,850	\$960,850
Fines & Forfeits	\$259,660	\$316,800	\$316,800
Misc. Revenue	<u>\$698,730</u>	<u>\$908,5300</u>	<u>\$827,390</u>
TOTAL	<u>\$2,148,630</u>	<u>\$2,481,350</u>	<u>\$2,402,910</u>

when compared to the FY 05/06 budget. The largest expected decrease is in street vendor permits, which are forecast to total \$3,360, a decrease of \$2,340. 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 \$24,360 and \$1,980 respectively.

The amount expected to come from charges for services is projected at \$960,850, which is \$40,150 more than the budgeted amount for FY 05/06. This increase is primarily due to increases in various rental fees. These are offset, in part, by lower expected revenue from attorney costs..

The category of fines and forfeits represent 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 \$3,800 from General Sessions fines, \$112,230 from General Sessions costs, and \$98,630 from Criminal Court fines.

The category entitled miscellaneous revenue is projected at \$827,390, which is \$128,660 or approximately 18.4% more than budgeted in FY 05/06. 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 \$440,000 in FY 06/07, this being \$180,000 more than the budget for FY 05/06.

Parking meter revenue has declined in recent years and we are forecasting a continued decline in this source absent an increase in rates. This revenue source is expected to yield \$284,290 in FY 06/07, which is unchanged from expected revenue in FY 05/06, but is down by \$46,680 or 14.1% when compared to the FY 05/06 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.

Transfers In

The revenue budgeted under transfers 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 during the past year. We expect this growth to continue in the upcoming fiscal year.. Excess City Court fees are now forecast at \$3,259,330 or \$264,380 above the amount budgeted in FY 05/06.

APPROPRIATED FUND BALANCE

The FY 06/07 General Fund budget does not appropriate any Fund Balance. This is the third consecutive year in which the budget does not include the use of any fund balance.