

FY 2013 - 2014 BUDGET OVERVIEW – REVENUES JANUARY 23, 2013

Overview

The City of Franklin appears to have excellent growth potential in revenues from development and growth. However, some of our existing revenue sources will continue to be challenged. This includes property taxes and revenue from state-shared taxes. In addition, our largest revenue stream is subject to annual variability due to economic and consumer purchasing preferences. No unique changes have been made in assumptions on grant activity, which relies heavily on state and federal budgets.

Since a significant amount of our revenue comes from the State based on population, it is important that the State have current population values and we have started planning for a Special Census. We don't anticipate any annexations resulting in increases to our population. In FY 2012 we received State funds based on population with about \$4.3 million in the General Fund (sales, state beer tax, and excise tax), and \$1.7 million in the State Street Aid Fund (gasoline taxes). However, this could be threatened by cuts in state-shared revenues as the State reviews their budget. We expect to see continued pressure to remove the Hall Income Tax which is reallocated back to local government based on taxpayers in their jurisdiction. This has ranged from \$0.6 million to almost \$2 million over the last decade so any loss of that would task our ability to provide services.

General Fund

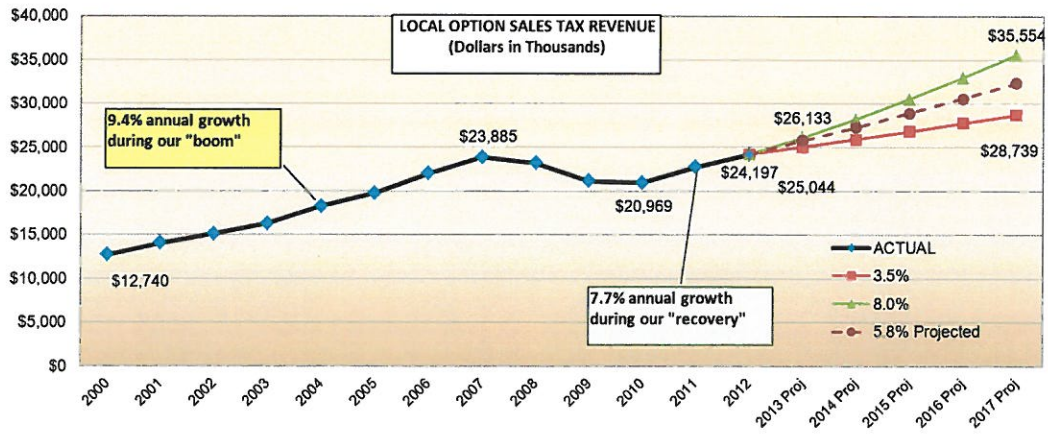
The City's revenue sources and their percent of General Fund revenues and potential growth range for FY 2014 are shown below. Attaining a more diverse fund base for our general fund obligations should be at the forefront of our financial planning as Local Sales Tax has now reached about ½ of our revenues in this fund while property tax continues to drop in relation to the total. Our "top 10" sources of revenue in this fund are shown following and described in more detail on the following pages.

GENERAL FUND Revenue Source	% of General Fund Revenue (FY 12 Actual)	Projected Range for Growth
Local Sales Tax	47.5%	3.5 % to 8%
Property Tax (Including Local In-Lieu)	13.4%	0% to 4%
State Shared (Including Sales & TVA)	9.8%	2% to 4%
Alcohol Taxes	6.1%	4% to 8%
Business Tax	6.0%	2% to 5%
Billed Services (Including Internal Charges)	4.4%	0% to 4%
Franchise Fees	3.7%	1% to 4%
Builder & Development Fees	3.3%	0% to 10%
Court Fees & Fines	1.8%	0% to 10%
State Income (Hall) Tax	1.6%	0% to 10%

Local Sales Tax

Revenue from the Local Option Sales Tax continues to be our primary single source of revenue. Our reliance on the local sales tax is threatened as we place a growing reliance on non-residents to fund basic operations. The Franklin retail areas rely heavily on visitors, non-residents and businesses outside the city to fund sales and business tax revenues. We expect sales tax revenue will continue to increase because of development and inflation. Inflation to continue to be mild to moderate and is projected to be in 2.0 to 2.5% by the Tennessee Fiscal Review Committee (FRC). This is a slight uptick in the rates seen in recent years and should help offset slower growth in unit sales. Population growth due to development in the area has slowed but is starting to pick up resulting in an increased demand for housing. However, as seen by the housing additions approved and planned, these will be targeting a different segment than what has traditionally fueled our growth. The younger, single residents who will be attracted here may not have the disposable income as we saw in the past. That disposable income will also be used to make purchases online. Although Tennessee has a Use Tax on those purchases, the data suggests that few actually report and pay the Sales & Use Tax on those purchases. This is one of our biggest threats to Sales Tax revenues.

The City has enjoyed higher than expected local sales tax growth coming out of the recovery and our FY 13 Forecast is for about \$0.5 million above budget. We continue to exceed the percent change evident in the overall State sales tax collections and are projecting that will continue. This is consistent with data prior to and during the recession as we fared much better than the rest of the state. The State FRC has projected sales tax growth in the 3.2% range. Our projection is for a range of 3 to 8% with a moderate rate of 5.8%.



Thru November sales reporting by businesses, the City has received \$10.4 million compared to \$9.6 million in the previous year, a difference of \$777,761 or 8.1%. State collections were up 2.5% during this period over the prior year. For budget comparisons, the City anticipated collections of \$10.0 million through the first five months of the fiscal year. Through November, the City is \$0.3 million above budgeted collections. We will continue to follow this during the upcoming

months and modify our FY 13 forecast accordingly. We have not received the report for sales made in December. That is important as that is typically about 50% more than any single month.

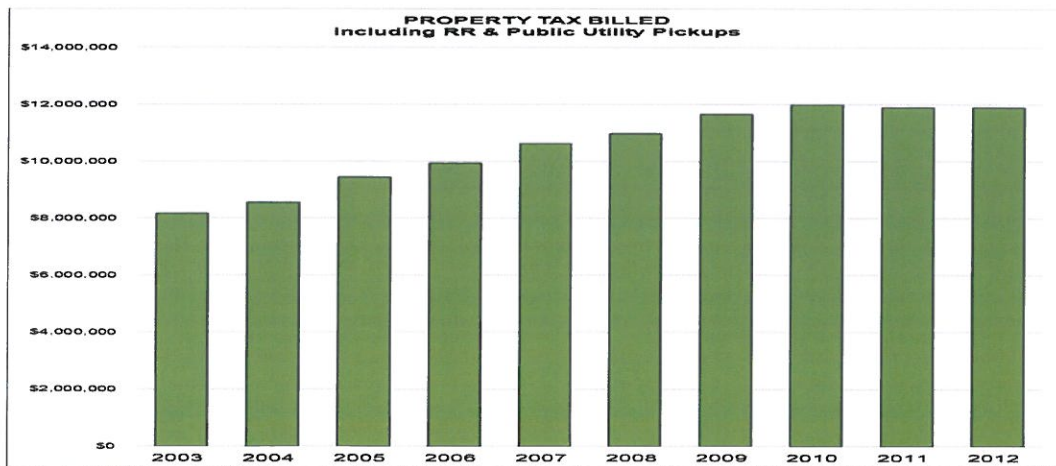
The FY 2013 budget is 4.3% increase over the audited FY 2012 actual, which ended up 3.6% over the FY 2012 budget. For FY 2014, we anticipate an increase in the range of 3.5% to 8% over the FY 2013 forecast of \$25.7 million. That forecast is about \$0.5 million over the FY 2012 budget due to a strong recovery locally.

FY 12 Actual	\$22,720,666	FY 14 Proposed (@3.5%)	\$26,660,000
FY 13 Budget	\$24,197,413	FY 14 Proposed (@ 5.8%)	\$27,250,000
FY 13 Forecast	\$25,760,326	FY 14 Proposed (@ 8%)	\$27,800,000

Property Tax

The Tax Assessor’s preliminary report of assessed values for 2013 property taxes (to be collected in fiscal year 2014) is not available at the time of this document. It is expected around the end of March or first of April. Property tax revenue is based on properties on the tax roll that are being assessed (with growth fueling growth), market valuation of properties, assessed value which is based on classification (e.g. residential properties are assessed at 25% of value and commercial properties are assessed at 40% of value), and the tax rate (established by taxing jurisdiction).

Growth has been responsible for our increases in property tax proceeds. That has resulted in an unprecedented 22 year run of no tax increases. The county Assessor reevaluated all properties in a county-wide assessment in 2011. That resulted in the valuation of many properties being reduced. We have seen three years of no increases in property tax revenue as growth has been offset by a reduction in property values. We do not expect tax proceeds to change much from last year. Historical gross billings for the past decade are shown below.



We collect property taxes in the General Fund but have pledged some of that revenue to pay for previously incurred debt. About ½ of the gross proceeds are dedicated to satisfying existing obligations and are not available for use in this fund. Therefore, budgeted values are net. We expect to pay for the land purchase in the McEwen TIF District from the increase in proceeds from properties added in that district. That amount will be determined once the tax bills are determined. We are estimating about \$850,000 will be available to satisfy the TIF debt in FY 2014 and that \$5 million will be transferred to the Debt Fund. These values include state-assessed properties for railroads and public utilities but exclude locally assessed properties paying in-lieu of tax payments.

FY 12 Actual	\$6,426,577	FY 14 Proposed (@0%)	\$6,253,000
FY 13 Budget	\$6,732,285	FY 14 Proposed (@ 2.0%)	\$6,505,000
FY 13 Forecast	\$6,282,291	FY 14 Proposed (@ 4%)	\$6,737,000

State Shared Taxes (Sales, beer, excise and TVA in-lieu)

The majority of this category comes from the State’s sales tax collections which are allocated back to local governments based on population. This represents collections of sales taxes across the state, including collections from the distribution of beer and from banks operating in the State and having a local presence. Lastly, this includes monies remitted to the State by the Tennessee Valley Authority (TVA) and redistributed back to local jurisdictions based on population and TVA assets in the jurisdiction. The State FCR growth forecast has indicated that sales taxes will increase an average of 3.2% while excise taxes will increase 3.38%. All other elements are projected to increase an average of 1.36% and a total average of 2.82%. We have projected revenues as shown below based on FY 2013 expected. State sales tax proceeds are remitted monthly and continue to run slightly ahead of collections last year and the FY 2013 budget. Beer taxes are remitted two times a year while the bank excise tax annual remittance is due later this spring. TVA payments are made four times a year.

Fiscal Year	State Sales	Beer & Excise	TVA In-lieu	TOTAL
FY 2012 Actual	\$4,242,695	\$45,934	\$722,090	\$5,010,719
FY 2013 Budget	\$4,375,000	\$61,000	\$758,100	\$5,194,100
FY 2013 Forecast	\$4,475,000	\$61,000	\$715,000	\$5,251,000
FY 2014 (@ 2%)	\$4,565,000	\$62,000	\$729,000	\$5,356,000
FY 2014 (@3%)	\$4,610,000	\$63,000	\$736,000	\$5,410,000
FY 2014 (@4%)	\$4,655,000	\$64,000	\$744,000	\$5,463,000

Local Alcohol Taxes

This revenue is obtained from the wholesale beer tax, beer privilege tax, wholesale liquor tax and the mixed drink tax. The mixed tax proceeds are shared with the county. Privilege taxes are a function of the number of permittees while wholesale and mixed drink taxes are the result of volume sold. Although

revenues did not grow as much during the recession, they did grow slightly and we are seeing a strong recovery and that will continue.

Fiscal Year	Wholesale Beer	Beer Privilege	Wholesale Liquor	Liquor Privilege	Mixed Drink	TOTAL
FY 2012 Actual	\$1,503,877	\$21,195	\$915,105	\$75,205	\$568,754	\$3,084,136
FY 2013 Budget	\$1,546,000	\$21,000	\$976,700	\$80,000	\$570,000	\$3,193,700
FY 2013 Forecast	\$1,594,000	\$21,000	\$990,000	\$80,000	\$588,000	\$3,273,000
FY 2014 (4.0%)	\$1,650,000	\$22,000	\$1,030,000	\$83,000	\$611,000	\$3,396,000
FY 2014 (6.0%)	\$1,690,000	\$23,000	\$1,050,000	\$85,000	\$625,000	\$3,473,000
FY 2014 (8.0%)	\$1,725,000	\$24,000	\$1,070,000	\$86,000	\$635,000	\$3,540,000

Business License

Businesses register locally but pay their taxes directly to the State who remits collections, less their share, to us monthly. We are provided our portion of taxes monthly from the State for taxes paid by businesses. In addition, we receive fees for administering initial signups, reporting and data management. Monthly business tax revenue is not evenly distributed as we receive about half of our proceeds in the last quarter of the year. We are running slightly ahead of last year at this time and have no basis for not expecting that trend to continue as business conditions continue to improve.

FY 12 Actual	\$3,050,512	FY 14 Proposed (@2.0%)	\$3,200,000
FY 13 Budget	\$2,875,000	FY 14 Proposed (@ 3.5%)	\$3,250,000
FY 13 Forecast	\$3,140,000	FY 14 Proposed (@ 5.0%)	\$3,300,000

Billed Services

We provide services which are billed both externally and internally. We receive fees for these services based on the level and types of services provided. Our largest source is services provided internally to other funds. The internal services provided include support from Administration, Human Resources, MIT, Finance and Revenue Management. Costs are distributed to the water/sewer fund, the stormwater fund and the solid waste fund.

We also provide services to external customers for electric charging fees, safety services (overtime billings for police officers), information & technology, compost, and others.

FY 12 Actual	\$2,262,765	FY 14 Proposed (@0.0%)	\$2,957,000
FY 13 Budget	\$2,958,450	FY 14 Proposed (@ 2.0%)	\$3,015,000
FY 13 Forecast	\$2,957,120	FY 14 Proposed (@ 4.0%)	\$3,075,000

Franchise Fees

Franchise fees are received from Comcast, AT&T, Atmos and Piedmont and are closely tracking the 2013 budget. The contract with Atmos provides revenues based on volume, while the others are based on revenues. The warmer winter has resulted in reduction for gas heat. However, a return to more normal weather and an increase in residential dwellings will see the revenues increase. This projection is prepared showing a modest growth in this revenue source as it follows our growth and weather patterns.

FY 12 Actual	\$1,900,254	FY 14 Proposed (@1.0%)	\$2,245,000
FY 13 Budget	\$2,187,400	FY 14 Proposed (@ 2.5%)	\$2,275,000
FY 13 Forecast	\$2,220,000	FY 14 Proposed (@ 4.0%)	\$2,310,000

Building Fees

Building permit fees reflect our commercial and residential development. This revenue source dropped during the recession, but is showing strong signs of recovery. Activity is strong across the city. We are experiencing strong development pressure along the McEwen/Carothers intersection, to the southeast as well as renewed activity along Downs, McEwen, Westhaven, Gateway Village and commercial areas in Cool Springs. As The estimated actual amount for 2013 exceeds the budgeted amount and this trend is expected to continue for some time.

These fees historically have a wide swing from year to year. Therefore, projections are prepared reflecting that variability. We anticipate better values once the 2013 Development Report is available next month.

FY 12 Actual	\$1,709,194	FY 14 Proposed (@0.0%)	\$1,751,000
FY 13 Budget	\$1,740,610	FY 14 Proposed (@ 5.0%)	\$1,840,000
FY 13 Forecast	\$1,751,100	FY 14 Proposed (@ 10.0%)	\$1,925,000

Court Fines & Fees

This revenue is derived from fees & fines collected by the Municipal court and fees obtained from the General Sessions & Circuit Courts from cases emanating in the city. Revenues are the result of three drivers: numbers of citations received, fees charged by the court and the ability to collect on obligations. We are seeing fewer citations reflecting an effort by drivers to adhere to state and local traffic laws. Court cost charged by the Municipal court has not changed since 2006.

This does not include fees that have been imposed by the State and collected by the local court on their behalf. A study of the cost of operating the court will be conducted and available by March. Revenues also reflect the ability to collect fees/fines due. A firm has been employed to assist with pursuing outstanding obligations. The obligor will pay the fees for that service as part of their payment.

FY 12 Actual	\$ 911,058	FY 14 Proposed (@0.0%)	\$ 973,500
FY 13 Budget	\$1,021,450	FY 14 Proposed (@ 5.0%)	\$1,020,000
FY 13 Forecast	\$ 973,500	FY 14 Proposed (@ 10.0%)	\$1,070,000

State Income Tax

Of all the state taxes which are collected by them and remitted to local governments, the Hall Income Tax has the greatest volatility. This is paid in July or August so comes after the budget is approved by the board. We expect to see pressure on this revenue stream from the State.

FY 12 Actual	\$ 911,058	FY 14 Proposed (@0.0%)	\$ 973,500
FY 13 Budget	\$1,246,000	FY 14 Proposed (@ 5.0%)	\$1,020,000
FY 13 Forecast	\$1,246,500	FY 14 Proposed (@ 10.0%)	\$1,070,000