



MEMORANDUM

January 9, 2014

TO: Board of Mayor and Aldermen

FROM: Eric Stuckey, City Administrator
Russ Truell, ACA/CFO
Mike Lowe, Comptroller

SUBJECT: Discussion of 2015 Budget – General Fund Revenue Preview

Purpose

The purpose of this item is to present a preliminary overview of General Fund revenue anticipated for fiscal year 2014-2015 for preparation of the 2015 budget.

Background

Each year, City staff members review prior year results, current trends, economic forecasts, and changes that may have a financial impact to the City, in order to estimate revenue for the upcoming budget year.

Although the 2014 budget comprises over 40 revenue sources, the Top 10 of these sources account for almost 99% of the General Fund budget, as follows:

<u>Source</u>	<u>Amount</u>	<u>Percent of Total (\$55,546,958)</u>
1. Local sales tax	\$27,500,000	49.5%
2. State shared taxes	\$9,782,000	17.6%
3. Property taxes	\$6,047,528	10.9%
4. Alcohol taxes	\$3,473,000	6.3%
5. Grants (federal/state)	\$2,441,717	4.4%
6. Franchise fees	\$2,275,000	4.1%
7. Building permits/fees	\$1,655,200	3.0%
8. Court fines & fees	\$1,013,500	1.8%
9. In lieu of tax (local)	\$351,962	0.6%
10. Interest income	\$225,000	0.4%
	<u>\$54,764,907</u>	<u>98.6%</u>

On the following pages, please find a preview of these Top 10 revenues, with discussion of each, and preliminary low, middle, and high estimates for FY2015. Factors that are included in the estimates:

1. In December 2013, the State Funding Board adopted a revenue growth estimate of 2.2% to 2.9%. (Economists provided to the Board a wider range of 2.2% to 3.5%).
2. In December 2013, the Consumer Price Index (CPI) for all items except food and energy was reported at 1.7% growth.
3. Amazon began collection of sales tax on deliveries to Tennessee addresses effective January 1, 2014. This will be in effect for the full 2015 budget year. The State advises that the impact cannot be determined until the revenue flow begins. February 15 is the first due date for collections.



4. Property tax allocable to the Debt Service Fund will increase due to additional debt service resulting from the pension and public works bonds issued in December 2013.
5. Inclusion of special census results in state shared taxes.

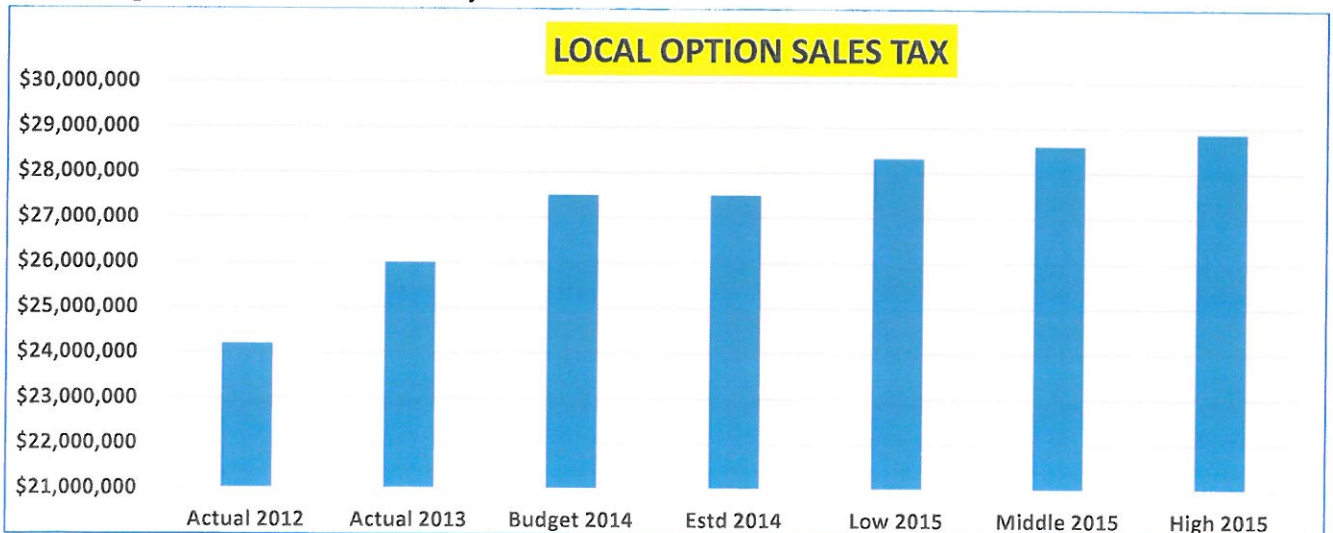
GENERAL FUND REVENUE (TOP 10)

1. **Local Option Sales Tax** - This revenue is the City's portion of the 2.25% local option sales tax. This revenue is distributed monthly from the State to the County, and then is split 50/50 with the City and the School Districts, less a 1% collection fee charged by the County. We receive our portion from the County about the 25th of the month. Revenue is about the same each month, except for December when business receipts are about 25% larger than the other months. December collections are received in February.

Actual 2012:	\$24,197,413	
Actual 2013:	\$25,995,733	(7.4% over Actual 2012)
Budget 2014:	\$27,500,000	(5.8% over Actual 2013)
Estimated 2014:	\$27,500,000-28,050,000	(up to 2% over Budget 2014)

Projected 2015 (low):	Estimated 2014 + 3%	(\$28,325,000 - \$28,891,500)
Projected 2015 (middle):	Estimated 2014 + 4%	(\$28,600,000 - \$29,172,000)
Projected 2015 (high):	Estimated 2014 + 5%	(\$28,875,000 - \$29,452,500)

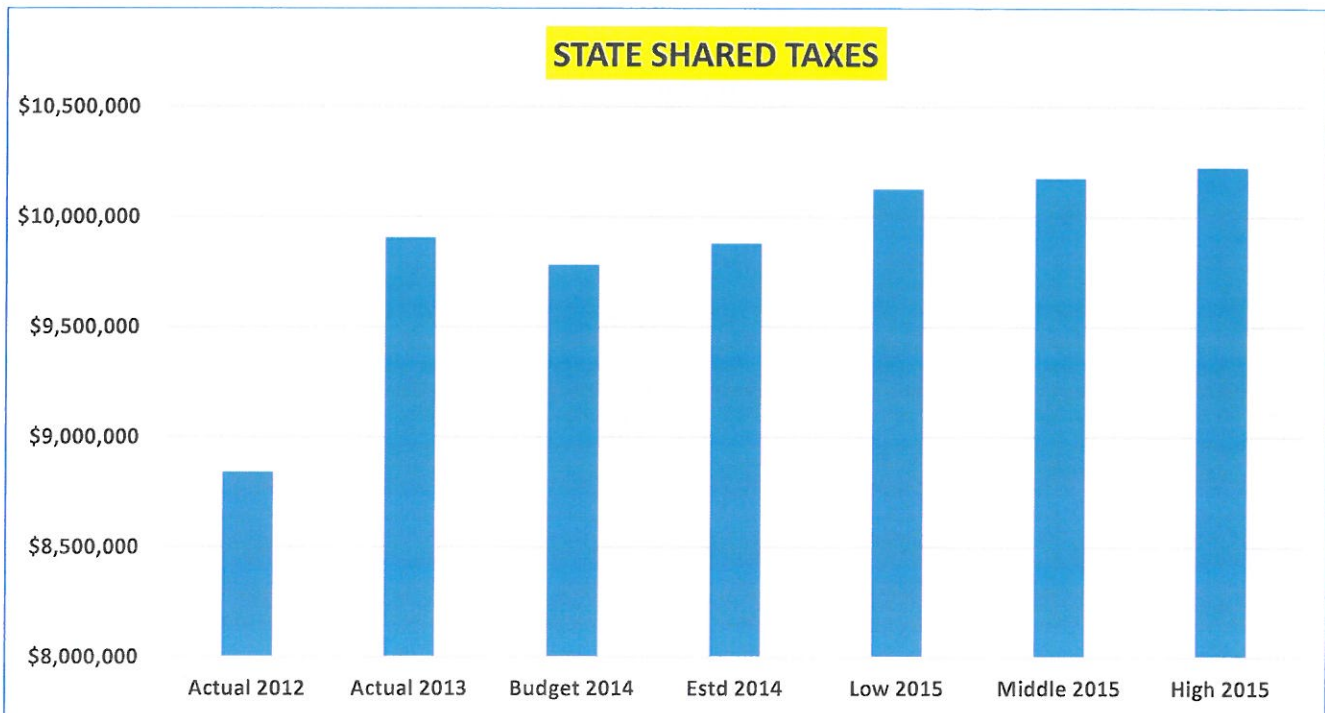
Growth of at least 3% is projected as the City has typically outperformed the State's growth estimate, plus the addition of a full year of sales tax from Amazon.





2. **State shared taxes** – We receive significant revenue from the State in the form of shared taxes with distribution based primarily on population. The major sources are from the Sales Tax, Business Tax, Hall Income Tax (dividends/interest), TVA in Lieu Of, Beer Tax, Mixed Drink Taxes and the Bank Excise Tax. These are sent to us monthly or quarterly around the 20th except for the Income Tax (August) and the Excise Tax which are annual remittances sent to us in July and March respectively. Results of the 2013 special census are anticipated to increase the City’s share, estimated at approximately \$100 per person.

Actual 2012:	\$8,841,675	
Actual 2013:	\$9,906,104	(12.0% over Actual 2012)
Budget 2014:	\$9,782,000	(1.3% under Actual 2013)
Estimated 2014:	\$9,879,820 - \$9,977,640	(1% - 2% over Budget 2014)
Projected 2015 (low):	Estimated 2014 + 2.5%	(\$10,126,816 - \$10,227,081)
Projected 2015 (middle):	Estimated 2014 + 3.0%	(\$10,176,215 - \$10,276,969)
Projected 2015 (high):	Estimated 2014 + 3.5%	(\$10,225,614 - \$10,326,857)





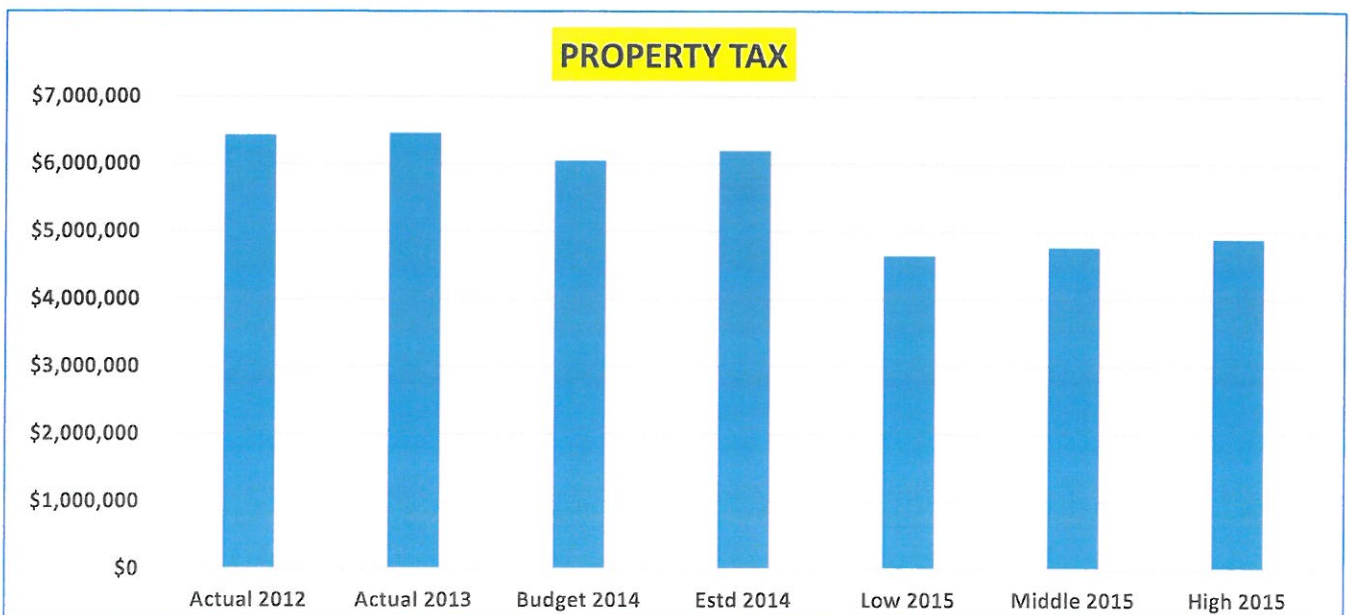
3. **Property Tax** - Bills are issued on October 1st and are due by February 28th without penalty/interest. Historically, about 1/3 is received in December and another third in February. The County is now collecting property tax for the City.

Actual 2012:	\$6,426,577	
Actual 2013:	\$6,457,052	(.5% over Actual 2012)
Budget 2014:	\$6,047,528	(6.3% under Actual 2013)
Estimated 2014:	\$6,315,945	(4.4% over Budget 2014)
Projected 2015 (low):	No growth, less additional debt service	(\$4,641,622)
Projected 2015 (middle):	1% growth, less additional debt service	(\$4,765,049)
Projected 2015 (high):	2% growth, less additional debt service	(\$4,888,476)

The decrease in property tax revenue in the General Fund is primarily attributable to the additional debt service needed for the pension bonds (\$1,168,125) and capital improvement bonds (\$506,198) issued in December 2013.

The low estimate assumes no growth in assessments netted against additional debt service. This estimate would allocate 43% to the General Fund, 57% to the Debt Service Fund.

The middle and high estimates incorporate a slight growth (1% - 2%) in assessments netted against additional debt service. These estimates would allocate 44% to the General Fund, 56% to the Debt Service Fund.

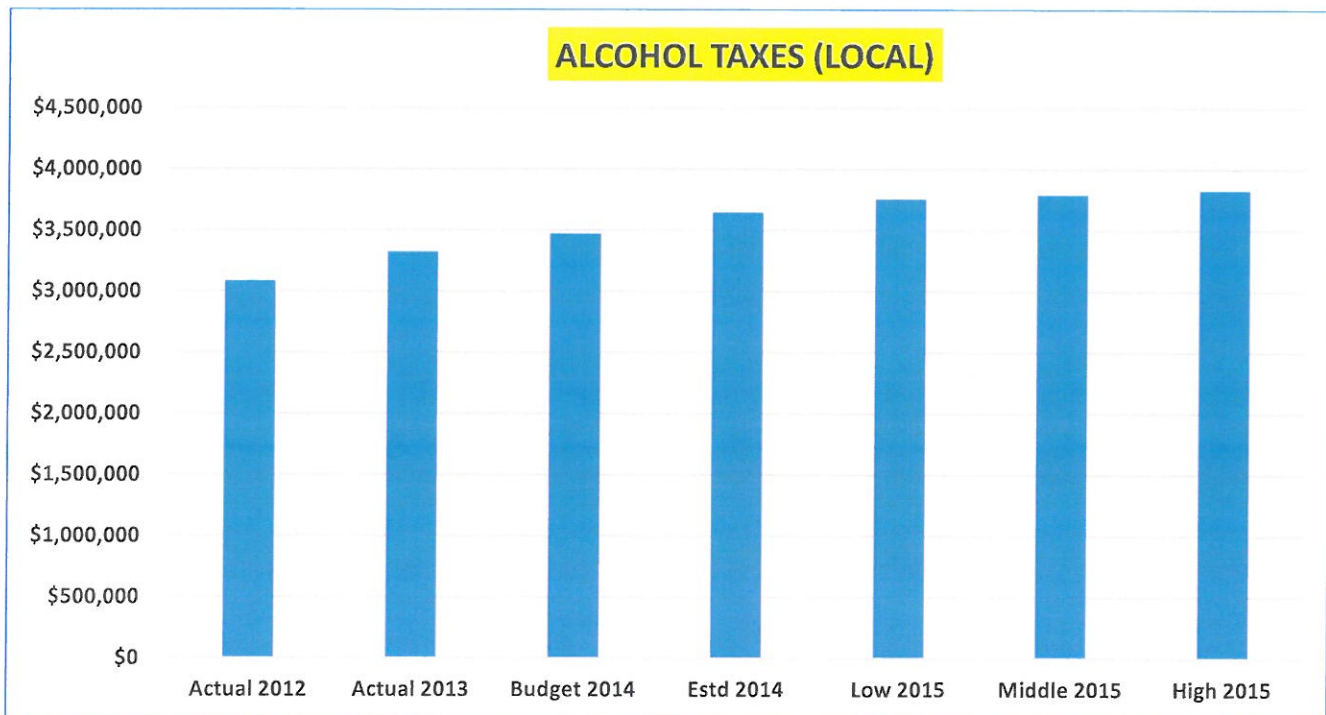




4. **Alcohol taxes (local)** – We receive wholesale beer/liquor revenue from distributors (these are not located locally) and privilege taxes from local businesses each month. This revenue comes in about the 20th of the month and is fairly consistent across the Fiscal Year, with a slight falloff during the winter months.

Actual 2012:	\$3,084,136	
Actual 2013:	\$3,323,302	(7.8% over Actual 2012)
Budget 2014:	\$3,473,000	(4.5% over Actual 2013)
Estimated 2014:	\$3,646,650	(5.0% over Budget 2014)

Projected 2015 (low):	Estimated 2014 + 3.0%	(\$3,756,050)
Projected 2015 (middle):	Estimated 2014 + 4.0%	(\$3,792,516)
Projected 2015 (high):	Estimated 2014 + 5.0%	(\$3,828,983)



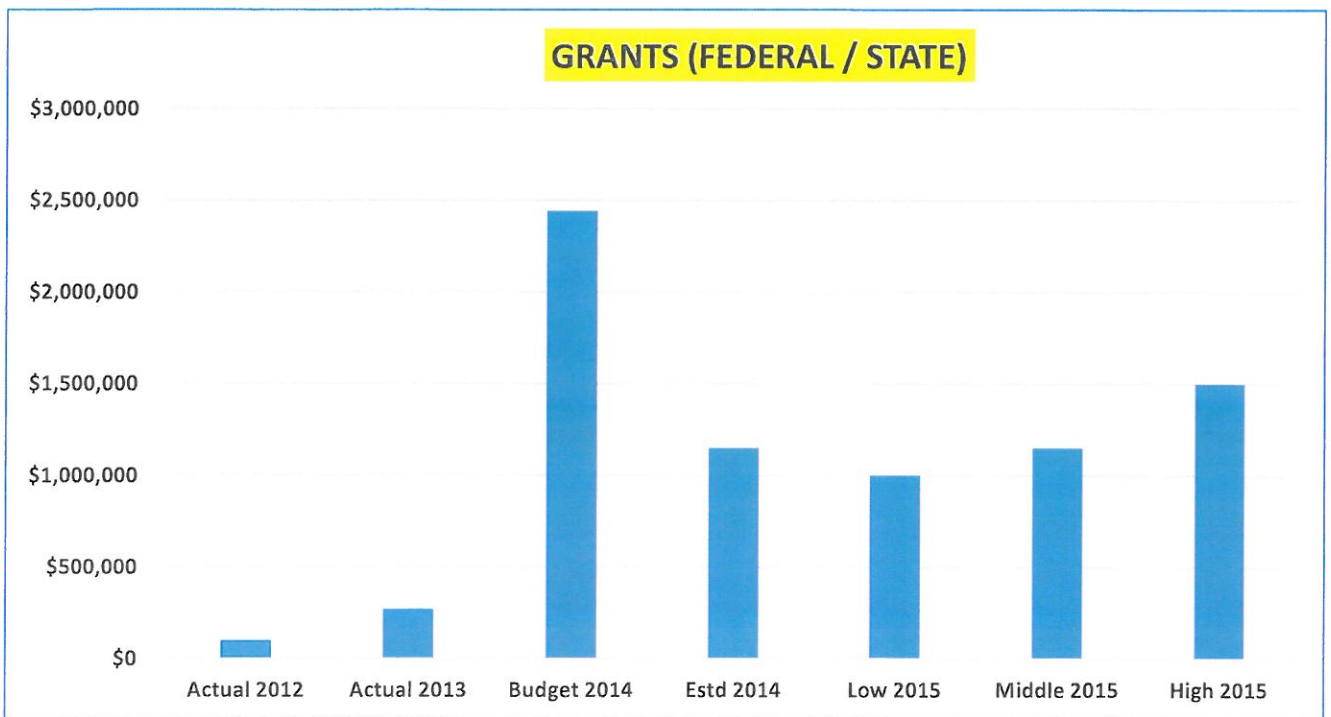


5. Grants (Federal/State)

In 2014, these grants consisted of the Traffic Operations Center (\$2,000,000), parks grants (\$341,717), and funds outstanding from FEMA/TEMA for the May 2010 flood (\$100,000). Please note: Although the City has received other grants such as the Hazard Mitigation Program, only those budgeted in 2014 are included in this preliminary estimate for 2015.

Actual 2012:	\$101,386	
Actual 2013:	\$272,392	(168.7% over Actual 2012)
Budget 2014:	\$2,441,717	(796.4% over Actual 2013)
Estimated 2014:	\$1,150,000	(52.9% under Budget 2014)

Projected 2015 (low):	Estimated 2014 less \$150,000	(\$1,000,000)
Projected 2015 (middle):	Estimated 2014	(\$1,150,000)
Projected 2015 (high):	Estimated 2014 plus \$350,000	(\$1,500,000)

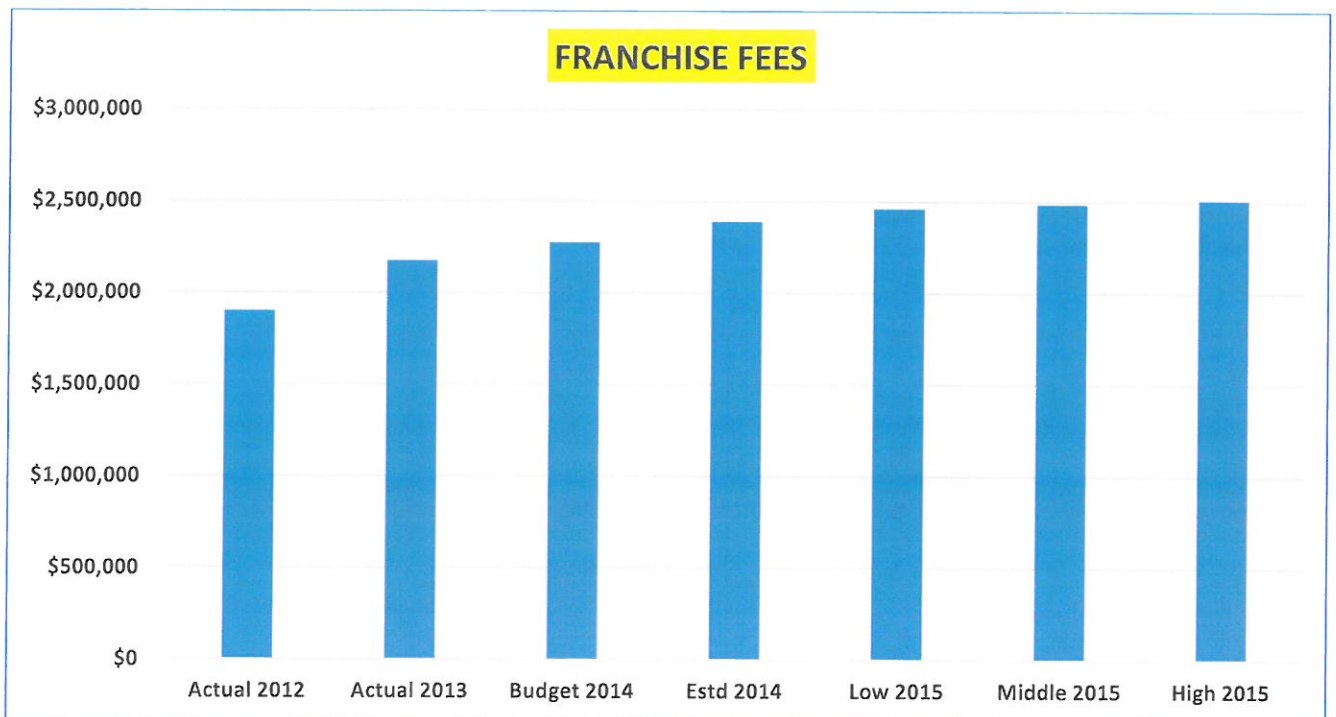




6. Franchise Fees

Collected by the City from cable and gas utility providers. These payments are received annually from Comcast Cable, Piedmont Energy, and Atmos Energy. Atmos Energy and AT&T pay the City on a quarterly basis.

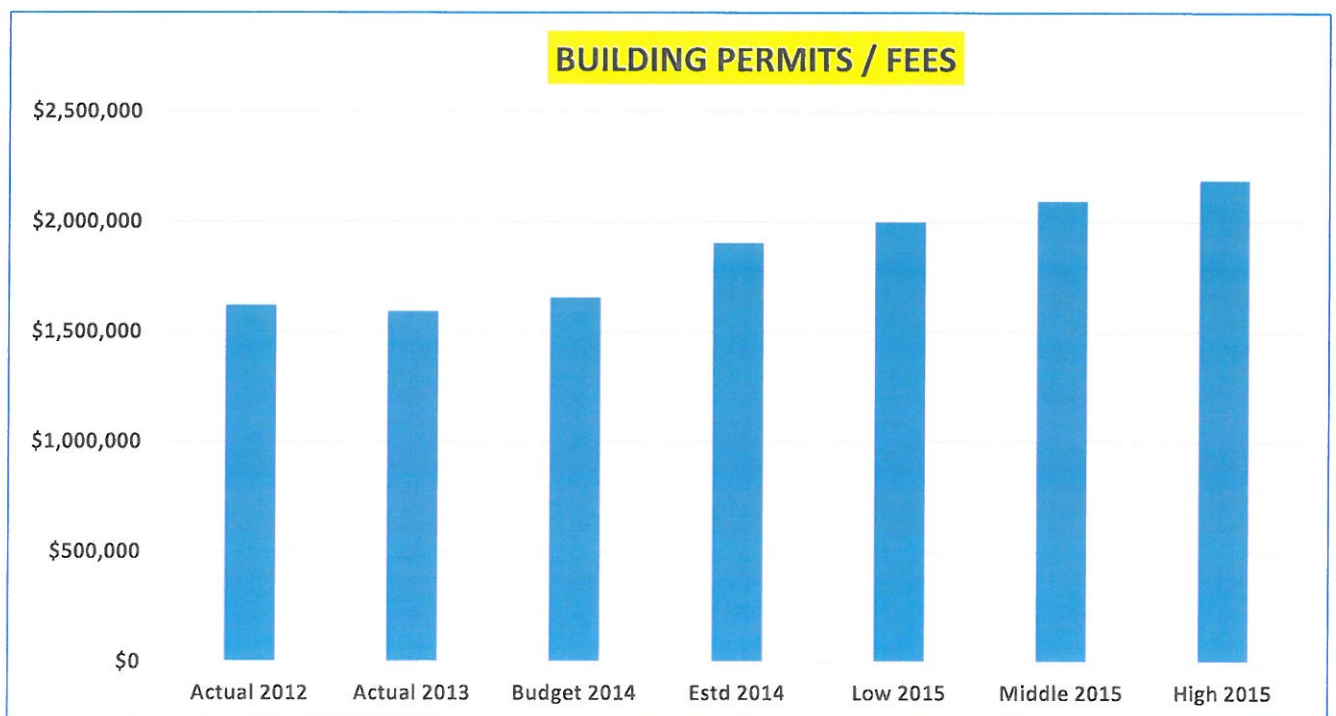
Actual 2012:	\$1,900,254	
Actual 2013:	\$2,174,803	(14.4% over Actual 2012)
Budget 2014:	\$2,275,000	(4.6% over Actual 2013)
Estimated 2014:	\$2,388,750	(5.0% over Budget 2014)
Projected 2015 (low):	Estimated 2014 + 3.0%	(\$2,460,413)
Projected 2015 (middle):	Estimated 2014 + 4.0%	(\$2,484,300)
Projected 2015 (high):	Estimated 2014 + 5.0%	(\$2,508,188)





7. **Building Permits/Fees** – These fees are paid to the City to offset and pay for the staffing costs borne by the City to extend services due to the construction growth. There has been growth in both residential and commercial sides of development. This revenue has been difficult to predict by month because permits are often obtained and fees paid in advance of construction. The fees in this group include building permits, electrical inspections, mechanical permits, plumbing permits, plans review fees, sign permits, reinspection fees, mechanical licenses, grading permits, plumbing licenses, consultant fees, café fees, and tree cutting permits.

Actual 2012:	\$1,620,166	
Actual 2013:	\$1,592,736	(1.7% under Actual 2012)
Budget 2014:	\$1,655,200	(3.9% over Actual 2013)
Estimated 2014:	\$1,903,480	(15% over Budget 2014)
Projected 2015 (low):	Estimated 2014 + 5%	(\$1,998,654)
Projected 2015 (middle):	Estimated 2014 + 10%	(\$2,093,828)
Projected 2015 (high):	Estimated 2014 + 15%	(\$2,189,002)

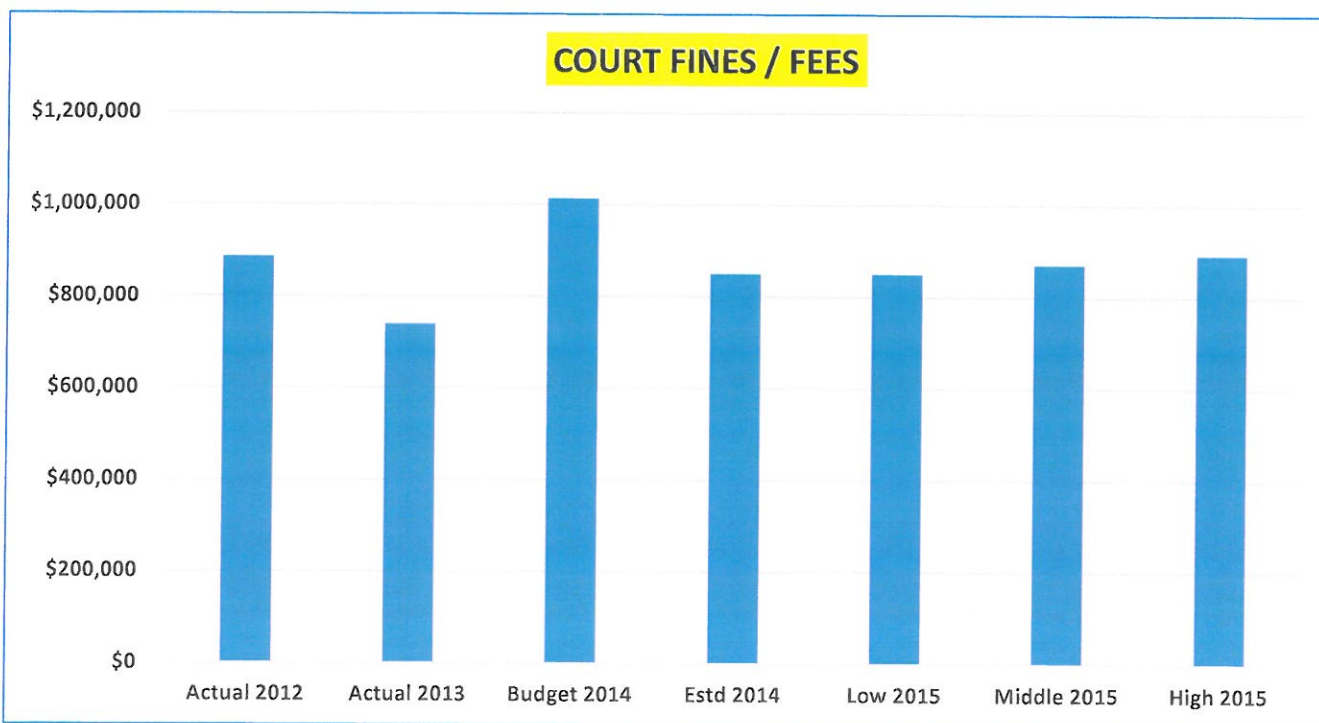




8. **Court Fines & Fees** – The City Court collects fees/fines for traffic violations and property maintenance violations. A major initiative was taken this past year to submit outstanding debts to a collection agency. The primary reason for a decrease in revenue in 2013 and 2014 is a change in accounting to net amounts due to the State against revenue, rather than show those amounts under expenditures in Revenue Management. (With this change, Revenue Management’s expenditures are lower as well).

Actual 2012:	\$885,664	
Actual 2013:	\$738,782	(16.6% under Actual 2012)
Budget 2014:	\$1,013,500	(37.2% over Actual 2013)
Estimated 2014:	\$850,000	(16.1% under Budget 2014)

Projected 2015 (low):	Estimated 2014	(\$850,000)
Projected 2015 (middle):	Estimated 2014 + 2.5%	(\$871,250)
Projected 2015 (high):	Estimated 2014 + 5.0%	(\$892,500)

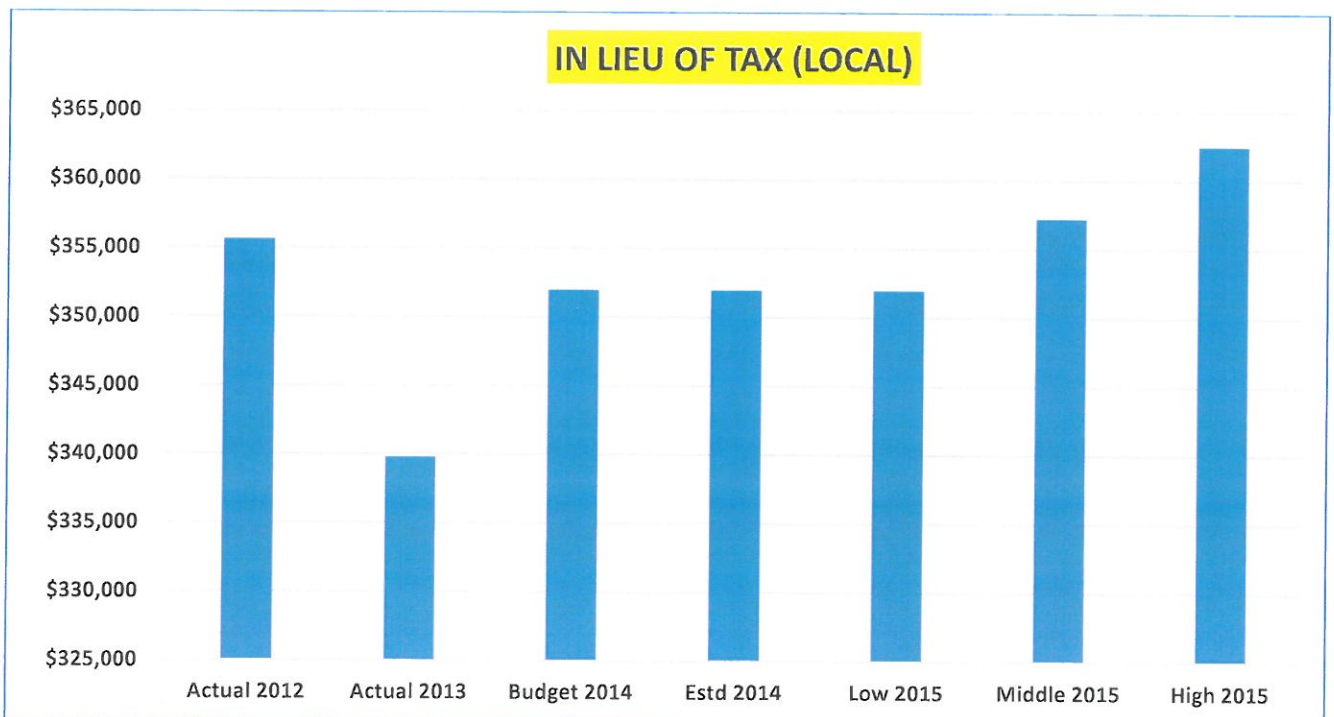




9. **In Lieu of Tax (Local)** – Payments in lieu of tax are made primarily by various local entities, such as Franklin Housing Authority, Nissan, Healthways, Verizon, CHS, and Jackson National Life, that have leases through a local government Industrial Board. The local payments are made annually.

Actual 2012:	\$355,632	
Actual 2013:	\$339,808	(4.4% under Actual 2012)
Budget 2014:	\$351,962	(3.6% over Actual 2013)
Estimated 2014:	\$351,962	(approximate to Budget 2014)

Projected 2015 (low):	Estimated 2014	(\$351,962)
Projected 2015 (middle):	Estimated 2014 + 1.5%	(\$357,241)
Projected 2015 (high):	Estimated 2014 + 3.0%	(\$362,521)





10. **Interest Income**

This revenue source is bank interest and investment earnings on temporarily idle funds. This revenue has been adversely affected significantly in recent years due to the low interest rate environment. It is anticipated that short term interest rates will remain low during the next fiscal year.

Actual 2012:	\$144,574	
Actual 2013:	\$166,679	(15.3% over Actual 2012)
Budget 2014:	\$225,000	(35.0% over Actual 2013)
Estimated 2014:	\$225,000	(approximate to Budget 2014)

Projected 2015 (low):	Estimated 2014 + 1.0%	(\$227,250)
Projected 2015 (middle):	Estimated 2014 + 2.0%	(\$229,500)
Projected 2015 (high):	Estimated 2014 + 3.0%	(\$231,750)

