Budget Retreat: Financial Update

February 11, 2022

All Information except forecasts is “as of” 6/30/21
Agenda

- Understanding the Budget
  - Budget Structure
  - General Fund
  - Debt Update
  - Revenue & Expenditure Forecasts
  - Where the Money Comes From
  - Where the Money Goes
- Pension Fund
- Market Driven Sources of Revenue
- Forecast
- Budget Considerations
- Timeline

City of Knoxville
Budget Structure

- Governmental
  - General Fund
  - Special Revenue
  - Debt Service
  - Capital Projects

- Proprietary
  - Enterprise
  - Internal Service

- Trust/Fiduciary Funds
FY 21/22 Adopted Budget

- General Fund: $253,558,130
- Special Revenue Funds: $36,477,910
- Debt Service Funds: $23,074,150
- Capital Projects Fund: $45,766,320
- Enterprise Funds: $64,585,800
- Trust Funds: $8,177,860
- Internal Service Funds: $52,693,400
- Total Budget: $484,333,570
# General Fund Financial Status

## FY 20/21 Fund Balance

<table>
<thead>
<tr>
<th>Categories</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Spendable</td>
<td>$418,309</td>
</tr>
<tr>
<td>Restricted</td>
<td>-</td>
</tr>
<tr>
<td>Committed</td>
<td>$51,467,721</td>
</tr>
<tr>
<td>Assigned</td>
<td>$35,875,215</td>
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<tr>
<td>Unassigned</td>
<td>$21,140,779</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$108,902,024</strong></td>
</tr>
</tbody>
</table>

*Includes 20% Stabilization Account*

*Includes 5% Best Practice ($12.7M)*

**REMAIN CAUTIOUSLY OPTIMISTIC BECAUSE:**
- Local Option Sales Tax Revenue Increase
- State Shared Sales Tax Revenue Increase
- COVID Grants Reduced Potential GF $$ for Amendments
- COVID Grants Reduced GF Transfer to KAT

*ACRF Includes Affordable Rental Housing, Historic Preservation, Demo by Neglect & other misc funds*
**Last Year’s Projected Situation vs Current Status**

**During FY 22 Budget Process**
- **$26M** Projected Unassigned Fund Balance at end of FY 21
- **($13M)** Held as 5% of General Fund per best practice
- **($13M)** Planned use of Unassigned Fund Balance for FY 22
- **= $0** “Financially Sound but no flexibility

**Did better than projected during FY 21**
- **+ $4.1M** Higher than budgeted State Shared Sales Tax
- **+ $6.6M** Higher than budgeted Local Option Sales Tax
- **+ $8M** Transferred from KAT back to General Fund due to Fed Grant
- **+ $1.2M** Higher than budgeted Alcoholic Beverage Taxes

**$21M** Actual Unassigned Fund at end of FY 21
Debt

Refinanced $58.9M of existing debt & borrowed $62.5M for Safety Complex

Front Loading Debt Structure Decreases Principal Rapidly

<table>
<thead>
<tr>
<th></th>
<th>FY 20/21</th>
<th>FY 21/22</th>
<th>FY 22/23</th>
</tr>
</thead>
<tbody>
<tr>
<td>GO</td>
<td>$92</td>
<td>$86</td>
<td>$79</td>
</tr>
<tr>
<td>Enterprise</td>
<td>$81</td>
<td>$18</td>
<td>$17</td>
</tr>
<tr>
<td>New GO Issue</td>
<td>$-</td>
<td>$76</td>
<td>$70</td>
</tr>
<tr>
<td>Total</td>
<td>$173</td>
<td>$180</td>
<td>$166</td>
</tr>
</tbody>
</table>
Annual Debt Service Payments

Increase from $11.5M to $14.1M due to Front Loading Debt Structure on 20/21 Debt

Refinancing & New Debt Included Starting Here

<table>
<thead>
<tr>
<th></th>
<th>FY 20/21</th>
<th>FY 21/22</th>
<th>FY 22/23</th>
</tr>
</thead>
<tbody>
<tr>
<td>GO</td>
<td>5.81</td>
<td>6.13</td>
<td>8.20</td>
</tr>
<tr>
<td>Enterprise</td>
<td>5.63</td>
<td>5.38</td>
<td>5.90</td>
</tr>
<tr>
<td>Total</td>
<td>11.45</td>
<td>11.50</td>
<td>14.08</td>
</tr>
</tbody>
</table>
Current Bond Ratings

- Fitch: AAA
- Moody’s: Aa1
- Standard & Poor’s: AA+

Current Credit/Bond Ratings

<table>
<thead>
<tr>
<th>Moody's</th>
<th>Standard &amp; Poor's</th>
<th>Fitch Ratings</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>AAA</td>
<td>AAA</td>
<td>Prime Investment</td>
</tr>
<tr>
<td>Aa1, Aa2, Aa3</td>
<td>AA+, AA, AA-</td>
<td>AA+, AA, AA-</td>
<td>High Grade Investment</td>
</tr>
<tr>
<td>Baa1, Baa2, Baa3</td>
<td>BBB+, BBB, BBB-</td>
<td>BB+, BBB, BBB-</td>
<td>Lower Medium</td>
</tr>
</tbody>
</table>
Average annual growth of GF revenue is 2.41% for last 5 FY’s
Average annual growth of GF expenditures is 3.62% for last 5 FY’s
Gap between revenue & expenditure growth is 1.21%
Does not account for projected inflation
• Adequate shape at present due to COVID $$ & higher than anticipated sales tax revenue but must stop expenditure growth from outpacing revenue growth

• In addition to our stabilization account (a.k.a. “Reserve”) which equates to 20% of General Fund, we 5% of general fund as “assigned” fund balance as a “best practice”
Overall Projection

<table>
<thead>
<tr>
<th>FY 11/12</th>
<th>FY 12/13</th>
<th>FY 13/14</th>
<th>FY 14/15</th>
<th>FY 15/16</th>
<th>FY 16/17</th>
<th>FY 17/18</th>
<th>FY 18/19</th>
<th>FY 19/20</th>
<th>FY 20/21</th>
<th>FY 21/22</th>
<th>FY 22/23</th>
<th>FY 23/24</th>
<th>FY 24/25</th>
<th>FY 25/26</th>
<th>FY 26/27</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5</td>
<td>10.4</td>
<td>0.8</td>
<td>4.8</td>
<td>9.7</td>
<td>10.8</td>
<td>-7.8</td>
<td>-1.6</td>
<td>1.7</td>
<td>20.2</td>
<td>0</td>
<td>-3</td>
<td>-6.3</td>
<td>-9.8</td>
<td>-13.4</td>
<td>-17.3</td>
</tr>
</tbody>
</table>

Caution
WHERE THE MONEY COMES FROM
## FY 21/22 General Fund Budgeted Revenues & Sources

<table>
<thead>
<tr>
<th>Estimated Revenue</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$118,578,200</td>
<td>46.8%</td>
</tr>
<tr>
<td>Local Option Sales Taxes</td>
<td>$47,015,000</td>
<td>18.5%</td>
</tr>
<tr>
<td>KUB PILOT</td>
<td>$21,335,000</td>
<td>8.4%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>$28,117,010</td>
<td>11.1%</td>
</tr>
<tr>
<td>State Shared Sales Taxes</td>
<td>$17,700,000</td>
<td>7.0%</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$4,641,120</td>
<td>1.8%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>$3,220,710</td>
<td>1.3%</td>
</tr>
<tr>
<td>Fund Balance</td>
<td>$12,951,090</td>
<td>5.1%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$253,558,130</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

**Use of Fund Balance**
General Fund Total Revenues
By Source

- Property Taxes: 47%
- Local Option Sales Taxes: 19%
- KUB PILOT: 8%
- Other Taxes: 11%
- Fund Balance: 5%
- Other Revenues: 1%
- Intergovernmental: 2%
- State Shared Sales Taxes: 7%

Total Budgeted Amount = $253,558,130
WHERE THE MONEY GOES
General Fund Expenditures
(Excludes Transfers)

Salaries - $81.3M

Workforce Costs are 55% of total GF w/o Transfers
Pension
Estimated Future Pension Contributions from 7/1/2021 Valuation Report
2021 Experience Study Results

- Mortality Improvements
- Expected Rate of Return
- Amortization of Unfunded Liability
Estimated Future Pension Contributions After Applying Experience Study Results

Projected Pension Unfunded Liability Paid Off
Selected Revenue Details
# Market Driven Sources of Revenue

(6 month snapshot)

<table>
<thead>
<tr>
<th>Source</th>
<th>3 Yr Average</th>
<th>Last FY (FY21)</th>
<th>Current FY (FY 22)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Option Sales Tax</td>
<td>$21,380,010</td>
<td>$22,258,072</td>
<td>$26,607,375</td>
</tr>
<tr>
<td>State Shared Sales Tax</td>
<td>$8,132,876</td>
<td>$8,544,437</td>
<td>$10,282,729</td>
</tr>
<tr>
<td>Beer Tax</td>
<td>$3,833,615</td>
<td>$3,828,750</td>
<td>$3,997,640</td>
</tr>
</tbody>
</table>
Market Driven Sources of Revenue
(6 Month Snapshot)

General Admissions Tax: $720,200
Hotel/Motel Tax (City): $1,990,795
Hotel/Motel Tax (County): $420,779
Business Taxes: $831,219
Business License Fees: $169,937
Wholesale Liquor Inspection Fee: $2,236,074
Mixed Drink Tax: $971,288
Alcoholic Beverage Tax: $90,124

3 Yr Average:
- General Admissions Tax: $720,200
- Hotel/Motel Tax (City): $1,990,795
- Hotel/Motel Tax (County): $420,779
- Business Taxes: $831,219
- Business License Fees: $169,937
- Wholesale Liquor Inspection Fee: $2,236,074
- Mixed Drink Tax: $971,288
- Alcoholic Beverage Tax: $90,124

Last FY (FY21):
- General Admissions Tax: $244,275
- Hotel/Motel Tax (City): $1,460,127
- Hotel/Motel Tax (County): $290,936
- Business Taxes: $583,747
- Business License Fees: $289,503
- Wholesale Liquor Inspection Fee: $2,532,672
- Mixed Drink Tax: $801,139
- Alcoholic Beverage Tax: $112,014

Current FY (FY22):
- General Admissions Tax: $893,340
- Hotel/Motel Tax (City): $2,894,947
- Hotel/Motel Tax (County): $610,238
- Business Taxes: $500,215
- Business License Fees: $63,646
- Wholesale Liquor Inspection Fee: $2,592,650
- Mixed Drink Tax: $1,463,014
- Alcoholic Beverage Tax: $120,584

Marked Improvement
Projection for End of FY 22
(General Fund)

- $263,211,156: Total Projected Revenue *
- -($263,862,083): Total Projected Expenditures
- =($650,927): Total Projected Shortfall

Will pull from Unassigned Fund Balance

* Includes fund balance already appropriated for FY 22 of $13,754,090
Budget Considerations

- Expenditure growth rate (3.62%) outpacing revenue growth (2.41%) creating a 1.21% gap & depletes fund balance over time if not corrected
- Rapid Inflation
- Compensation Study implementation cost ($9M - $13M)
- Pension Unfunded Liability increases $6.1M over 5 years
- Infrastructure needs and commitments
- Anticipated New Debt Service payments
  - $18M - Safety Center = approx. $1.1M in annual debt payments
  - Stadium debt = est “net” cost of $240K/yr
- Return to normal KAT transfer from General Fund at approx. $13M
- Growing deferred maintenance costs
Budget Considerations

- Construction costs up 23% since start of pandemic. Forecast for 2022 is another 4.5% increase for nonresidential & 7% for residential

- Increased fuel costs
  - Each 1 cent increase at the pump = $18K City cost increase

- Cost of Overtime ($3.1M at mid year)

+ 2nd payment of ARPA $21.2M to arrive in June/July 2022
+ Property tax collections remain strong
+ Sales tax revenue better than expected:
  + Local Option Sales Tax Revenue up 21% YTD over prior year ($4M)
  + State shared sales tax revenue up 15% YTD over budget ($2.4M)
+ Potential assistance with Federal infrastructure dollars
Budget Timeline

February 11, 2022  Budget Retreat.
March 22–24, 2022  Mayor’s Budget Hearings
April 22, 2022  Mayor’s State of the City Address
May 3, 2022  1st reading of proposed budget & tax ordinances
May 12, 2022  Knoxville-Knox Planning Commission Hearing on CIP
May 12–13, 2022  Legislative budget hearings
May 13, 2022  Public Hearing
May 17, 2022  2nd reading of proposed budget & tax ordinances
June 15, 2022  Last possible day to approve Budget/Tax Ordinances
July 1, 2022  New Fiscal Year Begins
Questions?