

■ operating budget

Sources of Revenue	FY 2005 Actual	FY 2006 Forecast	FY 2006 Budget	FY 2007 Adopted
Local Taxes	361,098,310	402,540,547	402,697,130	405,139,295
State Taxes	49,710,448	51,336,202	53,537,195	52,886,554
Licenses and Permits	11,074,375	11,276,016	11,279,002	11,388,777
Fines and Forfeitures	9,882,069	7,669,996	10,641,527	7,946,696
Charges for Services	1,702,809	1,437,328	1,418,437	947,919
Use of Money and Property	338,783	280,179	171,956	282,980
State Grants	637,151	0	0	0
Other Revenues	7,999,382	3,569,493	4,492,995	3,593,932
Transfers In	21,929,317	17,304,876	21,304,876	23,464,925
Total Revenues\Transfers	464,372,644	495,414,637	505,543,118	505,651,078
Contribution (Use) of Fund Balance	(26,229,489)	12,755,198	10,014,226	8,576,632
Total Revenue\Others Sources	490,602,133	482,659,439	495,528,892	497,074,446

■ issues & trends

The Operating Budget Revenue for FY 2007 totals \$505,651,078. This represents a revenue growth of \$10.2M or 2.06% from the FY 2006 Forecast.

Our largest revenue source, local taxes are projected to increase \$2.6M or 0.64% from the FY 2006 Forecast. State taxes, our second largest revenue source are projected to increase \$1.5M or 3.01% from the FY 2006 Forecast. Licenses and Permits increased slightly over the Forecast by 1.00%. Fines and Forfeitures increased by 3.60%. Charges for services decreased by 34.04%. This decrease is attributed to the Parking Meter revenue being accounted for in the Engineering divisional revenue for FY 2007.

Other sources of revenue that contribute to the operating budget are use of money and property and transfers in. Both revenue sources increased slightly over FY 2006 Forecast.



GENERAL FUND

GENERAL REVENUES

Sources of Revenue	FY 2005 Actual	FY 2006 Forecast	FY 2006 Budget	FY 2007 Adopted
Local Taxes				
Ad Valorem Tax - Current	156,617,446	195,100,000	189,132,963	197,071,500
Ad Valorem Tax Prior	7,329,248	7,000,000	7,000,000	7,000,000
PILOT's	2,873,836	3,954,672	3,500,334	3,994,219
In Lieu Of Taxes-MLGW	43,598,647	48,609,853	42,705,058	47,400,000
In Lieu Of Taxes-Sewer	3,809,416	4,200,000	4,200,000	4,242,000
In Lieu Of Taxes-Port Comm	0	0	450,000	0
Property Taxes Interest & Penalty	7,551,847	6,626,443	6,626,553	6,692,707
Special Assessment Tax	125,435	88,230	88,230	89,112
Local Sales Tax	95,260,342	96,432,622	98,864,101	97,396,948
Alcoholic Beverage Inspection Fee	3,591,865	3,488,182	3,488,182	3,523,064
Beer Sales Tax	14,619,576	14,770,120	14,770,120	14,917,821
Gross Rec Business Tax	7,942,657	8,022,084	8,343,559	8,264,351
Interest, Penalties & Commission	252,747	200,252	200,252	202,255
Mixed Drink Tax	2,028,565	2,109,523	2,109,523	2,173,230
Bank Excise Tax	1,138,539	762,120	762,120	785,136
State Appointment TVA	4,994,204	5,044,146	5,233,205	5,196,479
Franchise Tax - Telephone	1,830,849	0	8,994,716	0
Cable TV Franchise Fees	4,256,464	4,306,300	4,306,300	4,349,363
Fiber Optic Franchise Fees	223,346	1,000	1,543,054	1,010
Misc Franchise Tax	64,349	10,000	63,860	10,100
Misc Tax Recoveries	2,673,057	1,500,000	0	1,515,000
MLGW/Williams Pipeline	315,875	315,000	315,000	315,000
Total Local Taxes	361,098,310	402,540,547	402,697,130	405,139,295
State Taxes				
State Income Tax	6,333,917	6,062,541	6,062,541	6,245,629
State Sales Tax	41,206,488	42,724,067	44,925,060	44,014,334
Telecommunication Sales Tax	113,108	139,547	139,547	143,761
State Shared Beer Tax	332,129	395,756	395,756	407,708
Alcoholic Beverage Tax	199,675	214,833	214,833	221,320
Spec Petroleum Product Tax	1,525,131	1,799,458	1,799,458	1,853,802
Total State Taxes	49,710,448	51,336,202	53,537,195	52,886,554
Licenses and Permits				
Liquor By Ounce License	242,959	236,781	236,781	239,149
Taxi Drivers License	27,110	15,896	15,584	16,055
Gaminy Pub Amus Perm Fee	25,230	17,569	17,569	17,745
Wrecker Permit Fee	4,443	2,502	2,502	2,527
Misc Permits	63,146	31,903	35,201	32,222
Beer Application	84,530	68,444	68,444	69,128
Auto Registration Fee	10,471,729	10,743,853	10,743,853	10,851,292



GENERAL FUND

GENERAL REVENUES

Sources of Revenue	FY 2005 Actual	FY 2006 Forecast	FY 2006 Budget	FY 2007 Adopted
Beer Permit Privilege Tax	155,228	159,068	159,068	160,659
Total Licenses and Permits	11,074,375	11,276,016	11,279,002	11,388,777
Fines and Forfeitures				
Court Fees	5,324,500	4,000,000	5,650,000	4,140,000
Court Costs	4,055,526	3,300,000	4,650,000	3,433,000
Fines & Forfeitures	202,487	135,887	135,887	137,246
Beer Board Fines	53,880	54,419	25,950	54,963
Arrest Fees	245,676	179,690	179,690	181,487
Total Fines and Forfeitures	9,882,069	7,669,996	10,641,527	7,946,696
Charges for Services				
Tax Sales Attorney Fees	893,226	620,712	620,712	626,919
Parking Meters	492,933	495,616	480,325	0
MLG&W Rent	1,650	6,000	2,400	6,000
Parking Lots	315,000	315,000	315,000	315,000
Total Charges for Services	1,702,809	1,437,328	1,418,437	947,919
Use of Money and Property				
Interest on Investments	172,483	226,635	61,593	228,901
Net Income/Investors	50,871	0	56,819	0
State Litigation Tax Commission	115,429	53,544	53,544	54,079
Total Use of Money and Property	338,783	280,179	171,956	282,980
State Grants				
TEMA Reimbursement	637,151	0	0	0
Total State Grants	637,151	0	0	0
Other Revenues				
Commercial Revitalization Fee	54,486	50,000	39,868	50,000
Local Shared Revenue	622,481	0	5,000	0
Miscellaneous Income	10,195	25,000	4,500	25,250
City Property Damage Reim	217,310	0	200,234	0
Sewer Fund Cost Allocation	1,075,000	1,075,000	1,075,000	1,075,000
Miscellaneous Auctions	1,678,436	2,162,393	2,162,393	2,184,017
Court Reimbursement	155	1,500	400	1,515
Unclaimed Property	1,324	0	5,000	0
Bad Check Penalties	300	100	100	100
Cash Overage/Shortage	8,017	500	500	500
Sale Of Capital Assets	552,568	5,000	500,000	5,050
Treasurer - Misc Collections	9,200	0	0	0
Insurance Refund	2,335,741	0	0	0



GENERAL FUND

GENERAL REVENUES

Sources of Revenue	FY 2005 Actual	FY 2006 Forecast	FY 2006 Budget	FY 2007 Adopted
Recovery Of Prior Year Expense	1,434,169	250,000	500,000	252,500
Total Other Revenues	7,999,382	3,569,493	4,492,995	3,593,932
Transfers In				
Contrib From Municipal State Aid	13,841,590	16,003,026	20,003,026	16,163,056
Tfr In - Debt Service Fund	6,787,727	0	0	6,000,000
Tfr In - Sewer Operating/CIP	1,300,000	1,300,000	1,300,000	1,300,000
Tfr In - Tax Sales Fund	0	1,850	1,850	1,869
Total Transfers In	21,929,317	17,304,876	21,304,876	23,464,925
Total Revenues\Transfers	464,372,644	495,414,637	505,543,118	505,651,078



Revenue Forecasting Methodology

The University of Memphis forecasters independently prepare monthly reports of major revenue updates and forecasts for use in the internal decision-making done in the City of Memphis Finance Department. The forecasts have two areas of focus: forecasts for the current fiscal year's end-of-year revenues and forecasts for the next fiscal year and for each year out for ten years.

A team of three Ph.D. economists report on current economic trends that influence the City of Memphis. National, state and local economic indicators receive full discussion in both an oral presentation and written documents. These perspectives are essential for the finance department to understand and respond to a second area of focus. In the second part of the report, the team prepares numerical forecasts for the current fiscal year's end-of-year revenues, for the next fiscal year, and for each year out for ten years.

The forecasts are for more than fifty revenue variables, including total revenue for the city's general fund, subgroups of revenue sources, and individual revenue sources. The format of the forecast involves a median forecast as the single most likely value and a high/low range to indicate the degree of uncertainty. Also, for the most important single revenue sources and for total revenue, there is a more detailed risk analysis. This involves developing a downside risk assessment expressed as the probability that revenues will be at or below important levels.

The smallest revenue sources are forecasted with auto regressive, integrated, moving average models estimated with monthly or annual data that extends back to 1968 in some cases. Major revenue sources get forecasts from at least two alternative statistical models. For some variables, seasonal patterns are so reliable that end-of-year totals are accurately predicted from year-to-date data used in some of the quarterly updates. For longer-term forecasts, entirely different models are necessary.

For some of the revenue sources, national and regional economic indicators are useful to add to short and long term forecast accuracy. These statistical models are combinations of auto regressive, integrated, moving average (ARIMA) modeling and regression analysis. Although some series are estimated with single equation models, others have simultaneous equation models.

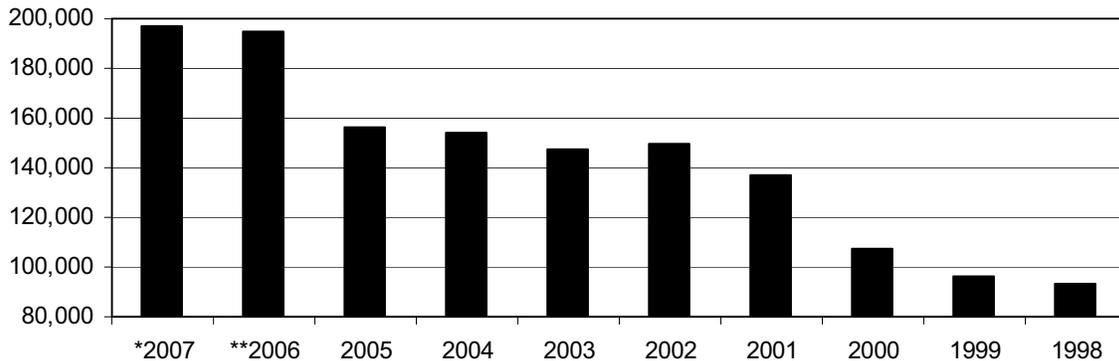
Stochastic simulations of the short- and long-term models generate empirical estimates of the probability distributions for the revenue sources. These distributions are reported both for the current fiscal year and the next fiscal year. These simulation results are used to report the high/low ranges for the revenue sources and the detailed risk analyses. The high/low range end points are defined to cover the middle 50 percent of the estimated distributions for the forecasted variables. They are, in fact, the first and third quartiles that surround the median forecast. These intervals are reported for detailed lists of revenue sources, for subcategories of the general fund, and for total revenue.

The simulation results are the basis for more detailed risk analysis of total revenue, the property tax, and the sales tax. These risk reports give the quartiles and median, plus all the deciles. For example, the first decile in the forecast distribution for total revenue is the level of revenue such that there is a 10 percent probability that revenue will be at or below that level. In addition, the risk analysis estimates the probability that revenues will be at or below key levels, such as the previous year's level and the level anticipated in the operating budget. This risk analysis is a downside risk description, giving the probability that end-of-year revenue will be short of specified values.

Current Property Tax

Year	Amount	% Inc/Dec	Year	Amount	% Inc/Dec
2007	197,072	1.01%	2002	149,375	9.04%
2006	195,100	24.57%	2001	136,985	27.27%
2005	156,617	1.55%	2000	107,631	11.58%
2004	154,221	4.47%	1999	96,457	3.45%
2003	147,626	-1.17%	1998	93,236	1.51%

(In Thousands)



* FY 2007 Adopted
 ** FY 2006 Forecast

Property Tax is the largest source of revenue for the City. Property assessments are made by the Shelby County Tax Assessor based on the estimated appraised value and the following property classifications:

- Residential and Farm Real Property = 25% of Appraised Value
- Personal Property = 30% of Appraised Value
- Commercial and Industrial Real Property = 40% of Appraised Value
- Public Utilities and Railroads = 55% of Appraised Value Assessed by Tennessee Regulatory Authority.

Tax bills originate from, and collections are made by, the City Treasurer's Office, based on the tax rate set by the City Council and applied to the assessment rolls provided by the County Assessor and the TRA. Taxes are due and payable when the tax bills are mailed, normally July 1, and become delinquent sixty days thereafter, normally September 1. About 95% of the taxes are collected in the first four months of tax mailings. City Schools and the Debt Service Fund share proceeds of this tax. There are no restrictions on property tax increases. However, tax rates are approved by Ordinance. The last increase changed the rate from 3.23 to 3.43, effective FY 2006.

Major Influences: Annexations, Assessor Appraisal, Development and Population Growth



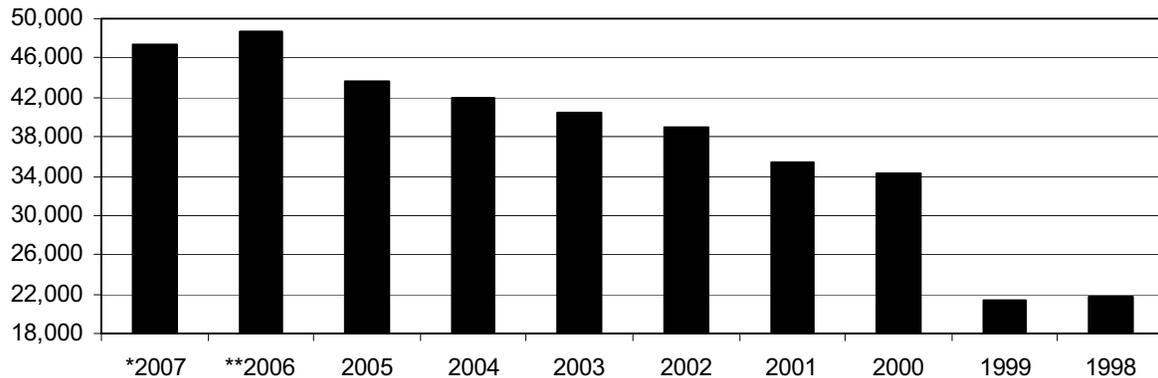
GENERAL FUND

GENERAL REVENUES

In lieu of Tax - MLGW

Year	Amount	% Inc/Dec	Year	Amount	% Inc/Dec
2007	47,400	-2.49%	2002	39,010	10.02%
2006	48,610	11.49%	2001	35,458	3.16%
2005	43,599	3.84%	2000	34,371	61.15%
2004	41,987	3.93%	1999	21,329	-2.24%
2003	40,399	3.56%	1998	21,816	1.07%

(In Thousands)



- * FY 2007 Adopted
- ** FY 2006 Forecast

The Memphis Light Gas and Water Division makes in-lieu-of-property tax equivalent payments as provided by the Municipal Electric System Tax Equivalent Law and the Municipal Gas System Tax Equivalent Law, both of which provide a uniform formula for establishing such payments. This payment is shared with Shelby County according to State law. This revenue is limited to the calculation defined in the state law. The increase from 1999 to 2000 onward is based on the implementation of the 1988 gas tax calculation. T.C.A. 7-52-307 and 7-39-404.

Major Influences: Municipal Electric/Gas System Equivalent Tax Laws



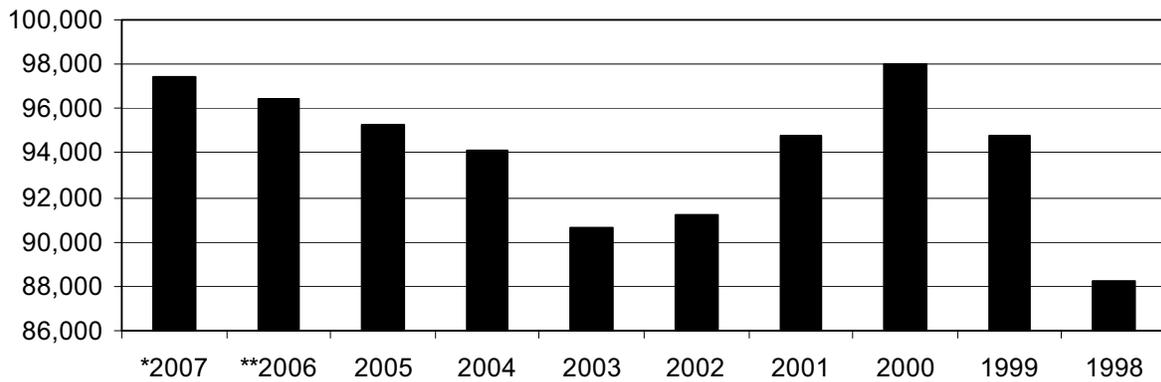
GENERAL FUND

GENERAL REVENUES

Local Sales Tax

Year	Amount	% Inc/Dec	Year	Amount	% Inc/Dec
2007	97,397	1.00%	2002	91,238	-3.77%
2006	96,433	1.23%	2001	94,811	-3.23%
2005	95,260	1.21%	2000	97,977	3.39%
2004	94,123	3.81%	1999	94,769	7.35%
2003	90,672	-0.62%	1998	88,278	2.05%

(In Thousands)



- * FY 2007 Adopted
- ** FY 2006 Forecast

This is the second largest revenue source for the City. It is charged on the gross proceeds derived from the retail sales or use of tangible personal property and certain specific services. It is computed at 2.25% of the amount of each transaction. One half of the proceeds go to education. The last increase changed the rate from 1.5% to 2.25%, effective FY 1984.

Major Influences: Annexation, Population Growth and Taxable Sales



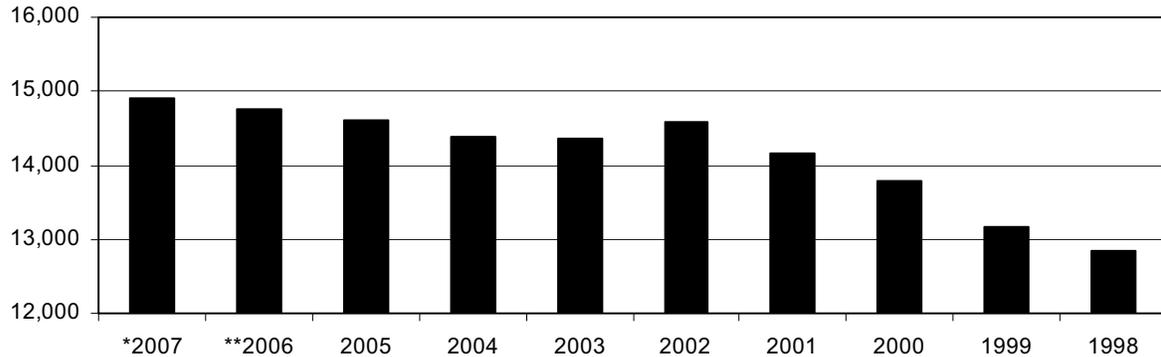
GENERAL FUND

GENERAL REVENUES

Beer Sales Tax

Year	Amount	% Inc/Dec	Year	Amount	% Inc/Dec
2007	14,918	1.00%	2002	14,585	2.93%
2006	14,770	1.03%	2001	14,170	2.72%
2005	14,620	1.65%	2000	13,795	4.80%
2004	14,382	0.10%	1999	13,163	2.47%
2003	14,367	-1.49%	1998	12,846	2.10%

(In Thousands)



* FY 2007 Adopted

** FY 2006 Forecast

This is a 17% levy on the sale of beer at wholesale. It is collected by the wholesaler from the retailer and other persons within the corporate limits of the municipality at the time of sale. Fees are remitted to the City by the wholesaler on a monthly basis. T.C.A. 57-5-103.

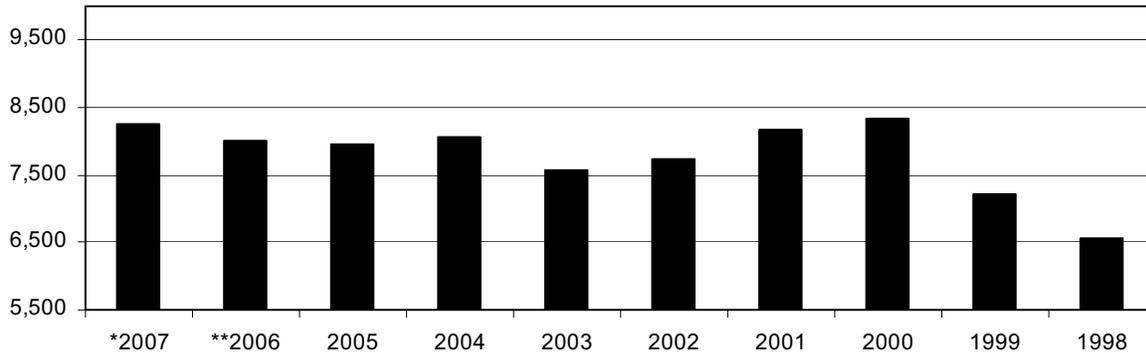
Major Influences: Wholesalers price and Consumption Rates



Gross Receipts Business Tax

Year	Amount	% Inc/Dec	Year	Amount	% Inc/Dec
2007	8,264	3.02%	2002	7,738	-5.40%
2006	8,022	0.99%	2001	8,180	-2.04%
2005	7,943	-1.49%	2000	8,350	15.86%
2004	8,063	6.34%	1999	7,207	9.88%
2003	7,582	-2.02%	1998	6,559	9.21%

(In Thousands)



* FY 2007 Adopted
 ** FY 2006 Forecast

This is a privilege tax on the exercise of most business sales, consisting of two parts:

\$15 minimum annual license fee

Tax on gross receipts(wholesale and retail) of the covered business activities.

Business activities are divided into five classifications, with each classification having different tax rates and taxable periods. Remittances from department stores, auto dealers, restaurants and drug stores, representing almost one-half of total receipts, are collected in the last two months of the fiscal year. Each county and/or incorporated municipality in which such a business, business activity, vocation or occupation is conducted may levy a business tax not exceeding the rates established by state law. T.C.A. 67-4-704.

Major Influences: Economy, Coconsumer Price Index and Gross Receipts

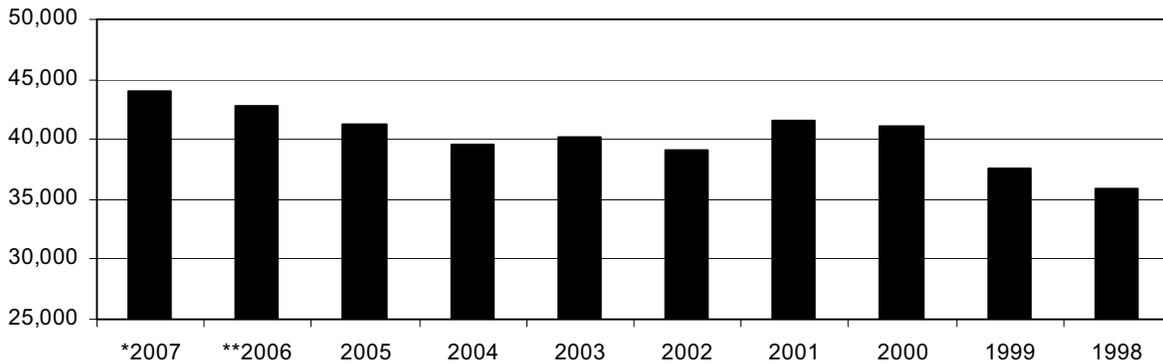
GENERAL FUND

GENERAL REVENUES

State Sales Tax

Year	Amount	% Inc/Dec	Year	Amount	% Inc/Dec
2007	44,014	3.02%	2002	39,145	-5.72%
2006	42,724	3.68%	2001	41,518	1.05%
2005	41,206	3.96%	2000	41,085	9.15%
2004	39,638	-1.44%	1999	37,642	4.75%
2003	40,216	2.74%	1998	35,935	3.73%

(In Thousands)



* FY 2007 Adopted
 ** FY 2006 Forecast

This is the largest state shared revenue the City receives. The current rate is 7.0% and is charged on each transaction described in the Local Sales Tax, 1.0% goes to the State's General Fund. Of the 6.0%, 0.5% goes to education. Municipalities receive approximately 4.5925% of collections on 5.5% of the 6%, which is allocated among the municipalities on a per capita basis. Changes in fees requires General Assembly vote, T.C.A. 67-6-103.

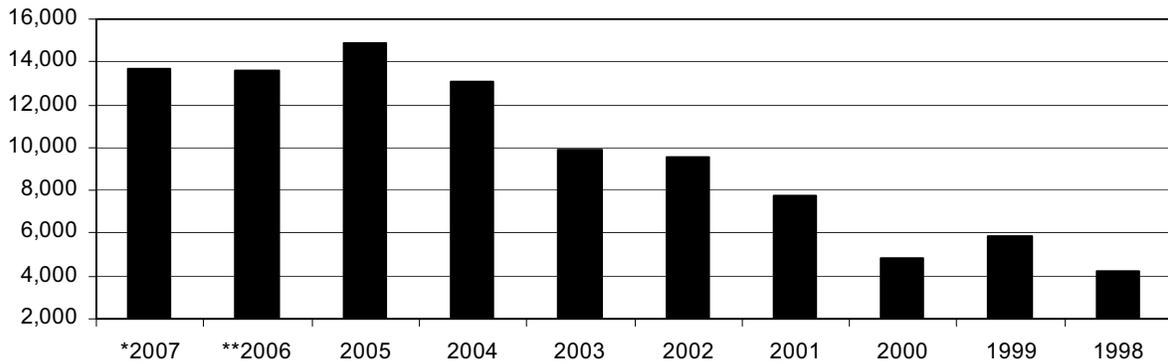
Major Influences: Population (relative to State) and Taxable Sales



Delinquent Property Tax w/ Interest

Year	Amount	% Inc/Dec	Year	Amount	% Inc/Dec
2007	13,693	0.49%	2002	9,517	22.09%
2006	13,626	-8.43%	2001	7,795	60.39%
2005	14,881	13.86%	2000	4,860	-16.91%
2004	13,069	32.18%	1999	5,849	38.63%
2003	9,887	3.89%	1998	4,219	-38.41%

(In Thousands)



* FY 2007 Adopted
 ** FY 2006 Forecast

Property taxes that are not paid in the fiscal year in which they are assessed are recorded as delinquent tax receipts when they are paid in subsequent years. Between 95% to 97% of property taxes are paid in the year of assessment and approximately 40% to 50% of delinquent taxes are collected the first fiscal year they become delinquent. Delinquent payments carry an additional penalty and interest.

Major Influences: Economy and Assessor Appraisal

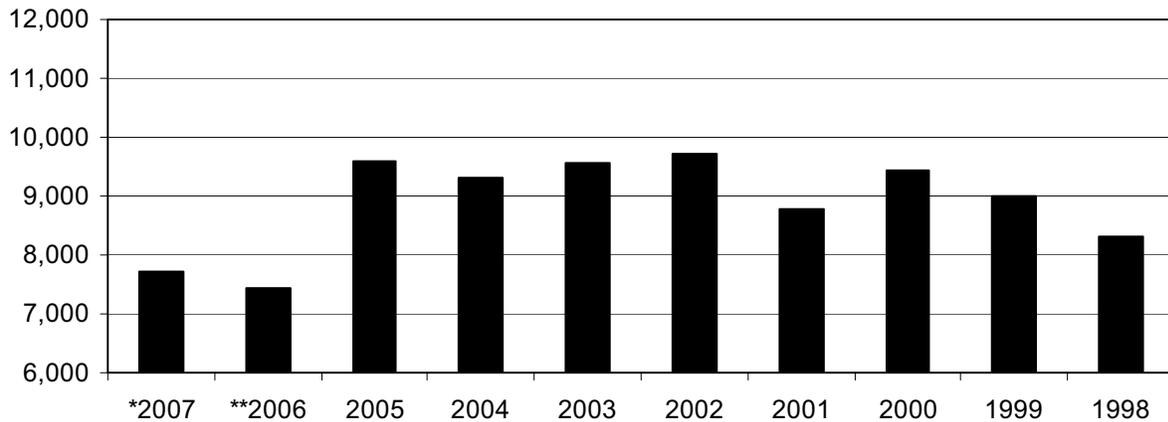
GENERAL FUND

GENERAL REVENUES

Court Costs/Fines

Year	Amount	% Inc/Dec	Year	Amount	% Inc/Dec
2007	7,710	3.68%	2002	9,705	10.55%
2006	7,436	-22.40%	2001	8,779	-6.84%
2005	9,583	2.88%	2000	9,424	4.56%
2004	9,315	-2.65%	1999	9,013	8.51%
2003	9,569	-1.40%	1998	8,306	-1.50%

(In Thousands)



* FY 2007 Adopted
 ** FY 2006 Forecast

The City Court Clerk collects all City Courts fines, including court costs, fine assessments, and forfeitures in lieu-of-court appearances. Remittances are made to the City monthly. Traffic violation fines and court costs are set by the City Council. A portion of the collections is earmarked to the City Board of Education for driver education sources. Fees require Ordinance change and Council approval, Section 11-24-25 Memphis Code.

Major Influences: Population (Demographics), Crime Rate and Enforcement



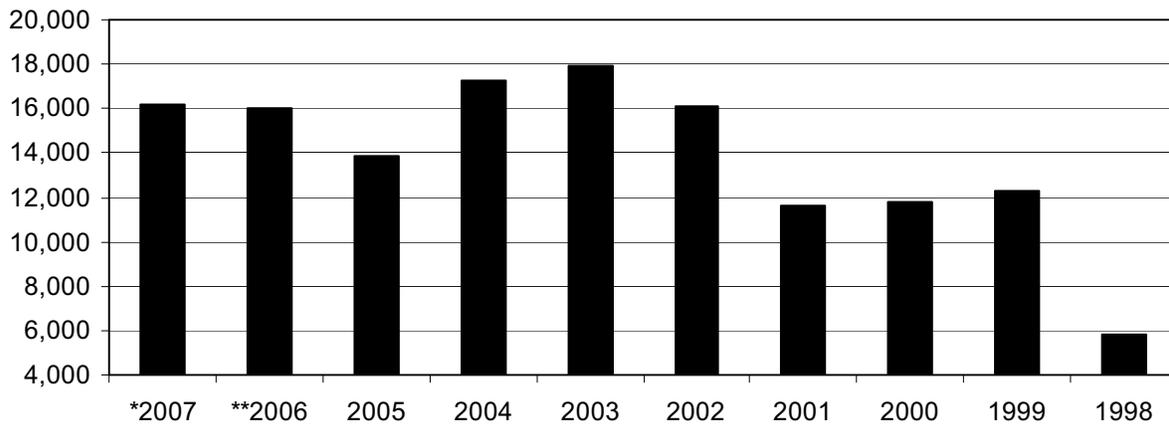
GENERAL FUND

GENERAL REVENUES

Municipal State Aid

Year	Amount	% Inc/Dec	Year	Amount	% Inc/Dec
2007	16,163	1.00%	2002	16,071	38.61%
2006	16,003	15.61%	2001	11,594	-1.48%
2005	13,842	-19.84%	2000	11,768	-4.55%
2004	17,267	-3.89%	1999	12,329	110.97%
2003	17,966	11.79%	1998	5,844	-12.68%

(In Thousands)



* FY 2007 Adopted

** FY 2006 Forecast

Approximately 12.7% of the .20 cents per gallon collected from gasoline pursuant to T.C.A. 67-3-1301 is distributed to the municipalities in proportion to the population of each municipality, as it bears to aggregate population of all municipalities according to the federal census, 8.8% of taxes collected from .17 cents per gallon of diesel is distributed to municipalities as stated in T.C.A. 54-4-203, T.C.A. 67-3-2001, T.C.A. 67-3-2005 and T.C.A. 67-3-2008.

Major Influences: Population and Gasoline Sales



