operating budget

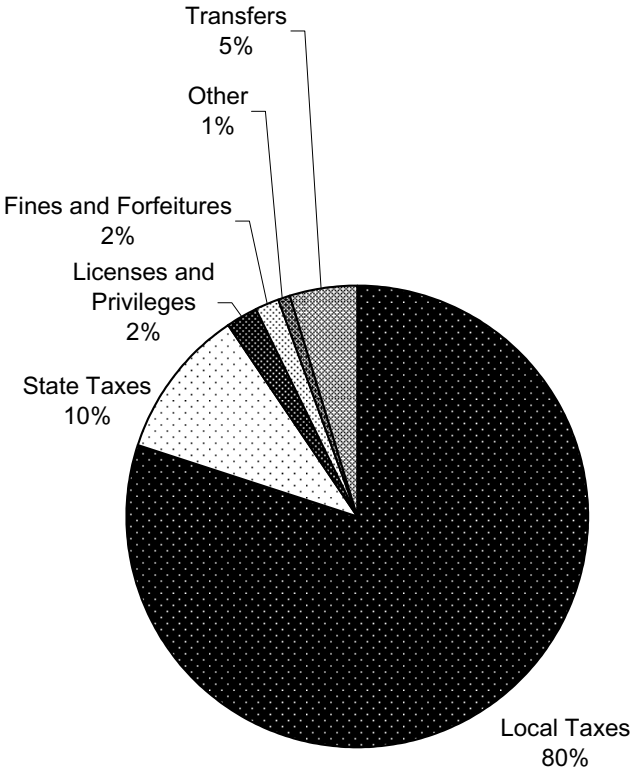
Operating Budget

Category	FY 2005 Actual	FY 2006 Forecast	FY 2006 Budget	FY 2007 Adopted
Personal services	363,170,712	352,269,104	364,830,358	363,214,925
Materials & supplies	89,736,792	98,354,965	87,957,124	95,997,491
Capital outlay	1,065,408	247,851	1,600,288	1,139,491
Grants & subsidies	64,491,953	77,710,994	78,425,201	77,558,391
Claims incurred	0	0	0	0
Transfers out	22,134,130	5,996,401	9,988,136	4,711,453
Misc expense	0	0	0	0
Gross Expenditure	540,598,995	534,579,315	542,801,106	542,621,751
Expense Recoveries	(18,877,381)	(23,005,421)	(20,364,794)	(18,040,232)
Total Expenditures	521,721,614	511,573,894	522,436,312	524,581,519
Charges for Services	(31,119,481)	(28,886,887)	(26,907,420)	(27,507,073)
Net Expenditures	490,602,133	482,687,007	495,528,892	497,074,446
Funded Staffing Level	5,545.68	5,288.08	5,795.76	5,666.17

operating budget

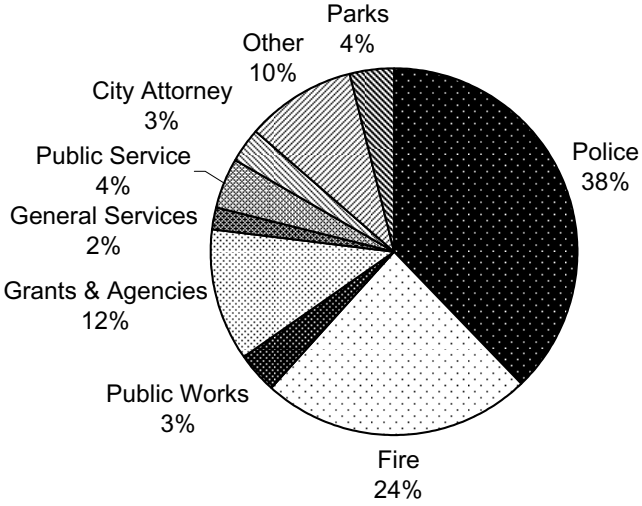
Description	FY 2005 Actual	FY 2006 Forecast	FY 2006 Budget	FY 2007 Adopted
Revenues				
Local Taxes	361,098,310	402,540,547	402,697,130	405,139,295
State Taxes	49,710,448	51,336,202	53,537,195	52,886,554
Licenses and Permits	11,074,375	11,276,016	11,279,002	11,388,777
Fines and Forfeitures	9,882,069	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**
Expenditures				
Executive	14,338,326	16,616,079	17,561,215	17,394,194
Finance	4,520,563	4,412,747	5,014,099	4,511,556
Fire Services	110,241,424	116,361,087	113,044,347	119,542,185
Police Services	177,910,217	183,141,792	184,903,514	187,252,544
Park Services	19,518,230	19,254,990	21,715,516	19,698,502
Public Works	16,650,600	19,683,225	22,674,727	17,203,294
Human Resources	2,879,742	3,310,190	3,520,996	6,275,846
Public Services	23,834,558	21,532,247	23,471,318	22,090,810
General Services	10,877,759	10,013,326	11,996,738	9,328,297
HCD	6,936,091	6,180,120	6,820,238	6,206,192
Grants & Agencies	79,870,096	58,938,255	64,778,220	58,387,782
City Attorney	10,544,264	9,789,695	5,918,835	16,236,216
City Engineering	7,668,548	8,468,127	8,795,023	7,544,338
City Council	1,411,126	1,590,854	1,649,410	1,660,556
City Court Judges	512,768	535,712	535,683	586,878
City Court Clerk	2,887,821	2,858,561	3,129,014	3,155,256
Net Expenditures	**490,602,133**	**482,687,007**	**495,528,892**	**497,074,446**
Contribution (Use) of Fund Balance	**(26,229,489)**	**12,727,630**	**10,014,226**	**8,576,632**

FY 2007 Operating Budget



TOTAL REVENUES

TOTAL EXPENDITURES



Budget Overview

The first quarter forecast for FY 2006 indicated that revenue would fall $21.0 million short of budgeted amounts. The City immediately took corrective action by presenting a Fiscal Recovery Strategy and setting expenditure targets for each Division that would ensure that the General Fund would not end the fiscal year with a deficit. Through improved revenue collections, a hiring freeze, close monitoring of interim financial reports, debt restructuring, and commitment to the fiscal recovery, we anticipate not only balancing the budget for FY 2006, but also restoring $10.0 of the fund balance.

As the Fiscal Recovery Plan progresses from short-term solutions to long-term philosophical changes, the Chief Administrative Officer and Chief Financial Officer (a new position within the City's organization) have established committees to evaluate the adequacy of fees charged for services provided by the City, revenue collection efforts, organizational structure and duplicity of services, utilization of technology, efficiencies of scale for purchasing opportunities, and joint agency agreements. Recommendations forthcoming are all expected to improve the City's financial condition through efficiency and effectiveness in the way we do business.

The FY 2007 revenue collections are expected to continue to improve, yet are still budgeted very conservatively. Divisions have complied with the mandate to manage their costs within established resources; and our proposed budget for FY 2007 anticipates a $8.5 contribution to fund balance.

Significant changes between the FY 2006 and FY 2007 budgets are:

- The Executive Division budget includes a new service center for the Chief Financial Officer.
- The Fire Division budget more accurately reflects its actual cost. Overtime continues to be a driving cost.
- Grants & Agencies has no transfer to Solid Waste Management because the fees in the special revenue fund are adequate to fund the costs of operation.
- All tuition reimbursement has been moved to Human Resources.
- All claims have been moved to the City Attorney budget.
- The increase in the City Attorney budget is for consultant and legal fees associated with the collection of delinquent property taxes.
- A new Storm Water Enterprise Fund is expected to be funded by user fees. This Fund has relieved the Public Works, General Services, and Engineer General Fund budgets.
- The Police Division budget includes the new Hickory Hill precinct.
- The Living Wage adjustment is reflected in all affected division budgets.

The Local Economy

A look at the Memphis economy begins with a quick overview of the U.S. economy, since the Memphis economy will not grow without growth in the nation. The U.S. economy has shown tremendous resilience and has absorbed numerous negative shocks that might have destroyed less diversified economies. The national economy has faced a surge of challenges in the past year and survived with little or no damage. After Hurricane Katrina and Hurricane Rita that quickly followed, it was thought by many that the U.S. economy would falter quickly under the pressures of oil price shocks, rising consumer debt, and uncertainty over the Iraq war.

Yet, consumers never seemed to let up on spending even when faced with substantially higher fuel bills (gasoline, heating oil, and natural gas), and the national economy keeps humming along at growth rates higher than anyone expected. The national economy appears to have weathered the storms successfully and has recently been blessed with suddenly falling gasoline prices, thus easing the strains placed on consumers earlier in the fall of 2005. While gas prices rose some early in January 2006, they are nowhere near the levels seen around the time of Hurricanes Katrina and Rita.

The impact of rising energy prices has had a negative impact on the local economy. Northwest Airlines, FedEx, UPS, and other energy-intensive businesses have been challenged by the rising price of oil. Falling energy prices should benefit all of these companies in the coming year. However, we know from experience that energy prices can rise suddenly with the next big hurricane that hits the oil-rich states along the Gulf of Mexico or with another major crisis in the Middle East.

Higher gasoline prices and two major hurricanes during the fall of 2005 also cut into the profits of Memphis-based Autozone[1]during the first quarter of its fiscal year that ended November 19, 2005. The two major Gulf Coast hurricanes impacted many of the company's stores and employees, but excluding hurricane-related impacts, Autozone's future looks bright as it continues to expand nationwide.

Natural gas prices are also expected to rise substantially during the winter months of 2006 which will have an impact on many households in Memphis. Hot summers and cold winters generate high energy bills. With larger portions of their budgets being devoted to higher utility bills, consumers will either spend less to make ends meet or go into debt to finance current levels of consumption.

There are numerous positive factors that will influence the local economy in 2006. Despite General Motors' intention to close a production line at Springhill's Saturn plant, the state and the Mid-South continue to grow in importance in the auto industry. Some examples include:

- Nissan's corporate move to Tennessee.
- Hino Motors opening manufacturing facilities across the river from Memphis in Arkansas.
- Bodine Aluminum's Toyota engine facility in Jackson.

While none of these facilities are located directly in Memphis, Memphis finds itself surrounded by a growing auto sector. In particular, many Memphians will undoubtedly be hired to work in the Hino Motors facility in Arkansas.

Memphis' bio-tech sector is also shaping up well. With the implosion of the old Baptist Memorial Hospital, work can now begin on the bio-tech sector's new headquarters. Further, St. Jude continues to expand, while Memphis' Medtronic Sofamar Danek manufacturing facility is profitable and expanding.

Memphis is also blessed with an abundance of affordable housing. Unlike in other parts of the nation, there is no housing bubble in the Memphis area. Relatively low-cost, quality housing combined with low taxes

1. See *Investor Relations* at www.autozoneinc.com.

(state and local) make Memphis an attractive area for new businesses. Along with low-cost housing, Memphis will also benefit from Site Selection Magazine ranking Tennessee as having the fifth best business climate in the nation.

The Memphis Zoo's $23 million, 3-acre Northwest Passage exhibit opened in March 2006. The Northwest Passage will be home to animals of the Pacific Northwest including polar bears, sea lions, harbor seals, bald eagles, and black bears. This exhibit will only add strength to an already strong tourist draw that includes the China exhibit with the giant pandas.

In addition, the Memphis area will be facing a few negative factors in 2006. For example, the outsourcing of manufacturing jobs from the U.S. to other countries will continue. The loss of manufacturing jobs is particularly severe for rural counties with few employment alternatives. West Tennessee and the Memphis area have a largely under educated workforce relative to the rest of the nation, and it is a workforce that is unable to compete with lower-cost foreign competitors. In order to thrive as a higher-cost labor center then, our local labor force must become more productive, enough so to offset cost differences between Memphis and foreign competitors. Unfortunately, weak support for higher education hinders the state's ability to compete in the global economy. This is a long-term issue that Memphis and Tennessee have to deal with.

Figure 1 shows that 2004 and 2005 were years of employment growth in Tennessee. Even so, the state's business establishments are still employing fewer workers than they did at their peak in 2000.

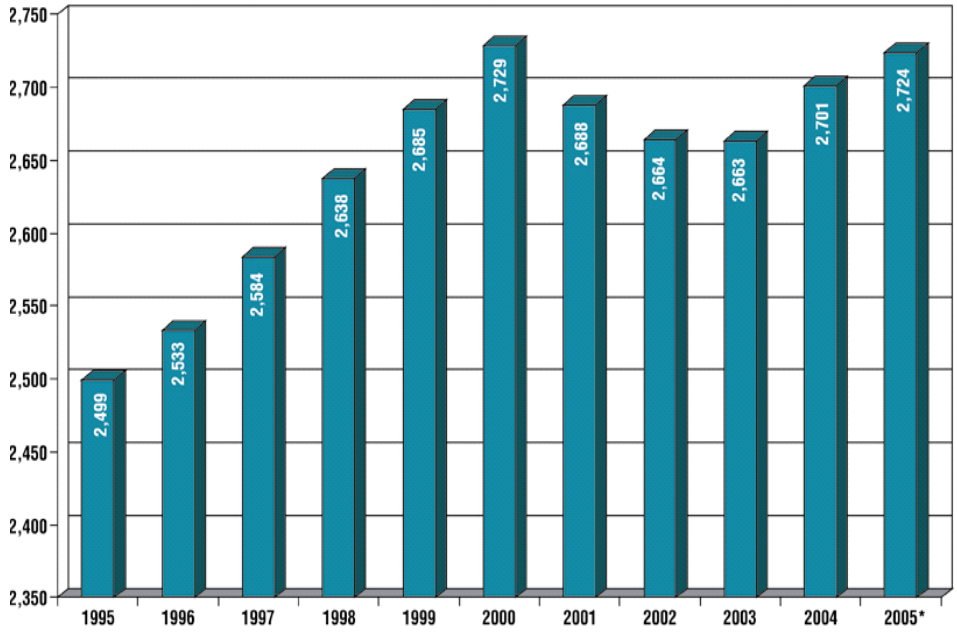
Similarly in Figure 2, while current total nonfarm employment in the Memphis MSA experienced growth in 2004 and 2005, it is still below the pre-recession employment levels of 2000.

Maps 1 and 2 help show more clearly where economic growth is occurring in Tennessee. In Map 1, counties colored in shades of red indicate areas with relatively lower levels of unemployment, from 3.1 percent to 4.7 percent. Counties colored in shades of blue are areas that are suffering higher levels of unemployment, with unemployment rates ranging from 5.9 to 13.5 percent. Counties shaded in dark blue are the worst off, with unemployment rates ranging from 10.3 to 14.5 percent. The data in Map 1 indicate that the strongest areas in the state are in Middle and East Tennessee, with West Tennessee being the weakest.

The picture becomes even clearer in Map 2. Counties with unemployment rates lower than the national average are shaded in gold, while counties with unemployment rates higher than the national average are shaded in red. As Map 2 shows, there are no counties in West Tennessee west of the Tennessee River that have unemployment rates below the national average. With a weak labor force and continued outsourcing, the relatively high unemployment rates in rural counties and throughout all of West Tennessee will be difficult to reduce.

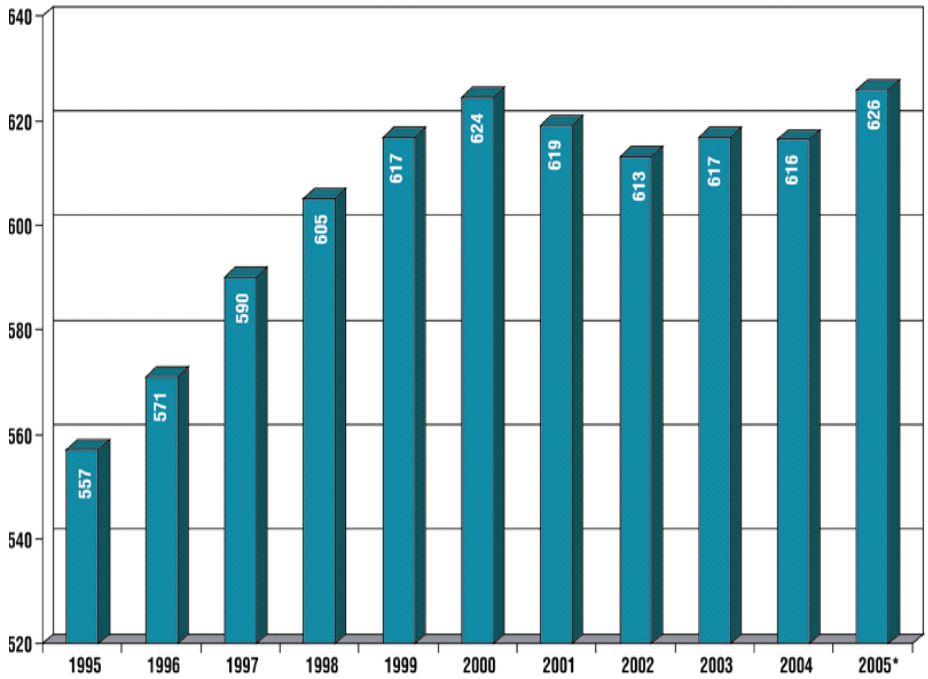
In conclusion, there is some weakness in the local economy, particularly on the labor front. West Tennessee and Memphis are both slow growing areas and are lagging behind both the state and the nation in employment growth. However, there are enough positive factors to outweigh the bad so that Memphis should see even more growth in 2006.

Figure 1. Tennessee Total Nonfarm Employment, 1995-2005 (000)



*Value for 2005 is SBBER projection.
Source: U.S. Bureau of Labor Statistics.

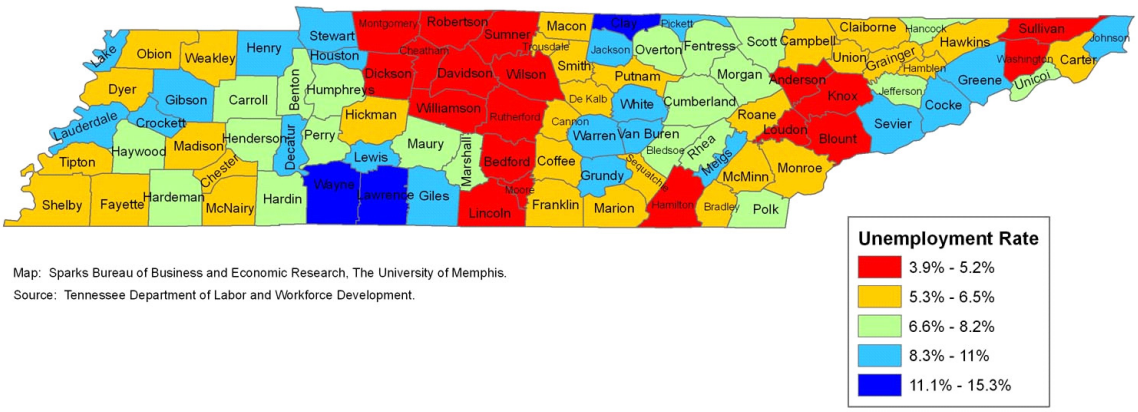
Figure 2. Memphis Total Nonfarm Employment, 1995-2005 (000)



*Value for 2005 is SBBER projection.
Source: U.S. Bureau of Labor Statistics.

In Map 1, counties colored in red or gold indicate areas with relatively lower levels of unemployment, from 3.9 percent to 6.5 percent. Counties colored in shades of green or blue are areas that are suffering higher levels of unemployment, with unemployment rates ranging from 6.6 to 15.3 percent. Counties shaded in dark blue are the worst off, with unemployment rates ranging from 11.1 to 15.3 percent. The data in Map 1 indicate that the strongest areas in the state are in Middle and East Tennessee (particularly Nashville, Knoxville, and Chattanooga), with West Tennessee being the weakest.

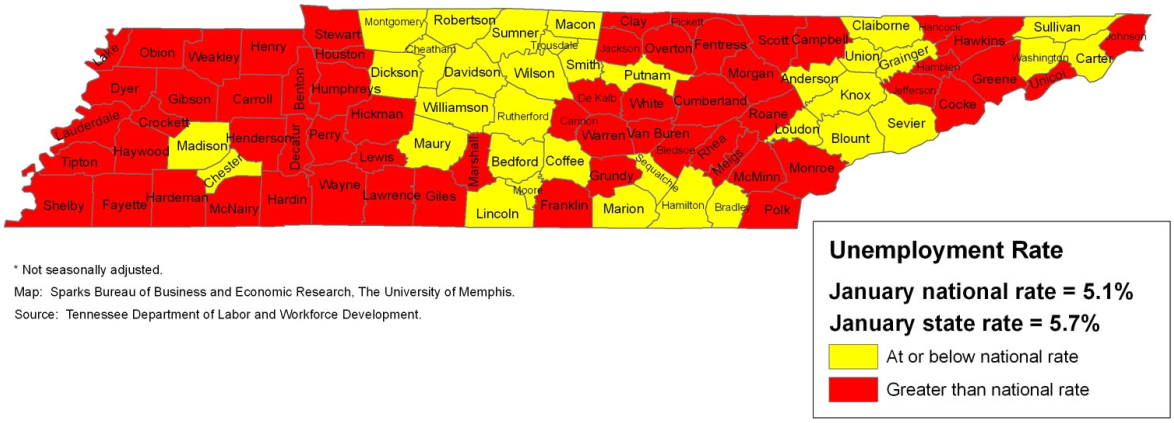
Map 1. Tennessee Unemployment by County, January 2006.



Map: Sparks Bureau of Business and Economic Research, The University of Memphis.
Source: Tennessee Department of Labor and Workforce Development.

The picture becomes even clearer in Map 2. Counties with unemployment rates lower than the national average are shaded in gold, while counties with unemployment rates higher than the national average are shaded in red. As Map 2 shows, only Madison and Chester counties in West Tennessee west of the Tennessee River have unemployment rates below the national average. With a weak labor force and continued outsourcing, the relatively high unemployment rates in rural counties and throughout all of West Tennessee will be difficult to reduce.

Map 2. Tennessee Counties Versus National Unemployment Rate, January 2006.



* Not seasonally adjusted.
Map: Sparks Bureau of Business and Economic Research, The University of Memphis.
Source: Tennessee Department of Labor and Workforce Development.

Prepared for the City of Memphis by the Sparks Bureau of Business and Economic Research / Center for Manpower Studies

PROPERTY TAX REVENUES

Property Tax revenues are the largest single source of operating revenues. This tax is levied based on the assessed value of various types of property including:

- Real property (land, structures, and lease-hold improvements),
- Personal property (business equipment, excluding inventories for resale) and
- Public utility property (real and personal property owned by utilities and organizations regulated by the State),

In 2005, Memphis' assessed value of real property

- 84.62% Residential
- 7.74% Commercial
- 1.87% Industrial
- 0.09% Farm
- 0.08% Multiple

Assessment Percentage of Appraisal

Residential	25%
Commercial	40%
Industrial	40%
Public Utility	55%
Farm	25%
Personal Property	30%

The assessed value of a residential property with an appraised value of $100,000 would be $25,000 (.25 x100,000), while a commercial property of the same appraised value would have an assessed value of $40,000 (.40 x100,000).

Tax rates are set by the Council through the annual budget process. These rates are set as necessary in order to fund a balanced budget that provides services believed to be necessary and affordable.

The City Treasurer generates tax bills based on the following information: the assessed value of the property and the tax rate to figure each property tax bill. That office also collects the taxes.

To calculate the property tax bill, the assessed value is divided by $100 and the result is multiplied by the tax rate. For example, a residential property appraised at $100,000 would be assessed at $25,000 (the $100,000 appraised value times the 25% residential assessment ratio). With a tax rate set at $3.43, the calculation is:

tax = ($25,000/$100) x $3.43 per $100
=$250 x $3.43 = $857.50

Property tax bills are mailed to property owners and, if taxes are paid through an escrow account, also to the mortgage holder. This normally occurs by July 1. Tax payments are due by the end of August.

Property Tax revenues along with other local tax sources provide the City with the largest source of revenue to the operating budget.

Property appraisals are done by the Shelby County Assessor of Property, except for public utilities which are assessed by the Tennessee Regulatory Authority. Appraised value is the estimated market value based at a point in time. Certain properties are exempt such as government, religious, charitable etc.

Historical property tax rates are displayed in the table below.

HISTORY OF PROPERTY TAXES

Tax Year	Fiscal Year	General Fund	Schools	Debt Service	Capital Pay Go	Total Rate
1979	1980	1.740800	1.519200	0.476100	0.0000	3.74
1980	1981	1.720000	1.060000	0.290000	0.0000	3.07
1981	1982	2.000000	1.140000	0.410000	0.0000	3.55
1982	1983	2.080000	1.140000	0.450000	0.0000	3.67
1983	1984	1.680000	1.000000	0.450000	0.0000	3.13
1984	1985	1.680000	1.000000	0.450000	0.0000	3.13
1985	1986	1.830000	1.030000	0.450000	0.0000	3.31
1986	1987	1.909800	1.030000	0.370200	0.0000	3.31
1987	1988	1.896660	1.030000	0.383340	0.0000	3.31
1988	1989	1.588270	1.090000	0.631730	0.0000	3.31
1989	1990	1.662870	1.030000	0.617130	0.0000	3.31
1990	1991	1.620490	1.030000	0.659510	0.0000	3.31
1991	1992	1.094100	0.665655	0.386900	0.0000	2.15
1992	1993	1.304296	0.804955	0.566704	0.0000	2.68
1993	1994	1.610611	0.967537	0.596990	0.0000	3.18
1994	1995	1.672400	0.967538	0.535200	0.0000	3.18
1995	1996	1.672400	0.967538	0.535200	0.0000	3.18
1996	1997	1.672400	0.967538	0.535200	0.0000	3.18
1997	1998	1.672400	0.967538	0.535200	0.0000	3.18
1998	1999	1.376300	0.840675	0.548800	0.0000	2.77
1999	2000	1.376300	0.840675	0.548800	0.0000	2.77
2000	2001	1.751000	0.894900	0.724100	0.0000	3.37
2001	2002	1.678500	0.857800	0.694100	0.0000	3.23
2002	2003	1.675300	0.857800	0.694100	0.0032	3.23
2003	2004	1.675300	0.857800	0.694100	0.0032	3.23
2004	2005	1.675300	0.857800	0.694100	0.0032	3.23
2005	2006	1.908800	0.827100	0.694100	0.0032	3.43
2006	2007	1.908800	0.827100	0.694100	0.0032	3.43

LOCAL SALES TAX

Local Option Sales Tax collections are the second largest revenue source for the City. The 9.25% sales tax rate consists of 2.25% local option and 7.0% state sales tax. The local portion is limited to the first $1,600 of each sale. By state law ½ of the local sales tax must be allocated to schools. The local sales tax rate can be raised by referendum.

STATE SALES TAX

State revenues are distributed from the state to the municipalities by percentage and population as stated in the Tennessee Code Annotated.

LICENSES AND PRIVILEGES

Licenses and Privilege fees are collected by the Permits Office as authorized by Ordinance and the County Clerk.

FINES AND FOREITURES

Fines and Forfeitures are collected by the city and county Clerk's Offices, and the Memphis Police Department.

CHARGES FOR SERVICES

Charges for Services are payments due for specific services provided by the City of Memphis or for the use of City Property.

USE OF MONEY

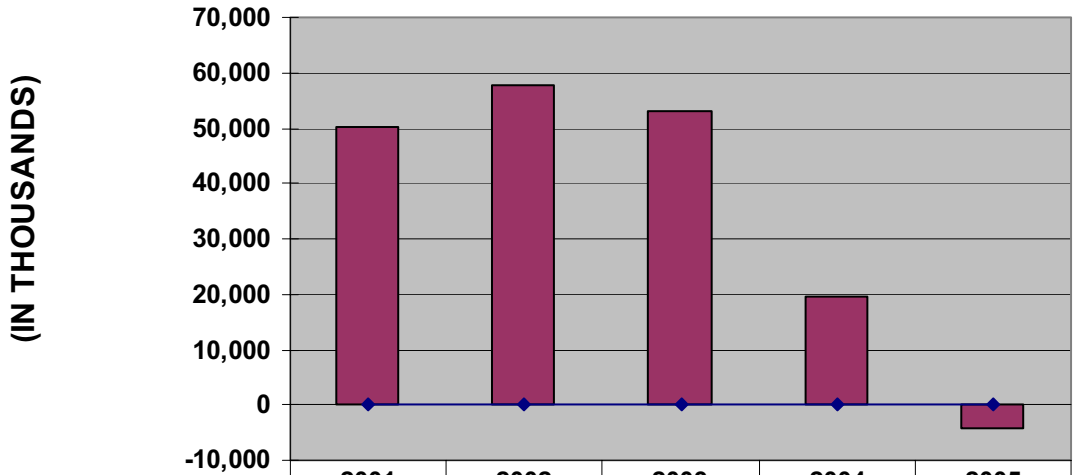
Maximum utilization of City dollars is accomplished by the investment of pooled funds in interest-bearing accounts. The City's Investment Specialists are responsible for such investments and determine which financial instruments provide the highest yield with a time frame commensurate with the City's need for liquidity and scheduled expenditures. In addition, a portion of the interest on investments are managed by outside money managers.

TRANSFERS IN

Transfers are made from various sources into the General Fund. One source is the State's Municipal Aid Fund. These funds are from gasoline and other fuel revenues that are disbursed throughout the counties and municipalities within the state of Tennessee as stated in Tennessee Code Annotated. Other sources are City Tax Sales, Drug Enforcement and Sewer Fund.

FUND BALANCE

The City of Memphis strives to maintain a general fund balance of 10% of expenditures. However due to an unanticipated shortfall in the general fund revenues, the fund balance is below its normal limits. Fiscal guidelines are in place to restore the fund balance back to the normal range over the next two fiscal years.



	2001	2002	2003	2004	2005
Undesignated Fund Balance	50,035	57,680	$53,189	$19,598	-$4,100
FB as a percent of Expenditures	11%	12%	11%	3%	-0.80%