**April 10, 2007**

Members of the Memphis City Council and citizens of Memphis:

I am honored to present the proposed annual budget for the City of Memphis for the fiscal year beginning July 1, 2007 and ending June 30, 2008.

I'd like to express my sincere appreciation to the Memphis City Council for working in partnership with this Administration during the past three fiscally challenging years to engineer a remarkable fiscal recovery for City of Memphis.

Our concerted efforts in the midst of financial hardship have empowered us to see "REFLECTIONS OF PROGRESS" in City of Memphis government and our great city.

The Unrelenting Pursuit of Excellence

Each year we strive to realize our vision of being recognized globally as the city of choice in which to live, learn, work and recreate. Realizing this vision requires an unrelenting pursuit of excellence. We must demonstrate and embody perseverance and prudence as we embrace our priorities. To the citizens of Memphis: I want you to know that when we deliver services each day we deliver them with your needs, expectations and desires for quality of life in mind. As we aim high, we follow principles that are grounded in quality and excellence.

Our guiding priorities and principles are the foundation for maintaining and improving quality of life in our great city.

Our Priorities

As we navigate today's turbulent times, we realize that public safety is paramount. A safe community is a livable community. A city can be beautiful and full of amenities, but if it is not safe, it is not livable. Therefore, public safety is our top priority.

As proof of our unrelenting commitment to public safety, nearly 60 percent of this proposed budget is dedicated to providing police, fire and emergency services.

Our second priority is fiscal responsibility and accountability. Tax dollars are precious. Therefore, we strive to allocate them wisely to deliver maximum service at the minimum cost.



Our third priority is economic development. Memphis is on the move. We are working to ensure companies here and abroad recognize Memphis's potential and are inspired to join us to help our city reach new heights.

Our fourth priority is to provide quality, affordable housing. Everyone deserves access to decent housing. A community that does not have quality, affordable housing is one where the quality of life suffers greatly.

Our fifth priority is education and workforce development. Over the years, the City of Memphis government has provided over a billion of dollars to the Memphis City Schools in the absence of a legal mandate. It was simply the right thing to do.

Focusing on these top priorities is essential if we are to achieve our vision and continue to enhance the quality of life for Memphis residents. Besides these priorities, we have others: clean streets, blight-free neighborhoods, well-maintained roads, and quality recreation amenities and programs—just to name a few. This budget makes provisions for these and many other services and priorities.

On behalf of the citizens of Memphis, I am presenting an Operating Budget of \$540.1 million and a Capital Improvement Program Budget (CIP) of \$1.5 billion. The CIP includes \$254.7 million for Fiscal Year 2008, with approximately \$152.3 funded by General Obligation Bond proceeds.

I'd like to thank those on my staff who worked tirelessly to gather and analyze data over the past several months to prepare this proposed budget. I would also like to thank the Memphis City Council for its support during our fiscal recovery.

Reflections of Progress

More than \$190 million of this proposed budget is dedicated to providing police services. Looking back over the past year, we have much to celebrate, but also much to do.

A recent article in The Commercial Appeal reported that major crimes in Memphis are down from a year ago. Last year we expanded the ground breaking crime abatement program Blue Crush™ and, this innovative, data driven program is working.

The nation is taking notice of the Memphis Police Department (MPD). Last month, the Commission on Accreditation for Law Enforcement Agencies nationally accredited the MPD. This is an outstanding accomplishment and I want to thank Police Director Larry Godwin and the entire core of Memphis Police officers and employees for their dedicated service.

To ensure we continue this progressive trend, this year's proposed budget earmarks \$4.1 million dollars to fund MPDs hiring of an *additional* 109 commissioned police officers. This will bring our complement to more than 2,200. This addition is only phase one of a

four-year plan to increase our complement of officers by 500. We also have set aside \$3.5 million for promotional testing for Police and Fire personnel.

Furthermore, we propose to allocate an additional \$700,000 to operate a Real Time Crime Center that will allow the MPD to perform real-time assessments of emerging crime, crime patterns and potential criminal suspects citywide. Director Godwin saw this technology in action during his trip to New York City last year. The homicide rate in New York City dropped an average of 60 percent over a 10 year period thanks to this technology and other successful initiatives. Our city is moving forward and our progress reflects our commitment to public safety.

Another crucial component of our public safety services is our Fire Department. We have one of the best department's in the country thanks to the talent and dedication of our Fire Services personnel. For example, Fire Services is known and appreciated for its responsiveness. We want to build on this. Therefore, this year's proposed budget includes allocations to fund the third and final phase of a plan to improve our Emergency Medical Services (EMS). Nearly \$1.8 million is dedicated to reestablishing 19 lieutenant positions, along with adding a quality improvement paramedic, to oversee our EMS operations and improve the care provided.

To enhance our service level in the newly annexed area of Southwind, we propose to spend \$1.1 million in Capital Improvement Project (CIP) funds to purchase new fire suppression equipment to serve this community.

Public safety is our top priority.

Our second priority is fiscal responsibility and accountability. Over the past year, we have worked diligently to overcome financial hardships to emerge today with a balanced budget.

Our theme for this year's proposed budget is "Reflections of Progress". I want to share a few examples of progress that directly impacted our bottom line this year and helped shape this budget.

A year ago, I asked the Memphis City Council to stand firm with me and even make unpopular decisions for the good of City government and its residents. This Administration identified five goals that were critical to restoring our financial health.

- Goal No. 1 was to close the \$25 million budget gap and deliver a balanced budget in the '06 and '07 fiscal years. Not only did we accomplish this both years, but also today we present a balanced budget for Fiscal Year '08.
- Goal No. 2 was to restore operating reserves to the \$50 million level. Our reserves are projected to reach \$60 million at the end of Fiscal Year '07 and we propose to add another \$1.7 million during Fiscal Year '08.

- Goal No. 3 was to improve our bond rating level to AA. Although our current bond rating is A, we are well on our way to recapturing the AA rating.
- Goal No. 4 was to deliver quality core services and programs to our citizens. We initiated Blue Crush and certain crimes in our community *decreased*. This is just one example. There are more.
- Goal No. 5 a year ago was to develop business partnerships with Memphis Tomorrow to actively participate in problem solving. We have established and implemented “Fast Forward”, a partnership with Memphis Tomorrow designed to address education, public safety, economic development and efficiency in Memphis. This budget includes a \$1.5 million allocation to fund programs, research and activities that evolve from this progressive alliance.

We set these goals to overcome our fiscal challenges and with your support, we met these goals and this proposed budget is proof of the outstanding progress we've made.

While many cities across the nation are struggling with having to cut services to cut costs, we are presenting a balanced budget that includes funding for service *enhancements*. What's more, we are NOT requesting a property tax increase. Our strategic planning, fiscal prudence and perseverance have paid off. We are enhancing services *and* securing our future—all this ***without a property tax increase***. What an impressive reflection of progress!

What's more, this budget also includes funding for a property tax *relief* program for elderly homeowners and disabled homeowners who meet low income requirements. This program also is for those who became permanently disabled while serving in the U.S. armed forces during war or other conflicts. We propose to set aside \$2 million to reduce the property tax burden for those individuals in our community who qualify. We have the money, the responsibility and the desire to provide for those in our community who need our help most. I want to thank our Chief Financial Officer, Robert Lipscomb, our Finance Director Roland McElrath, the Finance Division employees, Chief Administrative Officer Keith McGee and all of the division directors for their dedicated service and outstanding performance.

Attracting progressive and successful businesses to our community is crucial to our city's economy and future. New companies bring new jobs. Therefore, our third priority is economic development.

Last October, Memphis was the “City of Choice” for ServiceMaster, the parent company of such well known brands as Terminix and TruGreen ChemLawn. ServiceMaster became the fourth Fortune 500 company to locate its headquarters in Memphis. This relocation—which should be complete sometime this summer—creates approximately 500 jobs with an annual median wage of \$67,300. This is outstanding! Memphis is truly on the move and CEO's and investors across the nation know it.

Where there are people, adequate housing is needed. This leads me to our fourth priority:

To provide quality, affordable housing.

The late President Franklin D. Roosevelt once said: *“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have little.”* By Mr. Roosevelt’s standard, reflections of progress are nearly everywhere you look in Memphis neighborhoods. Dilapidated public housing is practically extinct and beautiful, thriving communities are emerging. Take a ride to the north end of downtown Memphis and you will see Uptown, a beautiful mixed-income community that is growing by leaps and bounds. Explore South Memphis and you will likely find a shining example of quality, affordable housing in the form of College Park. University Place is another revitalization project that is underway. Last year, we used a Hope VI grant to demolish the dilapidated Lamar Terrace housing project and now University Place, another revitalization project, is emerging at this site.

Another \$6.6 MILLION has been earmarked for the continued development of University Place. This project is a crucial component of the city’s larger quest to become globally recognized as a center for the development and commercialization of biomedical technology. We also want to be seen as a premier provider of cutting edge health research and care. Thanks to our neighborhood revitalization successes, reflections of progress toward this goal include the billion dollar expansion of St. Jude, the \$450 million expansion of the University of Tennessee Baptist Research Park and the \$327 million expansion of LeBonheur Children’s Medical Center.

Also, there is the new Dixie Homes project. This year we propose to allocate \$2.5 million dollars in CIP funds for continued demolition of Dixie Homes and to start the first phase of the redevelopment.

To further revitalize and enhance our neighborhoods and business communities, we also have set aside \$5 million for blight elimination, and another \$2.5 million to install additional ramp cuts in neighborhood sidewalks to provide greater access for the disabled. Another \$10 million in CIP funds have been allocated to pave 227 lane miles of road in Memphis neighborhoods.

We are committed to improving the quality of life for all Memphis residents. And reflections of progress are visible in this proposed budget and in our community.

Rounding out the top five of our priorities is investment in education and workforce development. What we do today greatly impacts our future. The current tax rate generates \$86 million for Memphis City Schools. Although there is no law that requires the City of Memphis to provide funds to educate Memphis children, since I took office in 1992, this Administration has provided more than a billion dollars to support public education in Memphis. We also have earmarked \$2.5 million to provide jobs for 1,600 teens in our community this year. I am happy to say the summer youth employment



program is back after being on hiatus last year due to budget cuts. It's back and I believe it will be better than ever before. The jobs we will provide this year will not be "make work" jobs where we simply pay kids to stay busy and out of trouble. Rather, the teens will be given the precious opportunity to gain real world employment experience—a necessary rite of passage if they are to successfully compete in tomorrow's workforce. Thank you Memphis City Council members for supporting this worthwhile program.

Regarding today's workforce, our lives are touched by City of Memphis employees each day. Without them, the services we have come to depend on would not be delivered and quality of life would suffer. Our trash would not be picked up. Our streets would not be paved or patrolled. Our property and lives would be completely vulnerable to fire and other disasters. And there are many other ways that are too numerous to express. Therefore, this budget includes \$3 million to fund the one percent bonus for City of Memphis employees that was approved by the City Council last spring. Our goal is to award this bonus in August of this year. I want my fellow public servants to know that I truly appreciate them and the sacrifices they have made, especially over the past few years.

In conclusion, reflections of progress are throughout City government and our city. Over the past three years, we faced the most financially challenging times of my 15-year tenure as mayor. We faced budget shortfalls and a dwindling reserve fund—all while the cost of doing business continued to rise. We faced these challenges head on, charted a plan to recover, followed it and succeeded. We emerged leaner and stronger. I firmly believe that Memphis' best days are ahead.

Sincerely,



Dr. Willie W. Herenton, Mayor

City of Memphis

THE CITY OF MEMPHIS, TENNESSEE

Memphis is located on the east bank of the Mississippi River in the southwest corner of Tennessee. Memphis is the State's largest city and the county seat of Shelby County. The corporate limits contain 343 square miles, representing 45 percent of the total land area of Shelby County. Memphis ranks as the 18th largest city in the nation. The 2005 population was 646,356 according to the State of Tennessee Department of Economic and Community Development.

GOVERNMENTAL STRUCTURE

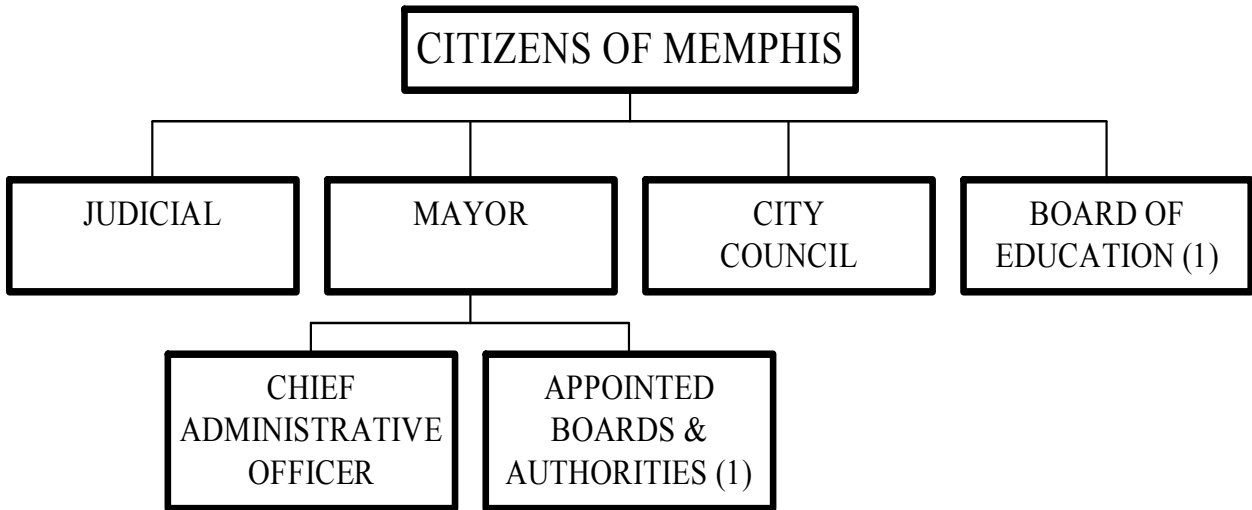
The City of Memphis was incorporated as a city in 1826. Memphis operated under a commission form of government from 1909 until January 1, 1968. At that time, a Mayor-Council form of government was established. The City Council is composed of thirteen representative citizens who are elected for four-year terms. Six council members are elected at large in multi-member districts, with territorial boundaries determined by dividing the City in half with each multi-member district consisting of three (3) council member numbered positions. The remaining seven (7) council members are elected by single member districts, numbered 1-7. The Council elects its own chairperson, exercises legislative powers, approves budgets and establishes the tax rate. The Mayor is elected to a four-year term. The Mayor carries out the policies of the City and appoints City board members, officers and division directors, with Council approval. The City's operating and service departments are organized under the Chief Administrative Officer who is appointed by and serves at the pleasure of the Mayor. The Mayor may veto action of the City Council, but a simple majority vote of the City Council can override any veto.

The Chief Administrative Officer, under the direction of the Mayor, coordinates the activities of all administrative divisions of City government. He acts as liaison officer between the Mayor and all divisions, bureaus, boards, commissions and authorities. The directors of all divisions report to the Chief Administrative Officer on administrative procedures.

The major administrative divisions of the City include: Engineering; Executive; Finance; Fire Services; General Services; Housing and Community Development; Legal; Parks; Human Resources; Police Services; Public Works/Sanitation; Public Services and Neighborhoods; and the Office of Planning and Development.

The Mayor is responsible for all city appointments to boards, which serve the City. These include the boards of the Memphis Light, Gas and Water Division (MLG&W); Memphis Area Transit Authority; Memphis Housing Authority; Center City Commission; Memphis & Shelby County Convention Center Complex; Memphis Brooks Museum of Art; Memphis & Shelby County Building Code Advisory Board; Memphis Public Library Board. The Mayor appoints five of the seven members of the Board of the Memphis & Shelby County Airport Authority. Most of the members of these boards are private citizens giving their time to the City without compensation.

CITY OF MEMPHIS, TENNESSEE ORGANIZATION CHART



- City Attorney
- Engineering
- Executive
- Finance
- Fire Services
- General Services
- Housing & Community Development
- Human Resources
- Office of Planning & Development
- Park Services
- Police Services
- Public Services & Neighborhoods
- Public Works

- Memphis Area Transit Authority
- Memphis Light, Gas and Water
- Memphis Brooks Museum of Art
- Memphis Public Library
- Center City Commission
- Memphis & Shelby County Airport Authority
- Memphis & Shelby County Convention Center
- Memphis & Shelby County Building Code Advisory Board

(1) The Board of Education and the appointed boards and authorities for Memphis Area Transit Authority (MATA), Memphis Light, Gas and Water (MLG&W), Memphis and Shelby County Airport Authority, and Memphis Light, Gas and Water Retirement and Pension System are legally separate from the primary government. The budget for MATA is in the Grants & Agencies section of this budget book. The budgets for Board of Education, MLG&W, Memphis and Shelby County Airport Authority, and MLG&W Retirement and Pension System are not presented in this document.

BUDGETING AND APPROPRIATIONS PROCEDURES

The financial plans of the City are included in the annual capital and operating budgets. These budgets project all receipts and disbursements, and present the level of governmental services and the method of distributing costs to the various segments of the community through the collection of taxes and fees.

The Council has final responsibility for approving certain program and fiscal policies, approving the annual Operating Budget and the Capital Improvement Program, and setting the tax rate and fees for services. The Administration is responsible for proposing programs and recommending funding levels to the Council and for implementing service programs in accordance with established goals and objectives.

Operating Budget The Annual Operating Budget is submitted to the Council approximately 90 days prior to the end of the fiscal year in April. At least 3 to 4 weeks prior to the end of the fiscal year, the City Council approves the Operating Budget.

Capital Budget The Capital Budget and Capital Improvement Program are prepared annually to present the capital expenditures planned for each of the next five fiscal years. The total costs of each project and the sources of funding (local, state, federal and private) required to finance each project are estimated. The Capital Improvement Program is prepared after a rigorous review and evaluation of all proposed projects by the Capital Review Committee. The Capital Budget and Capital Improvement Program are recommended by the Mayor and presented to the Council for adoption. The Capital Improvement Program authorizes in detail the capital expenditures to be made or incurred in the next five fiscal years and is then adopted by the Council concurrently with the Capital Budget.

Additional authorizations for each capital project in the Capital Budget must precede the expenditures of construction funds. The Capital Budget must be in full conformity with that part of the Capital Improvement Program applicable to the fiscal year which it covers.

The timetable for approval of the Capital Budget and Capital Improvement Program closely parallels that of the Operating Budget.

The City of Memphis operates on a July through June fiscal year and is required by City Charter to submit and have approved a balanced budget each fiscal year.

The budget process is a series of reviews and analyses of budget requests submitted by the various city departments. The staff of the Budget Office, along with the Finance Director and each division director, Chief Administrative and Financial Officers, Mayor, City Council and the public are all involved to ensure that the approved budget is reflective of the needs and desires of the entire community. In addition to the operating budget that is required to be adopted by July 1 each year, the City Council adopts a five-year Capital Improvement Program.

The adopted budget ordinance provides for budgetary control at program levels and said budgets cannot be exceeded without the approval of the City Council, except for the year-end clean up process authorized via the budget ordinance. Strict budgetary compliance is maintained by an automated accounting system to assure effective fiscal management and accountability. All requests for purchases or payments are checked by the budgetary control system to assure that funds are available. Purchase Orders and contracts are encumbered prior to their release to vendors. Those Purchase Orders and contracts that exceed appropriated amounts cannot be executed until additional appropriations are made available, either by transfer of existing appropriations or by a resolution granting additional appropriations by Council. The system controls are maintained at the program levels and are basically set up within Personnel, Operations and Maintenance and Capital categories.

BUDGET DEVELOPMENT PROCESS

The Budget Office uses financial data provided by city divisions to facilitate the review and approval of the Operating and Capital Improvement Budgets. This service center is responsible for ensuring the operation of all divisions within financial guidelines established by Administrative policy and City Council legislation. The Budget Office is also responsible for forecasting all general revenue for the City.

The Operating Budget is established annually. The process begins in October for the following fiscal year. Divisions are asked to enter Personnel, Materials & Supplies and Capital outlay into the Budget System over a three week period. The information is then analyzed and divisions are consulted with respect to noticeable budgetary changes. The process continues in January with the second quarter forecast and revision of next year's operating budget. Administrative hearings are held in March to examine each service center's budget and to make necessary revisions. After finalizing any necessary revisions, the Operating Budget is presented to Council in April. The Council then conducts its own hearings to scrutinize the budget. The process ends in June with Council's approval of the budget and the June loading into the Accounting system of the new budget. Funding approvals are limited to one fiscal year, with surpluses or deficits corrected through fund balance.

The Capital Improvement Program (CIP) is a five-year plan for capital allocations, which is reviewed annually for priority and project changes and additions. This plan examines each project in which the City participates and specifies the source of financing for the projected expenditures. The process for the CIP also begins in October with the divisions entering their requests into the Budget System. The projects are analyzed by the Budget Office and the CIP Committee and then administrative hearings are held in January with each division to assist them in justifying their requests. After finalizing revisions, the CIP Budget is presented to Council in April. The Council then conducts its own hearings to scrutinize the budget. The process ends in June with Council's approval of the budget and the June loading into the Accounting system of the new budget.

The Council adoption of the CIP authorizes a portion of engineering, architecture, land acquisition and development costs through administrative appropriation. Funds for construction costs, equipment, and acquisition contracts are subject to additional authorization by the Council. Prior and current CIP allocations will remain in the plan until the Division in charge of the project or Council determines that the project is completed or is not needed.

The Budget Office ensures operation with the legally established financial guidelines by monitoring the budgets and reviewing mid-year changes to the budget. The Budget Office monitors the CIP by using tracking reports, which are usually completed during budget submission and may be requested at various intervals during the year. The Budget Office also monitors the operating budget through forecasts prepared by service centers management personnel. This enables the Budget Office to project citywide surpluses and deficits. These forecasts help the Administration to determine which service centers need additional assistance in planning or funding. Both CIP and Operating Budgets change during the fiscal year (mid-year changes) when user service centers process transfers and resolutions. The CIP Committee reviews and approves resolutions and transfers and forwards them to the Finance Director, City Attorney, CAO, and Council for legal actions.

Due to changes in the yearly budget submission process, both Operating and CIP, the Budget Office staff provides training and reference manuals, which are available to division personnel responsible for the Budget Submission. Documentation of the past years' budgets is available for review in microfiche and electronically, in the Annual Report, and in that year's Appropriation Ordinance.

BUDGET CALENDAR

July – August

Prior Year Goals, Objectives and Performance Measures (GOPMs) 4th Quarter & Year End Total Actuals due
Budget Policies developed for current year forecast and next year's budget request
Divisions develop GOPMs for next Budget Year

September

Initial revenue projections for current year and next year
Final personnel and supplies/services cost assumptions prepared
Budget training material published

October

Operating Budget training sessions with divisions for 1st quarter forecast and next year's budget
Memphis Poll conducted
Capital Improvement Program Training & Preparation
Current Year 1st Quarter GOPM Actuals reviewed

November

Divisions submit 1st Quarter Operating and next year's requests to Budget Office
Divisions submit CIP to Budget Office

December, January

Revenue projections updated for current year and next year
Budget meeting with divisions for 2nd Quarter forecast and next year's budget request
Review of Divisional GOPMs conducted for next Budget Year
Current Year 2nd Quarter GOPM Actuals reviewed

February, March

Operating Budget/CIP Administrative hearings with divisions
Operating Budget/CIP review with Mayor, CAO
Final recommendations made and budget documents prepared

April

Operating Budget/CIP is presented to the City Council on the third Council Tuesday in April
Current Year 3rd Quarter GOPM Actuals reviewed

May, June

Budget hearings with the City Council Operating Budget and CIP Committee
Property Tax Rate set and adopted and tax bills prepared by Treasurer's Office



OPERATING BUDGET PROCESS

The operating budget process is a continuous cycle. Each division is responsible for completing a current year forecast and next year's budget request. Once this is done and data is input into the budget system, the Budget Office generates line item forecast reports and submits them to each division. Summaries are presented to the Director of Finance, the Chief Administrative Officer, and the Mayor.

This process is performed twice during the fiscal year, once in October and in January. The need for accuracy and thoroughness in the preparation of the forecast and budget requests cannot be over-emphasized. During the administrative hearings in March, each division submits budget requests that are reviewed by the Operating Budget Committee. The Mayor uses the data obtained through that process to determine each division's spending trends and decides if any revisions are necessary to meet the City's needs.

After the hearings are completed, the Budget Office finalizes the Proposed Operating Budget Book, which the Mayor submits to the Council. Each division is scheduled to have Council Committee hearings in April and May. The Operating Budget must be approved by a majority of the full Council. Also, in April, the Budget Office completes an internal forecast for the current year only. This is used to determine the year-end spending for each service center and any projected deficits.

MID-YEAR CHANGES TO THE OPERATING BUDGET

The Operating Budget is a guideline or plan of operation for each division. However, budget changes may be necessary during the fiscal year (for example, new grant monies can be made available or changes in a service center's personnel can disrupt an otherwise successful budget). When unforeseen circumstances arise, changes can be made to the budget two ways: Intra-Category Line Item Transfer (Black Line) or Inter-Category Line Item Transfer (Red Line).

Intra-Category Line Items Transfers

Intra-category line item transfers, called administrative transfers, are used to transfer budgeted funds from one expenditure to another as long as the transfer is within the same legal level and does not exceed \$50,000 between categories or a cumulative total of \$100,000 for the year.

Administrative transfers are necessary when transferring small amounts of funds within a legal level, such as moving \$1,000 from document reproduction to City Hall printing within a service center. The Request for Transfer of Budget Appropriation Intra-Category Line item Transfer must be completed in full including a justification of the transfer. The explanation should address why surplus funds are available and why funds are needed. This form must be signed by the division director and forwarded to the Budget Office for approval.

Inter-Category Line Item Transfers

Inter-category line item transfers, called council transfers, are used to transfer funds from one legal level to another or when the transfer exceeds \$50,000 between categories or a cumulative total of \$100,000 for the year. The council transfer form is very similar to the administrative form. Since the changes require approval of the City Council, each transfer must be accompanied by a resolution and a Council Agenda Check-Off Sheet.

CAPITAL IMPROVEMENT PROGRAM

INTRODUCTION

The Capital Improvement Program (CIP) is a five-year planning tool for urban growth and development. It outlines the schedule of public improvements and the associated costs. The CIP lists each proposed capital project to be undertaken, the year in which it will be started, the amount to be expended in each year, and the proposed method of financing. Over the life of the program, the plan will be reviewed and revised on an annual basis.

The CIP consists of projects that provide long-term improvements to the City and its infrastructure. An initial project is usually comprised of one of the following items: land, building, and/or equipment. These items can generally be defined as eligible on the following basis:

LAND acquisition and/or development expenditures are eligible as capital costs regardless of whether they are purchased in connection with future economic development.

BUILDING renovations, additions to existing structures or new construction costs are capital expenditures. Inclusive in these costs may be feasibility studies and architectural/engineering designs.

EQUIPMENT or machinery purchases that are essential to the initial operation of a project are included within that scope of the project's costs.

The replacement of equipment that is essential to the operation of a facility can be considered a capital project provided its cost is \$5,000 or more and its useful life is greater than (5) years.

PURPOSE

The Capital Improvement Program allows the projection of future needs and enables the City to develop a financial blueprint to accommodate the growth of its infrastructure. From this long-term planning process evolves a capital project priority system that coordinates public needs and resources with the availability of funding.

The thorough preparation required in formulating the Capital Improvement Program allows the City to forecast the impact of each project on the City's Annual Operating Budget. For example, the construction of a project may be financed through the CIP; however, the staffing and operations may be funded through the operating budget. Therefore, timing of facility construction and its subsequent operation enables the City to anticipate future expenditures and revenues.

The publication of the Capital Improvement Program supplies information to various groups interested in the future development of Memphis. The CIP outlines the City's intent for Federal and State agencies that provide grant dollars for specified projects. Private investors can preview the attractiveness of the City and its assets as related to investments in municipal securities. Developers are made aware of new projects and may plan accordingly. Finally, individual taxpayers, neighborhood groups and other civic organizations are familiarized with the City's plan for future development and the effects such changes will make in their lives.

CAPITAL IMPROVEMENT PROGRAM PROCESS

OVERVIEW

The Finance Division coordinates the full spectrum of budget activities for the divisions as directed by the Chief Administrative Officer and Mayor. The Budget Office provides the divisions with pertinent financial and budgetary data and opens the Budget System for input. The information submitted by the divisions is used by the Budget Office to prepare an overall projection of the City's needs and resources.

Building Design and Construction reviews the scope of all requests involving construction or major renovations to City owned structures. Debt Management studies the fiscal feasibility of the projects submitted for future funding needs.

Upon completion of the annual CIP request, administrative hearings are held with the Mayor, the Chief Administrative Officer, the Director of Finance, the Budget Office Manager and staff, Building Design and Construction, and staff from the division being reviewed. This group reviews the proposed fiscal constraints. A major consideration at the time of the hearings is the extent to which these fiscal proposals will impact the City's debt service requirements relative to the benefits provided to the City.

When the fiscal analysis is complete and recommendations formalized, the proposed CIP is sent to the Mayor for review and approval. The Mayor then presents the proposal to the Council. The City Council's CIP Committee schedules legislative hearings that provide a forum for the review of capital requests on an individual project basis. The City's five (5)-year projection of capital expenditures is carefully studied, revisions made as needed, and then presented to the full Council membership for adoption.

The CIP establishes the direction for future growth and balances forecasted tax revenues with the City's ability to assume additional debt service obligations. When the full Council adopts the proposed Capital Improvement Program, that year's process of analysis, revision, and implementation is complete.

TRANSFERRING ALLOCATIONS/APPROPRIATIONS

Once the CIP has been adopted by the City Council, the data is loaded into the City's Accounting System. During the life of the project, it may be necessary to transfer funds to aid in the completion of the project.

Initially, the CIP revenues/expenses report is checked for funds verification. After it is determined that the funds are available, two methods are used to transfer or establish allocation and/or appropriations.

The Capital Improvement Budget Request for Administrative Transfer or Appropriation form (Black Line) is used to:

1. Record the initial appropriation of the planning lines (A/E, land development, land acquisition) upon the adoption of the CIP by the City Council.
2. Transfer allocations and appropriations within planning lines or within construction lines (contract construction, latent conditions, and other costs).
3. Transfer allocations from "cover-line" project planning lines to the new project planning lines and the appropriation of the lines.

The Capital Improvement Budget Request for Council Transfer and Appropriation form (Red Lines) is used to:

1. Appropriate all construction lines.
2. Transfer allocations and appropriations between projects.
3. Increase/decrease allocations or appropriations of a project.

(*Please note, the red line and black line form serve the same purpose. The color and title of the form simply identifies whether the allocation or appropriation is administrative or council related.)

In order to transfer or establish a Council appropriation, the following items must be prepared: Resolution, Council Agenda Check-Off Sheet, and Council Transfer form and/or Appropriation by Council form (red line).



BUDGET RESOLUTION REVIEW PROCESS (Operating & CIP)

RESOLUTIONS

A resolution is a document asking the City Council to amend the Appropriation Budget Ordinance or Capital Improvement Budget. A resolution is written in two sections: the “WHEREAS” section and the “RESOLVED” section. The WHEREAS section explains why the change is necessary, what the money will be spent for, and why funds are available and where the funds will come from. The RESOLVED section includes the statements that actually change the Budget Ordinance.

A resolution details the action requested by Council and should answer one or more of the following questions:

- What is the purpose of the change?
- Why is the change necessary?
- What will the funds be used for?
- Why are funds available?

A resolution shall be written in clause format. Each clause in the preamble shall begin with the word “WHEREAS”, include a brief statement answering one or more of the above questions, and continue with “AND,” an adopting clause. “NOW THEREFORE BE IT RESOLVED”, shall summarize all information as requested regarding changes to the City Resolution. The adopting clause may be followed by several additional clauses.

After finalizing a Resolution, a Council Agenda Check-Off sheet must be prepared which summarizes the Resolution and includes all organizational date, account numbers, and dollar amounts.

COUNCIL AGENDA CHECK-OFF SHEET

The Council Agenda Check-Off Sheet must accompany all documentation that goes before Council. The originating division/service center must complete the form and have it signed by the appropriate service center manager and division director.

Routing and Handling of Transfers

A) Administrative Transfers and Appropriations

- Division Directors
- Budget Office
- Comptroller’s Office

B) Council Transfers and Appropriations

The budget resolution package (Council Agenda Check-Off Sheet, original resolution and 13 copies, Red Line forms- including appropriate signatures from the division director) should be forwarded to the Budget Office one week before the Council Committee meets. From there the documents will be forwarded as follows:

- 1) Director of Finance and Administration
- 2) City Attorney
- 3) CAO

- 4) Mayor's Office – Resolutions appropriating or transferring CIP funds must be received by the CAO's Office by noon on Tuesday for Council Committee action on the following Tuesday.
- 5) Council Committee reviews monetary transfers and makes recommendations to the full Council.
- 6) The CAO's office forwards the resolution to Council Records after the Council Committee recommendation (s) are made. Then the resolutions are placed on the Council Agenda for consideration by the full Council on the following Tuesday.

Council's approval of the resolution gives legal authority to amend the fiscal year's budget.

Resolutions may be returned to the originating division/bureau for corrections at any time during the process.

The need for accuracy in the completion of all appropriate forms and recognition of time constraints is crucial in processing transfers. The Budget Office may be contacted for further assistance and/or information.

FISCAL POLICY

Policies for Fiscal Control:

- **Balanced Budget.** As required by law, it is the fiscal policy of the City of Memphis to balance the budget. No deficit may be planned or incurred.
- **Financial Management.** The City will manage and account for its Operating and Capital Budgets in accordance with principles and standards set forth by the Governmental Accounting Standards Board (GASB) and Generally Accepted Accounting Principles (GAAP).
- **Accounting Method (Basis of Budgeting).** The City will maintain its accounting records for general governmental operations on a modified accrual basis, with revenues recorded when available and measurable and expenditures recorded when services or goods are received and the liabilities incurred. Accounting records for proprietary fund types and similar trust funds will be maintained on the accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt of payment of cash. For governmental-type funds, revenues and expenditures are also monitored internally on a “budgetary” basis to ensure compliance with legal limitations. The City budgets on a “modified accrual plus encumbrances” basis, which treats encumbrances as expenditures at the time the funds are encumbered.
- **Internal Accounting Controls.** The City will develop and manage its accounting system to provide reasonable assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. “Reasonable assurance” recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.
- **Audits.** The City will ensure the conduct of timely, effective, and periodic audit coverage of all financial records and actions of the City, its officials and employees in compliance with local, State, and Federal law.

Policies for Revenue and Program Funding:

- **Revenue Projections.** The City will estimate revenues in a conservative manner in order to minimize the adverse impact of a revenue shortfall.
- **Property Tax Rates.** The City will maintain stable tax rates that avoid wide annual fluctuations as economic and fiscal conditions change.
- **Intergovernmental Revenue.** The City will aggressively seek a fair share of available State and Federal financial support unless conditions attached to that assistance are contrary to the City’s interest.
- **Cash Management.** The City will maintain sophisticated and aggressive cash management and investment programs in order to achieve maximum financial return on available funds. Cash will be pooled and invested on a daily basis at best obtainable rates; investments will be generally limited to federal debt instruments, fully collateralized repurchase agreements, or highest quality bankers’ acceptances and commercial paper.

Policies for Expenditures and Allocation of Costs:

- **Contents of Budgets.** The City will include in the Operating Budget all programs and facilities not specifically eligible for inclusion in the Capital Improvement Program.



- **Expenditure Growth.** The City will budget expenditures for necessary and essential public purposes only, holding expenditure growth to levels consistent with realistic prospects for the community's ability to pay, both in the upcoming fiscal year and in the ensuing years as well.
- **Allocation of Costs.** The City will balance the financial burden of programs and facilities as fairly as possible between the general taxpayers and those who benefit directly, recognizing the common good that flows from many public expenditures, the inability of some citizens to pay the full costs of certain benefits, and the difficulty of measuring the relationship between public costs and public or private benefits in some services.
- **Expenditure Reduction.** The City will seek expenditure reductions whenever possible through efficiencies and through the reduction or elimination of programs, policies, and practices which have outlived their usefulness.
- **Public Investment in Infrastructure.** The City will, within available funds, plan and budget for those facilities and infrastructure necessary for a healthy economy and for support of public programs determined to be necessary for the quality of life desired by its citizens.
- **Procurement.** Toward the most cost-effective procurement of goods and services, the City will purchase them, directly or indirectly, through a competitive process except when an alternative method of procurement is specifically authorized by law.

Policies for Debt Management:

- **Debt Management.** The City will minimize debt service costs through the judicious use of available debt instruments, consistent with the desirability of maintaining stable current tax rates and distributing the costs of certain long-lived facilities among all users, present and future.
- **Debt Incurrence.** The City will limit the amount of new general obligation debt it will plan for and issue in any six-year period to that which can be supported by the community under conservative fiscal and economic projections and to that which will maximize the likelihood of sustaining the City's "A" credit rating, and ultimately restoring the "AA" rating.

Policies for Governmental Management:

- **Productivity.** The City will measure and seek to increase the productivity of City Programs in terms of quantity and quality of services relative to resources expended, through program evaluation, employee training and incentives, and other strategies.
- **Risk Management.** The City will control its exposure to financial loss through a combination of commercial and self-insurance; will self-insure against all but highest cost risks; and will aggressively control its future shares among agencies through loss history.
- **Employee Compensation.** The City will seek to provide equitable pay among comparable jobs and City agencies and between employees in collective bargaining units and those outside of such units, and will seek to contain the growth of compensation costs through organizational efficiencies and productivity within the workforce.
- **Pension Funds.** The City will, through judicious management and diversified investment, assure the security of the assets of the Employees Retirement System toward its solvency and regular benefits for future as well as present retirees and will continue to evaluate the accrued liability and adjust the funding rate when necessary.

- **Surplus Property.** The City will maximize the residual value of land parcels or buildings declared excess to current public needs through efforts at public reuse, lease to appropriate private organizations, or sale toward returning them to the tax base of the City. Deposition of goods that have become obsolete, unusable, or surplus to the needs of the City will be made through bid, auction or other lawful method to the purchaser offering the highest price except under circumstances as specified by law.
- **Resource Management.** The City will seek continued improvement in its budgetary and financial management capacity in order to achieve the best possible decisions on resource allocation and the most effective use of budgeted resources.



GOVERNMENTAL ACCOUNTING

Overview

Government accounting has many similarities to commercial accounting. For example, governmental accounting uses the double-entry system, journals, ledgers, trial balances, financial statements, internal control, etc. Differences arise due to the objectives and environment of government. The major differences include

- 1) The absence of a profit motive, except for governmental enterprises, such as utilities
- 2) A legal emphasis which involves restrictions both in raising and spending revenues
- 3) An emphasis of accountability or stewardship of resources entrusted to public officials
- 4) The recording of the budget in some funds
- 5) The use of modified accrual accounting in some funds

Fund Accounting

There are three principles that deal specifically with fund accounting. These principles cover 1) Definition of a fund 2) Types of funds 3) Number of funds.

A fund is defined by the Governmental Accounting Standards Board as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The City of Memphis reports the following funds that are classified into three general types.

| Governmental Fund | Proprietary Funds | Fiduciary Funds |
|--------------------------|--------------------------|------------------------|
| General | Enterprise | Pension Trust |
| Special Revenue | Internal Service | Investment Trust |
| Debt Service | | |
| Capital Projects | | |

The City does not currently utilize Permanent, Private-purpose Trust or Agency Funds.

In the governmental funds, the objective is to provide services to the public. All of these funds are expendable, i.e., they are not concerned with preserving capital or measuring “net income.” Government funds are concerned with the availability of resources to provide services, and the emphasis is on working capital flows. Usually, only current assets and current liabilities are accounted for in the governmental funds. Fixed assets and long-term liabilities of governmental funds are reported only in the government-wide financial statement. The proprietary funds use accounting and reporting techniques similar to commercial enterprise. The fiduciary funds are accounted for like proprietary funds.

Budgets and The Impact upon the Accounting System

The GASB, in one of its basic principles, states 1) An annual budget(s) should be adopted for every government unit 2) The accounting system should provide the basis for appropriate budgetary control 3) A



common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

Generally Accepted Accounting Principles (GAAP) require a budgetary comparison for the general fund and for each major individual special revenue fund for which an annual (or biennial) budget is legally adopted. The City Council annually approves a budget ordinance that includes the City of Memphis General, Special Revenue, Debt Service and Enterprise Funds. Internal Service Funds are also included in the Adopted Budget. These budgetary accounts are incorporated into the governmental accounting system to provide *legislative control* over revenues and other resource inflows and expenditures and other resource outflows.

In order to prevent the overspending of an item in the appropriations budget, an additional budgetary account is maintained during the year. The account is called "Encumbrances." When goods or services are ordered, appropriations are encumbered. The "Encumbrances" account does not represent an expenditure, it is a budgetary account which represents the estimated cost of goods or services which have yet to be received. In effect, the recording of encumbrances represents the recording of executory contracts, which is essential to prevent overspending of an appropriation (normally, illegal act). Encumbrances of governmental funds outstanding at year end are re-appropriated during the subsequent fiscal year.

Financial Statements for State and Local Governments

The City of Memphis prepares a Comprehensive Annual Financial Report (CAFR) that includes Basic Financial Statements, Required Supplementary Information, Combining and Individual Fund Statements and Schedules, Supplementary Schedules, Single Audit, Statistical Section and the Management Discussion and Analysis (MD&A) as prescribed by GASB.

Accrual basis accounting is recognition of revenues in the accounting period the revenues are earned and recognition of expenses in the accounting period the expenses are incurred. In addition, revenues and expenses have to be measurable in order to be reported. The following funds use full accrual accounting:

Proprietary Funds

Enterprise
Internal Service

Fiduciary Funds

Pension Trust Funds
Investment Trust Funds

All of the funds that use accrual accounting (except the Trust Funds) are non-expendable, i.e., an objective of each of the funds is to maintain capital.

The modified accrual basis of accounting on the other hand, recognizes: 1) Revenues in the accounting period in which they are both measurable and available to finance expenditures made during the current fiscal period 2) Expenditures in the accounting period in which the liabilities are both measured and incurred.

The modified accrual basis is used in the following funds:

Governmental Funds

General
Special Revenue
Debt Service
Capital Projects

All of the funds which use the modified accrual basis are expendable and do not, therefore, have a capital maintenance objective.

The General Fund is the most significant Government Fund. It accounts for all transactions not accounted for in any other fund. Revenues come from many sources and the expenditures cover major functions of government.

Special Revenue Funds account for earmarked revenue as opposed to many revenue sources which are accounted for in the General Fund. The earmarked revenue is then used to finance various authorized expenditures. Many federal and state grants are reported in Special Revenue Funds.

Debt Service Funds usually handle the repayment of general obligation long-term debt and interest. This type of debt is secured by the good faith and taxing power of the governmental unit. Repayment of enterprise and internal service long-term debt is accounted for in these individual funds. Consequently, the type of debt for which the Debt Service Fund is established usually is the result of issuing general obligation bonds for capital projects.

Capital Projects Funds account for the acquisition and use of resources for the construction or purchase of major, long-lived fixed assets, except for those which are financed by Enterprise, Internal Service, and Non-expendable Trust Funds. Resources for construction or purchase normally come from the issuance of general long-term debt and from governmental grants.

Enterprise Funds account for activities by which the government provides goods and services which are (1) rendered primarily to the general public, (2) financed substantially or entirely through user charges, and (3) intended to be self-supporting. They are usually established for public utilities, transit systems, golf courses, etc.

Internal Service Funds are established to account for the provision of goods and services by one department of the government to other departments within the government on generally a cost reimbursement basis. Uses of Internal Service Fund services are budgeted through the budgets of the user departments.

Trust Funds are used to account for monies held for others, generally being used when assets are held for substantial periods of time. Trust Funds do not generally record their budgets formally.

Fund Balance

Reserve funding is not available for appropriation or is legally restricted by outside parties for use for a specific purpose. Designated fund balance represents tentative management plans that are subject to change.

