



CITY OF GERMANTOWN TENNESSEE

1930 South Germantown Road • Germantown, Tennessee 38138-2815
Phone (901) 757-7200 Fax (901) 757-7292 www.germantown-tn.gov

FINANCIAL ADVISORY COMMISSION MEETING MINUTES

Tuesday, April 28, 2015, 6:00 pm

Economic & Community Development Blue Conference Room
1920 S. Germantown Road

Members Present: Sudhir Agrawal, Christy Gilmore, Clint Hardin, Mark Holland, Alderman Rocky Janda, David Jackson, Juliet Klein, Walter Krug, Howard Lasley, Jason Lowe, Christine Menzel, Chris Miller, Frederick Miller, Julius Moody, Paul Mosteller, Michael New, David Rea, Donnie Rose and Dale Stover

Members Absent: Russell Johnson, Michael McLaughlin and Jonathan Turner

Staff Present: Patrick Lawton, Ralph Gabb, Sherry Rowell, Adrienne Royals and Jessica Brown

Others Present: Michael Stoll and George Brogden

CALL TO ORDER

Chairman Moody called the April 28, 2015 Financial Advisory Commission meeting to order at 6:00 p.m.

ESTABLISHMENT OF A QUORUM

Ralph Gabb called roll and announced that a quorum was present.

APPROVAL OF THE MINUTES

****MOTION****

Ms. Klein moved to approve the minutes as corrected from the April 14, 2015 Financial Advisory Commission meeting. Mr. Hardin seconded and the motion passed unanimously.

REVIEW OF THE GENERAL FUND

Mr. Lawton presented the General Fund. He advised that the General Fund outside of the school budget is the largest of the City's funds; it represents most of tax dollars, funds received from the State, fines and fees and other revenues and collections.

A) General Fund Revenues – Revenues for FY16 represent a 2.7% increase over the FY15 estimate. Six new projects that are underway was the driving force behind this increase. These projects which are in Germantown's Central Business District and in the Forest Hill Heights area are projected to be opened in June or July of 2015.

Included are Saddle Creek, Whole Foods, the Kroger Development, the Sprouts Store and the development that is taking place south of Winchester. In total, there will be an additional 113,000 square feet of new retail shops and restaurants that will result in a dramatic increase of property and sales tax this year. Also, additional housing specs are being considered; there is a potential for approximately 180 new homes over the next three or four years with 45 or 50 being built in FY16. Referring to a chart, Mr. Lawton explained that most of our General Fund Revenues come in the form of Property Taxes which represents approximately 60% of the fund totaling \$28.9 million this year. The next largest form of income to the General Fund is Local Sales Tax (21%) which totaled \$10.1 million for the year followed by \$5.8 million received from Federal and State Revenues (12%), Other Revenue which includes Franchise fees and Court cost, fines and fees (7%) which came in at \$3.4 million for the year and lastly, Investment Income (2%) was just over 51,000.

Property Taxes consist of four sources of revenue—Real Property Taxes, Personal Property Taxes, In Lieu Of and PILOT. Real Property Taxes is at \$26.8 million dollars for FY16. This is residential property that is assessed at 25% and commercial at 40% of the appraised value. Personal Property Taxes (\$788,018 for FY16) is a 30% assessment on personal property owned by businesses. The PILOT (Payment in Lieu of Tax) that Germantown currently has in place is with the Utility Fund; per State statute, we are allowed to assess a pilot up to 55% of the value of the utility asset itself. In Lieu of Payments come from 1) TVA for lines that run through the city – a total of 48% is collected by the State and sent back to the local governments; the City receives 30% (per capita basis) of what's been collected based on 5% of TVA's gross sales tax and 2) Memphis Light, Gas & Water – \$300,000 was received as an equivalent payment that would be made for an MLGW plant and equipment to be located here in Germantown and assessed at 55% of its value.

Mr. Lawton said that Local Sales Taxes are right at \$8.3 million. Half of \$2.75 (each purchase that is made in Germantown) is collected by the State with one-half coming directly back to the City of Germantown after Shelby County gets their share. He further stated in FY13, the half cent sales tax increase was put in place. Because we have been collecting this tax for a couple of years now has helped to us to get the school system up and running. This is how we are able to fund our commitment to GMSD. The State Sales Tax Allocation is 7% with the City receiving a proportionate share based on the City's population. Per Mr. Lawton, the City is looking at a slight increase in FY15 due to changes in healthcare and laws of the State. As for Revenues per Capita, there was an increase in FY13 for per capita income with the reduction of property values and stagnate sales tax; FY14 reflects the impact of the property tax adjustment. Revenue per Capital income projections are based upon a stronger economy and increased General Fund revenues. Again, this is one of the areas that rating agencies closely monitor.

B) General Fund Expenses – There was a 3% increase over the FY15 estimate. Per Mr. Lawton, when building the five-year model and FY16 budget, we made sure that revenues were greater or larger than our expenditures and that a healthy fund balance is being built each and every year of that five-year plan. Based on revenue and growth assumptions, it appears that the FY15 tax increase will be extended at least seven years. Mr. Lawton spoke of ways in which this year's expenditures will add value to the community. He advised in the area of Personnel, we are looking at the addition of a new police district within the City. Chief Hall is requesting four additional Police Officer positions for this year (\$156,100) and three more positions in FY17 (\$321,900). These additional officers will help ensure public safety and proper control within our residential areas. Other city-wide positions to be added include Parks and Recreation, Facility Services, Fire Department and GMDS. \$355,000 is still owed for the GMSD lawsuit settlement and \$2,121,500 covers the City's obligation to GMSD. The Infrastructure Replacement Program includes Information Technology (\$339,000), Vehicles (\$645,000) and Facility Improvements (\$247,000). Transfers to be made this year are for the Great Hall's Capital Improvement Project to expand the lobby (\$225,000), State Street Aid which is the transfer of \$1,850,000 in addition to the money that is received from the Gas Tax to support our street paving program and an Ambulance transfer of \$750,000 to support the ongoing Ambulance Operation which has proven to be a huge success.

Mr. Lawton then discussed Property Tax Allocation. He said our biggest consumers of the property tax are Public Safety (represents the largest expense at 39%), General Government (28%), Transportation (10%), Community Services (6%), Debt Service (6%) and Other (11%).

General Government:

- Aldermen – The actual Aldermen budget went down due to Mayor Palazzolo reviewing and thus moving travel, election and other expenses out.
- City Court – A division within the Finance department that includes expenses for prosecutors, various attorneys and judges associated with operating the Court system.
- Administration – In Administration there has been an increase in the budget mainly due to a \$100,000 expense which will be ultimately transferred to the Education Foundation to hire an Executive Director.
- GPAC – Funding is provided by the City who owns and operates the building; also, there is a 501(C) 3 in place that does the programming and fundraising. The staff, lights and everything associated with that facility is the City's responsibility.
- Information Technology (IT) – Five staff members that take care of the City's network, communications and PC support throughout the City.
- Human Resources (HR) – Department consist of six staff members that oversee recruitment, training, compensation and benefit analysis.
- Finance – Responsible for cashiering, money deposits and collections, auditing of internal controls, taxes, utility billing, general ledger, payroll and an annual audit performed by an external professional accounting firm.
- Procurement – Staff of seven that keeps us current with laws and state regulations that pertain to purchasing and vendor selection. This department is also responsible for risk management and the City's inventory.
- Community Development – Provides planning services, engineering, construction inspections and code compliance.
- General Services – Department consist of 22.5 staff members that oversee facility services (primarily), fleet services and the administration and operation of capital improvements plan.
- Budget & Performance – Staff of three that is heavily involved with the budget throughout the year and also work closely with departments on their Business Plans, performance measures and any other projects assigned by Administration.

The Infrastructure Replacement Program (IRP) is a ten year program that is contained in the budget. It differs from the Capital Improvement Program (CIP) where projects last fifteen to twenty years. IRP projects are going to be fixed up and changed out on a more regular basis such as vehicles and building improvements throughout the City. The costs for these items also show up in each department's operating budget. Per Mr. Lawton, a 4.7% increase over estimated cost for the General Government budget demonstrates that we have done a good job at holding the line on expenditures.

Mr. Lawton said like revenues, with expense per Capita we should improve costs per services while holding the line and reducing associated costs at the same time. He further stated that the City's expenditures per capita in the outer years are increasing at a modest pace; a dramatic increase in this area is a warning trend for the rating agencies and could indicate that our expenditures are outpacing our growth in the community and in overall revenues thus resulting in the potential of a deficit in the current year and outer years as well.

Referring to a chart, Mr. Lawton stated that there is a steady decline in the outer years for the City's General Obligation Debt Service. He explained that despite a projected bond issue of \$3.5 million to fund CIP for FY16 and FY17, we are still able to see a gradual reduction in our Debt Service. Rating agencies certainly look at this to determine the City's ability to not only issue debt, but to pay back our debt as well. Mr. Lawton mentioned that

there is really no concern for Debt per Capita. Again, referring to a chart, Mr. Lawton advised that the amount in which each resident pays per capita in debt is also on a steady decline.

Again, referring to a chart that showed what each resident pays per capita in debt is also on a steady decline.

Although the Fund Balance as a percentage of total expenditures is not in the City's Financial Policy, however the Administration, Finance and Performance & Budget departments like to see and keep the Fund Balance at approximately 40% as it covers all of our designated reserves and provides just enough undesignated reserves to fund capital beyond what we might issue in general obligation bonds. As indicated on a chart, this percentage does not ever fall below 40% during our five year planning period. As for Service Efficiency and Quality, two questions remain after an annual community-wide survey has been conducted —1) *Do you feel you receive value for the services you receive for the taxes that you pay?* The results have been consistently high and have risen from 79% in 2014 to 81% in 2015. The companion question is 2) *How do you feel about the City's overall job of providing quality service?* Again, the results are consistently high coming in at 93%. Mr. Lawton further stated that the budget is not just a series of numbers, graphs and charts; the Business Plan brings everything to life through work that is being done in each department from day to day. The commitment that we have to the City is all reflected in these types of responses.

****MOTION****

Clint Hardin moved to approve the General Fund budget as presented. Paul Mosteller seconded and the motion passed unanimously.

OTHER BUSINESS

Mr. Lawton reminded everyone that this is the last scheduled Financial Advisory Commission meeting according to the budget calendar. He advised that the General Fund budget will be reviewed and discussed by the Board at a work session on next Wednesday, May 6th; the first reading will be on May 11th, 2015 and the second public hearing will be on June 8th, 2015. Mr. Lawton further advised that as the City moves forward with our continuing discussions on the Municipal Schools, this group will gather back together as we explore their needs. He then thanked the Budget and Performance Team (Jessica Brown, Sherry Rowell and Adrienne Royals) for all of their hard work in preparing materials and hand outs for this meeting. Per Mr. Lawton, this team does a great job!

ADJOURNMENT

The meeting adjourned at 8:25 p.m.