

**GERMANTOWN**  
POPULAR ANNUAL  
FINANCIAL REPORT  
REPORT

FISCAL YEAR ENDING  
JUNE 30, 2017  
GERMANTOWN, TENNESSEE



# Letter from the Mayor



## CITY OF GERMANTOWN TENNESSEE

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To the Citizens of Germantown:

We are pleased to present the Popular Annual Financial Report (PAFR) of the City of Germantown for the fiscal year ended June 30, 2017. It is our intent that the report provides Germantown citizens with insight into the City's financial activities and the City's commitment in providing outstanding city services.

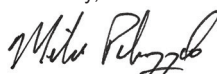
The report is an overview of the City's financial position, as well as the City's long-standing financial practices. It identifies revenue sources and describes how they are spent in a fiscally responsible manner. The fiscal stability of the City is reflected in its ability to maintain a Triple-A credit rating with Moody's since 1988 and Standard & Poor's since 1994.

In September 2017, the City was reaffirmed as Triple-A by Moody's and Standard & Poor's. Both Moody's and Standard & Poor's cited the City's large diverse tax base, active financial management, stable reserves and liquidity and low debt and pension burdens as the rationale for awarding the Triple-A rating. Of the 19,492 municipal governments in the U.S., Germantown is one of only 76 earning the highest possible rating.

The Comprehensive Annual Financial Report (CAFR) was prepared in conformance with Generally Accepted Accounting Principles (GAAP) and audited by the City's independent auditors, receiving an unmodified, clean opinion. Although the financial numbers in the PAFR come from an audited source, they are presented in this report in a condensed, unaudited, non-GAAP format.

Citizens seeking more detailed financial information may view a copy of the audited GAAP-basis financial statements of the 2017 CAFR online at [www.germantown-tn.gov/financialdocuments](http://www.germantown-tn.gov/financialdocuments).

Sincerely,

  
Mike Palazzolo, Mayor



## City Profile

The City of Germantown is located in Shelby County in the southwestern part of the State of Tennessee. It began in 1833 as the hamlet of Pea Ridge. In 1836 it was renamed Germantown, probably because the earliest settlers were of German heritage. By 1841 the City of Germantown was chartered. It met with a modest amount of prosperity when a plank road was built in 1849 and the railroad came through in 1852. It suffered setbacks in the 1860's when part of the City was destroyed during the Civil War and in the 1870's during the yellow fever epidemics. Today it is at the center of the most affluent and rapidly developing area of Shelby County.

The City's legislative body is made up of the Board of Mayor and Alderman. The mayor and five aldermen serve four-year terms. The City provides a full range of municipal services including police and fire services, streets and drainage construction and maintenance, sanitation, cultural and recreational programs, planning and zoning and administrative services. In addition, the City operates a water and sewer utility system.

The City earned the prestigious Tennessee Center for Performance Excellence (TNCPE) in 2017. Since the TNCPE program was founded in 1993, only 24 organizations have attained the excellence designation. The TNCPE Awards program helps organizations look at the big picture and continuously strive to implement the best practices in their industry or sector.



# Demographics and Economics

The City of Germantown's latest census recorded a city population of 40,123. The 2010 U.S. Census reports the largest percentage of people in Germantown is between the ages of 45 and 54. The second largest percentage of population is between the ages of 55 and 64. The median age is 45.7 years old.

There are 14,910 households in Germantown with an average size of 2.6 people. Family households make up 78.2 percent of the total household in Germantown. Germantown has 15,536 total housing units with a 96 percent occupancy rate. Of the 14,910 occupied housing units, 86.4 percent are owner-occupied and 13.6 percent are renter occupied. The average value for owner occupied housing in ZIP code 38138 is \$277,794 and \$422,438 in 38139. The average home value in Germantown is \$281,300.

Germantown is one of only 76 cities in the nation that can take pride in its triple-A Bond rating from both Moody's and Standard & Poor's.

Germantown has one of the lowest crime rates for any city its size in the state of Tennessee and the police and fire departments have an average emergency response time of about five minutes.

More than 98 percent of the City's adult population holds a high school diploma, with half of those earning a bachelor's degree or higher.

At \$54,229, Germantown has the highest per capita income of all the municipalities in Shelby County. The median family income is \$154,355.

## Fiscal Process

Responding to direction from the Board, administration annually prepares a plan of services for the upcoming fiscal year and projects the cost. During its development, each spring, the budget is examined by the citizen Financial Advisory Commission and measured against the City's financial policies. The plan is reviewed by the Board, then formally adopted by budget ordinance. The ordinance is organized by fund, function and department. To assure effective fiscal management and accountability, strict budgetary compliance is maintained by the automated accounting system. All requests for purchases are checked by a budgetary control system to assure funds are available. Purchase orders and contracts are encumbered prior to release to vendors. The system controls are maintained within cost center levels. Departments may make transfers of appropriations within their departments. Transfers of appropriations between departments require approval of the Board.

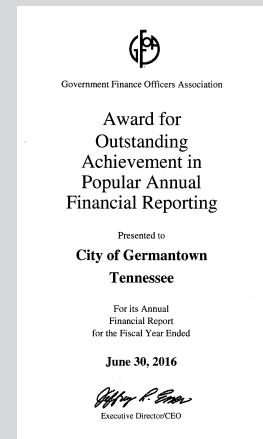
## Introduction to the Popular Annual Financial Report

The purpose of the Popular Annual Financial Report (PAFR) is to serve as an easy-to-read synopsis of the City of Germantown's financial information. On an annual basis, the City prepares a Comprehensive Annual Financial Report (CAFR), which contains detailed financial information about the finances of the City. The report contains detailed information required to be reported by generally accepted accounting principles and it conforms to the requirements for a CAFR contents prescribed by the Government Finance Officers Association (GFOA). We encourage you to read the CAFR, which contains detailed and audited financial statements, notes, schedules and other information. The CAFR may be found on the City's website <https://www.germantown-tn.gov/government/annual-financial-reports>. The information in the PAFR has been taken from the CAFR and is intended to be a supplement to rather than a replacement for, the CAFR.

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to the City of Germantown for the fiscal year ended June 30, 2016. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a PAFR, whose contents conform to program standards for creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Report requirements, and we are submitting it to GFOA.



## Financial Highlights

During FY17 the City continued to grow and expand as the seeds of economic development initiatives and partnership with the Germantown Municipal School District begin to take root. During the fiscal year, Shelby County completed the 2017 countywide reappraisal of property. Property values rose during the reappraisal year by approximately 13%. Property tax remains the most stable source of revenue at approximately 55% of total General Fund revenue with collections remaining very strong. Sales tax is the second largest revenue source to the City. Sales tax increased by \$584,822 over the past year. However, intergovernmental tax revenue decreased by \$377,712. This is due to the impact of the phase out of the Hall Income tax which is a state tax on interest and dividend income over the prior year. The City of Germantown has a strong retail climate although the City is primarily a bedroom community. Emphasis is being placed on bring more retail into the City.

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at June 30, 2017, by \$255,333,407 (net position). Of this amount, \$55,071,131 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2017, the City's governmental funds reported total fund balances of \$59,353,989. Of this amount, \$10,963,650 (unassigned fund balances) may be used to meet the general governments spending requirements. The unassigned fund balance represents 25% of total General Fund expenditures.

During the fiscal year, the City's total debt decreased by \$3,860,453. The reduction in debt was a result of no new debt issuance and paying down principal and interest payments during the fiscal year.

*Fund balance: the cumulative excess of revenues over expenditures in a fund at a point in time.*

# General Financial Information

Most City services and projects are accounted for in a general category referred to us as Funds.

**General Fund** – Accounts for revenues and expenditures associated with the general operations of the City that are not required to be accounted for in separate funds.

**Special Revenue Funds** – Account for proceeds of specific revenue sources that are legally restricted or have been restricted for specific purposes (e.g. state street aid, automated enforcement, drug, Pickering Center, recreation, municipal schools and ambulance).

**Capital Project Funds** – Account for the financial resources used for the construction and/or acquisition of major capital facilities (e.g. major roads, intersections, general government, fire department, parks improvement, and drainage).

**Enterprise Funds** – Utility, Athletic Club, Sanitation, Great Hall and Stormwater Funds, operated similar to a private business in that expenses are recovered through fees charged to users. The Sanitation Fund entered into a new contract for garbage, recycling and yard waste collection during FY16. In FY10 the Great Hall was separated from the Athletic Club and an enterprise fund was created. In FY11 the Stormwater Fund was created due to a federal mandate for municipalities to manage stormwater runoff.

**Fiduciary Funds** – These funds convey information about financial relationships in which the City acts solely as a trustee for the benefit of others, namely the pension fund, other postemployment benefit fund, and bail deposit fund.

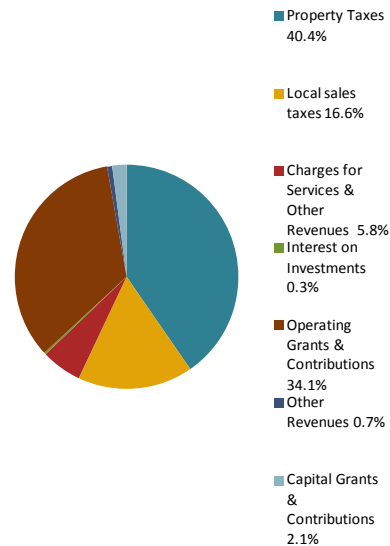
This report focuses on the City's largest funds (General, Utility, Athletic Club).

## Revenues

Revenues for general government fund were \$51.9 million. Property taxes accounted for the largest and most stable source of the City's revenue, at \$28.9 million or 55% of total revenues

Local sales tax is the second largest source of revenue at \$12 million. Intergovernmental (previously known as state shared taxes) is third at \$6.5 million. Intergovernmental revenues include sales taxes at \$3.3 million, income taxes at \$2.9 million, beer taxes, and petroleum special taxes. Other revenues come from fines and forfeitures, licenses and permits, charges for services, interest on investments, grants, and other revenues.

### Revenues by Source

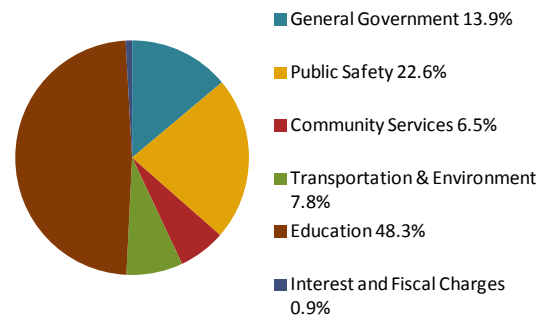


## Expenses

Expenses are divided among General Government, Public Safety, Community Services, Transportation and Environment, Education and Debt Services. For fiscal year 2017 expenses were \$43.4 million, a decrease of \$2.2 million from FY16.

The largest expense is Public Safety at \$19 million up \$1.1 million. The increase was due to new hires and equipment purchases. The second largest expense area was General Government at \$13.3 million, a slight decrease from the prior year. Transportation and Environment expense was \$4.1 million, an increase of \$0.1 million. Community Services expense was \$2.7 million, an increase of \$1.1 million. Debt service was \$4.2 million. The prior year was \$7.7 million. No new bonds were issued during the fiscal year. The overall expenses for all departments were less than the amount budgeted for the fiscal year. All departments were able to control expenses and provide service levels to its citizens.

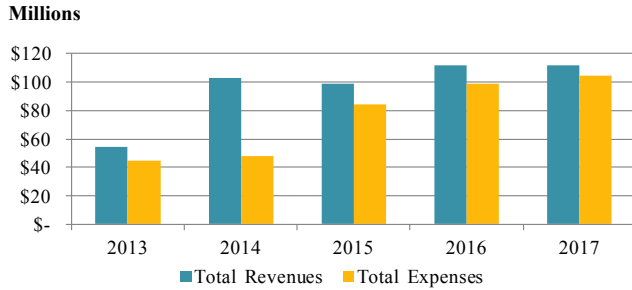
### Expenses by Source



*The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. All of the governmental funds reported together on an accrual basis are considered governmental activities. Their reporting is on an economic resources measure of revenues and expenditures, which is very similar to the private sector. The fund type data are reported on a modified accrual basis, which is a measure of revenue and expenditures on a current financial resource measurement.*



## Expenses and Program Revenues Governmental Activities



## General Fund

### Revenue by Source:

#### Property Tax:

- Real property taxes, personal property taxes, penalties and interest on property taxes, receipt in lieu of taxes – TVA, Receipt in lieu of taxes – MLGW.

#### Local Sales Taxes:

- Sales taxes, beer and liquor taxes, gross receipts tax, penalties and interest – gross receipts tax, room occupancy tax

#### Intergovernmental:

- Sales taxes, income taxes, beer taxes, liquor taxes, petroleum special taxes.
- Fines, Forfeitures, and Penalties
- Traffic and other violations, City court costs, other court costs, animal impoundment fees.
- Licenses and Permits
- Automobile registrations, building permits, animal licenses, fence & sign permits, liquor permits

#### Charges for services

- Engineering fees, fire inspection fees, zoning applications, library fees, cable television fees

#### Interest on Investments – self explanatory

#### Federal and State Grants – self explanatory

#### Other Revenues

- Miscellaneous

### Expense by Source:

#### General Government

- Aldermen, City Court, Administration, Personnel, Information Technology, Finance, Civic Support, Germantown Performing Arts Center, Development, Research & Budget, and Building Maintenance

#### Public Safety

- Police and Fire Department

#### Community Services

- Parks and Recreation, Cultural Arts Programs, Library, and Genealogical Library

#### Transportation and Environment

- Public Services and Animal Control

#### Debt Service– self explanatory

The General Fund is the chief operating fund of the City. At June 30, 2017, unassigned fund balance of the General Fund was \$10,963,650 while the total fund balance reached \$32,601,124. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represent 25.2% of total General Fund Expenditures, while total fund balance represents 74.9% of that same amount.

The fund balance of the City's General Fund increased by \$743,252 during the fiscal year ended June 30, 2017. Key factors are as follows:

(Continued to page 6)

## Enterprise Funds

Business-type activities – Utility, Athletic Club, Sanitation, Great Hall and Stormwater Fund increased the City's net position by \$2,157,487.

The Utility Fund increased by \$1,659,681 due to increased revenues in sewer service charges and lower debt interest expenses.

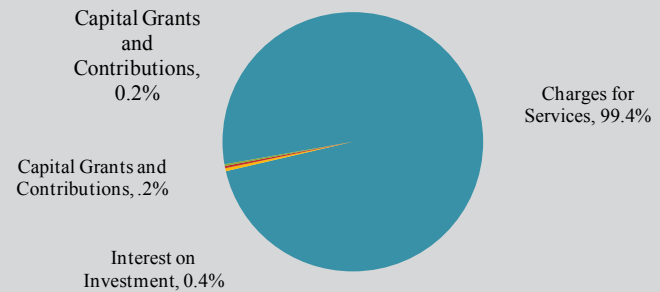
The Germantown Athletic Club's net position increased by \$739,911 due to \$435,736 in operating income and a transfer from the City for capital needs.

The net position of the Sanitation Fund decreased by \$144,186 as a result of a pension allocation change.

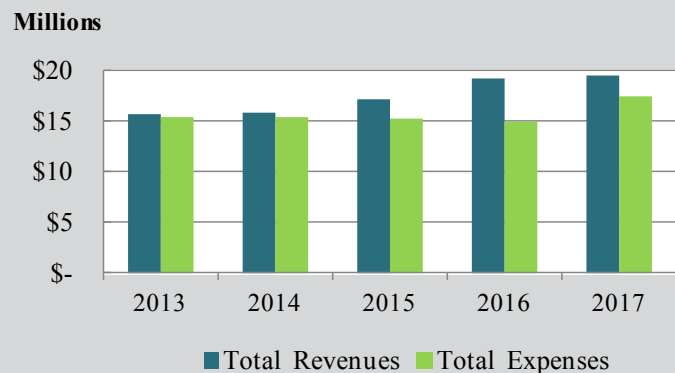
The Great Hall and Conference Center's net position increased by \$110,742 as the City transferred \$175,000 for capital needs.

The net position of the Stormwater Fund decreased by \$180,231 as a result of a pension allocation change.

### Revenues by Source



### Expenses and Revenues Business Type Activities



*Business-type Activities: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.*

# Protecting the City's Financial Health

The City relies on several strategies to maintain a fiscally healthy city government. All of these and many together help ensure the financial health of the City.

1. A strategic plan monitoring system to execute, monitor, demonstrate effectiveness, and provide transparency of the City's strategic objectives as outlined in the Germantown Forward 2030 strategic plan.

2. Analysis of trend data to guide the City's financial plan.

3. Adherence to sound long established financial policies.

4. Diligent attention to strong stewardship of taxpayer dollars.

5. Review and evaluation of the City's finances through a Financial Advisory Commission comprised of 22 citizens and an alderman liaison with strong diverse financial backgrounds.



(Continued from page 5)

- Total revenues increased \$166,179
- Property tax increased \$541,033
- Local sales tax increased \$584,822
- Intergovernmental taxes decreased \$377,712
- Fines and Forfeitures decreased \$438,113
- Licenses and Permits increased \$49,793
- Fees for services increased \$1,223,612
- Investment income increased \$85,844
- Grants decreased \$57,634
- Other revenue decreased \$1,560,734
- Total expenditures decreased \$2,214,888

Property tax increased marginally over the past year by \$541,033. This was due to new properties being added to the rolls. Local sales tax increased by \$584,822. This was due to improved economic conditions during the fiscal year. Intergovernmental taxes decreased by \$377,712. This is due to the impact of the phase out of the Hall Income tax. Fines and Forfeitures decreased by \$438,113. Fees for services increased by \$1,223,612 and other revenues decreased by \$1,560,734 due to a one time reclassification of cable television fees which are now included in fees for services.

Total expenses decreased by \$2,214,888 due to decreases in the Debt Principal which offset increases in Public Safety, Transportation and Environment, and Community Services. General government includes various departments with the City. The General Government expenditures decreased \$27,314. Public Safety expenses increased \$1,109,688. This is due to equipment purchases and the hiring of more Police officers. The remaining increase of \$642,285 consists of normal cost increases in Community Services, Transportation and Environment, and interest expense.

## Long Term Debt

### Condensed Statement of Outstanding Debt

Governmental:	2017	2016
General Obligation		
Bonds	30,325,000	32,795,000
Business-Type:		
Revenue Bonds	1,665,000	2,700,000
<b>Total</b>	<b>31,990,000</b>	<b>35,495,000</b>

During FY17, the City's total debt decreased by \$3,505,000. Total debt includes general obligation bonds and revenue bonds. Total debt for governmental activities decreased by 7.5%. Business-type activities' debt decreased by 38.3%. The City did not issue any new debt during the fiscal year. Various construction programs were still in progress at the end of the current fiscal year.

## Bond Rating

The City has long held the highest bond rating of Triple- A on indebtedness from both Moody's and Standard & Poor's credit rating agencies. The rating agencies cite the City's strong financial management, conservative budgeting and diversity of revenue sources as reasons for the superior rating. In addition, the city has maintained a good relationship with rating agencies and major investment institutions through comprehensive disclosure of financial data and direct meeting with rating agency analysts. The City has held the Triple-A rating from both agencies since 1994.

The City was reaffirmed as Triple-A by Moody's and Standard & Poor's in September 2017. Of the 19,492 municipal governments in the U.S., Germantown is one of only 76 earning the highest possible rating from both Moody's and Standard and Poor's. The Triple-A rating is the highest possible rating that can be given to a municipality and allows the City to secure financing at a lower interest rate. Both Moody's and Standard and Poor's cited the City's large diverse tax base, active financial management, stable reserves and liquidity and low debt and pension burdens as the rationale for awarding the Triple-A rating to the City.

On September 11, 2017 the City issued \$29,275,000 in bonds in order to construct a new elementary school and associated road improvements to Forrest Hill Irene.

## Capital Improvements Program

### New Elementary School Design, Land Acquisition and Construction

The project will consist of design, land acquisition and the construction of a new elementary school in the southeast section of the City. Estimated cost \$27,000,000 (funding from debt issuance).

### Germantown Athletic Club Expansion Construction Phase III

Phase III consists of the renovation of the men's locker room, creation of community space upstairs, new customer service desk and both upstairs and downstairs common areas will be renovated. Estimated cost \$1,000,000 (funding from reserves).

### Wolf River Boulevard Greenway Trail Connector- Neshoba Park to New Trail Head

This project will provide a connector from Neshoba Park to the New Trail Head & from Cameron Brown Park to Eastern Trail Head near Farmington Boulevard. Estimated cost \$1,900,000 (80% State funded).

### Signal Upgrades- Hacks Cross Road and Poplar Pike, Kirby and Poplar Avenue & Poplar Pike/ Germantown Road/Arthur Road- Construction

Construction of upgrades at these intersections. The upgrades involve replacing wooden/concrete poles and span wires with Germantown's standard mast arms, installing video detection and emergency vehicle pre-emption devices as necessary and updating striping and signage as necessary. Estimated cost \$1,050,000 (100% State funded).

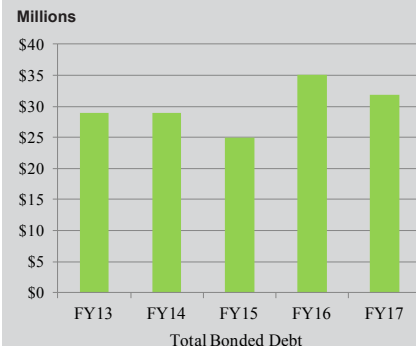
### Wolf River Boulevard/Germantown Road Intersection Improvements- ROW Acquisition

Right of Way acquisition for traffic signal modifications and the addition of lanes. Estimated cost \$2,230,000 (100% State funded).

### Winchester Road Resurfacing- Forest Hill Irene to Eastern City Limits (Construction and CEI)

This project will provide Construction and CEI funds for the resurfacing of Winchester Road from Forest Hill Irene to the eastern City Limits. Project includes milling, paving, and striping. Estimated cost \$1,450,000 (80% State funded).

General Obligation and Revenue Bonds





# Economic Factors and FY18 Budget and Rates

Factors considered in preparing the City's Budget for the 2018 fiscal year are further discussed in the Budget document and include:

- The property tax is the most stable source of revenue for the City. There was a tax rate change as a result of the property reappraisal in FY 17. The budget for FY 18 has a property tax rate of \$1.97 compared to the FY 17 rate of \$1.93. The increase in property tax was a result of the need for a new elementary school and road improvements necessitated by the location of the new school. Property taxes generated in Germantown comprise about 55% of overall General Fund operating revenues. The FY 18 budget anticipates approximately \$33.1 million in property tax revenue. Other revenue sources are subject to some degree of fluctuation in economic cycles. Sales tax represents 21% of total revenue for the operations of the City. The FY18 budget anticipates an \$11.7 million in local sales tax revenue.
- Continue to follow the Germantown Forward 2030 plan focusing on quality of life issues, fiscal responsibility, strong public safety and community engagement.
- As a result of the growth of the Germantown Municipal School District, the City worked very closely with the District to evaluate the need for a new elementary school in FY 18. The City issued debt in FY 18 in the amount of \$29.275 million to fund the new elementary school construction and necessary road repairs.
- Germantown currently has multiple mixed- use projects under construction in FY 18 representing \$400 million in private investment. These projects will result in additional 110,000 square feet in retail shops, restaurants, hotel rooms, class-A office space and multifamily units. In addition, 180 new single family homes, with a total value of more than \$25 million, are being developed.
- The City updates and adopts annually a six-year Capital Improvements Program, including the annual Capital Improvements Budget and a five year projection of capital needs and expenditures.



## Information Requests

The information contained in the PAFR is a general overview of the City's finances. Questions or requests for additional information may be addressed to Finance Director Paul A. Turner at (901) 757-7249, PTurner@Germantown-TN.gov or to:

City of Germantown  
Department of Finance  
1930 South Germantown Road  
Germantown, TN 38138

