

# Strategic Planning Session Budget Overview

February 23, 2024

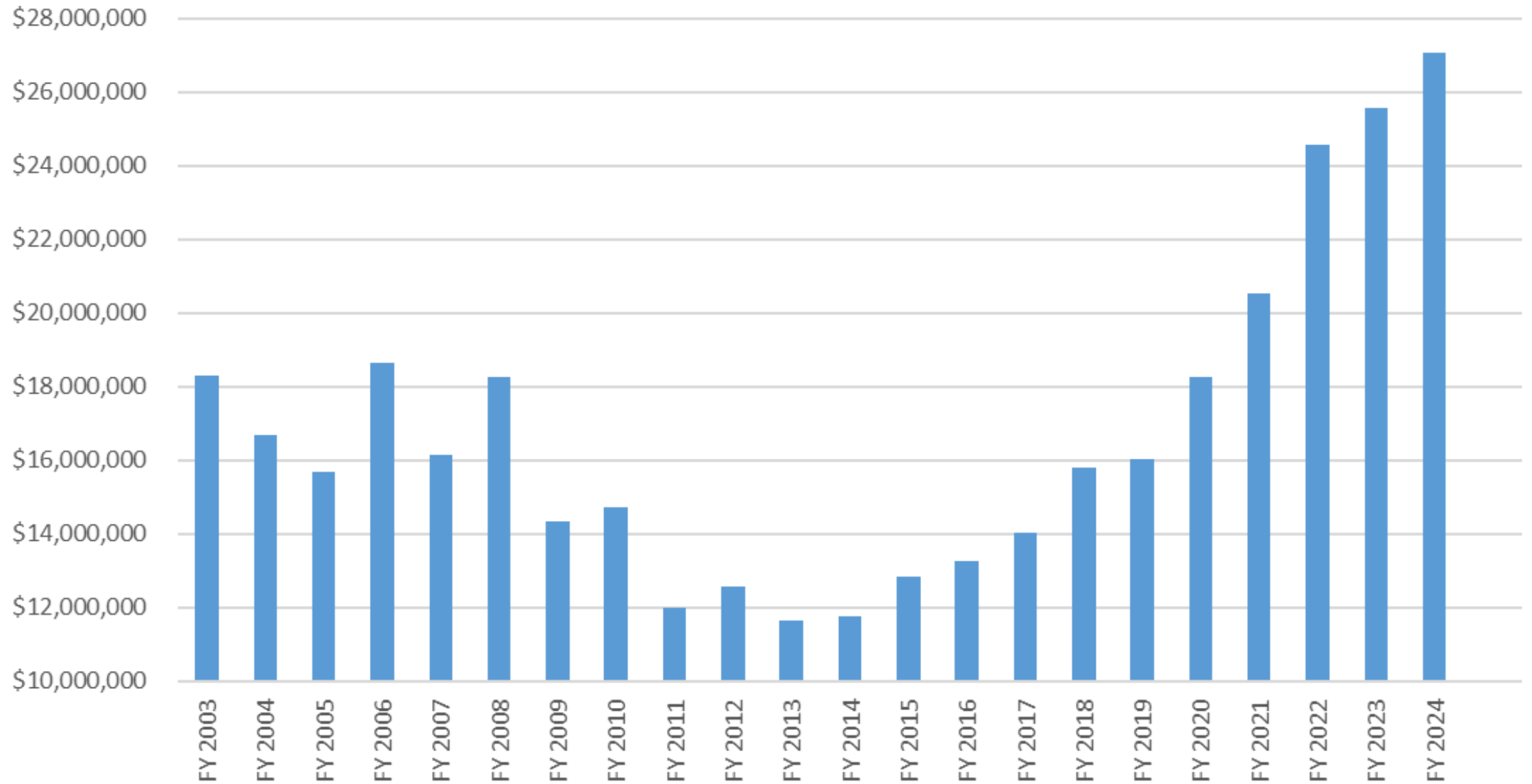
the city of Kingsport



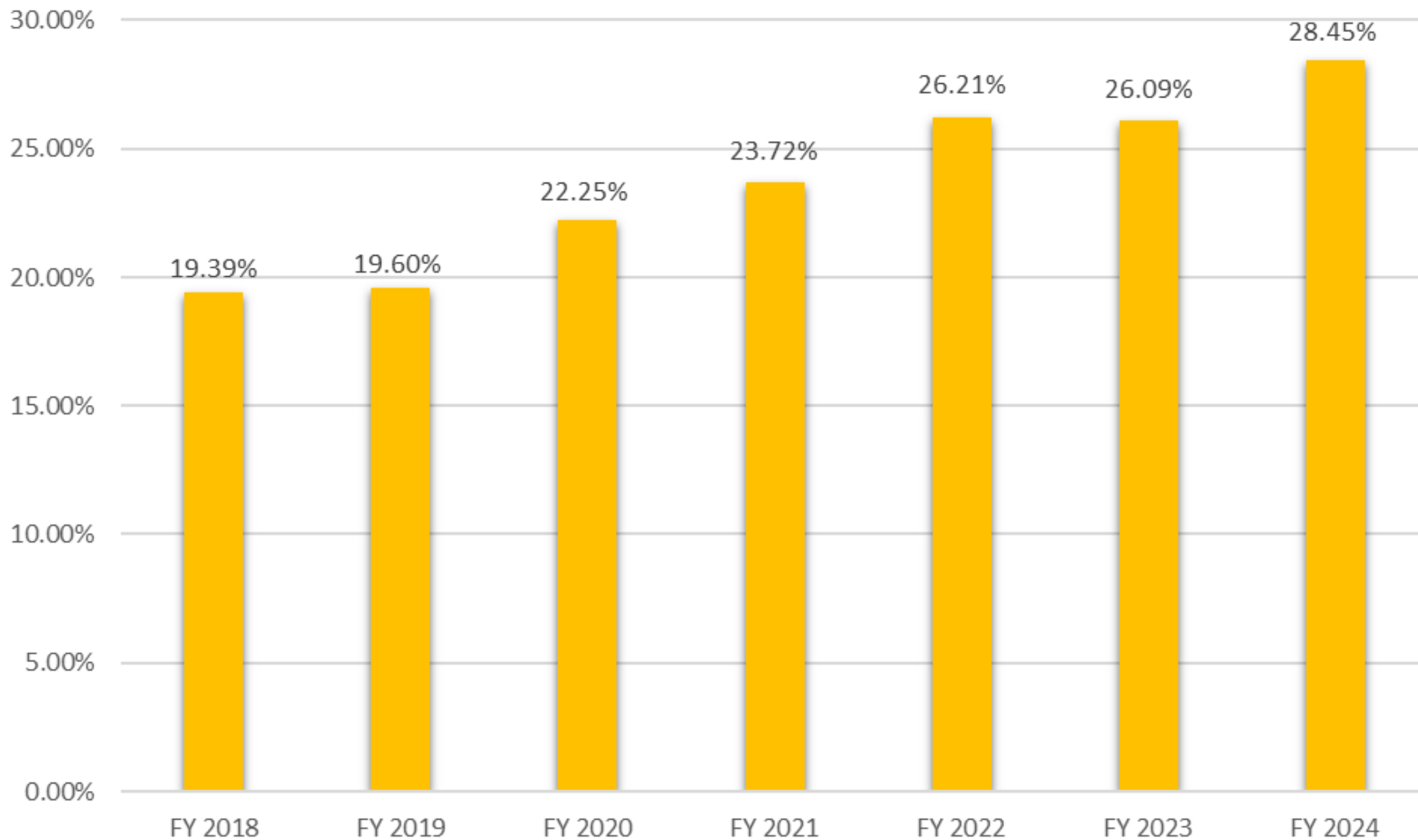
## Agenda

- Revenue Impacts to FY-24 Budget
  - Appraisal Ratio
  - Sales Tax Refunding
- FY-24 Review of major revenues (6-months)
  - FY-24 Revenue projections
- Anticipated expenditure demands for FY-24
- FY-24 Strategy
- FY-25 Revenue projections
- CIP – General Fund
- Labor/Market Update (Tyra Copas)
- Regional Sales Tax review (Michael Borders)

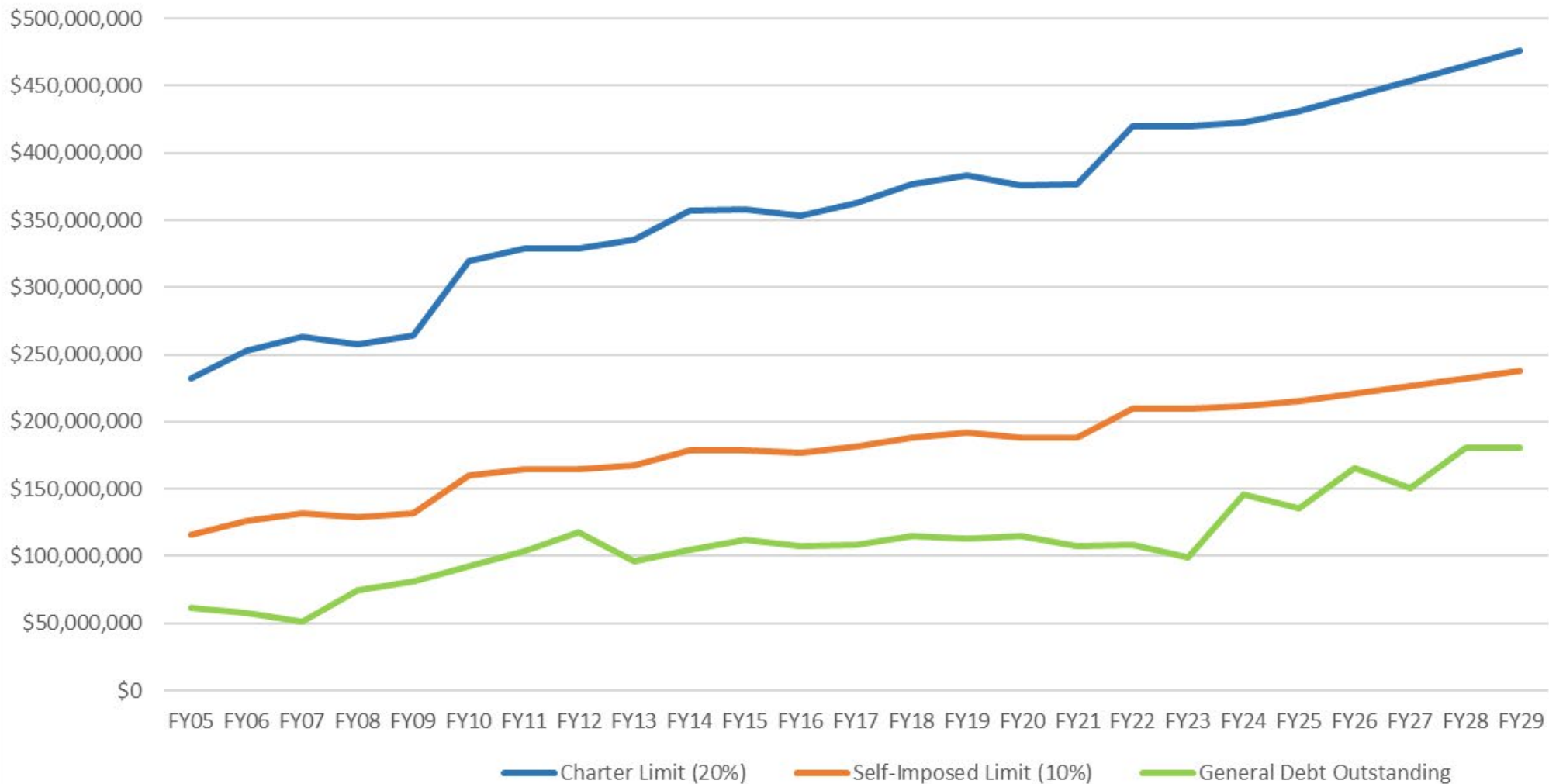
# General Fund - Year-End Fund Balance History



## Fund Balance Percentage of Budget



## Percentage of Taxable Assessed Value & Allowable General Fund Debt (Projected 2025-2029)



20% - Legal Limit  
 10% Self-Imposed Limit  
 9.6% in FY98  
 5.8% in FY08  
 6.6% in FY13  
 6.1% in FY18  
 4.7% in FY23



## 2023 Appraisal Ratio

- What is it?
  - An appraisal ratio study is conducted every 2 years per State law and is designed to create equity between personal and real property
  - The 2023 ratio study was heavily impacted by the dramatic increase in real property sales over the last couple of years (selling higher than the assessed appraisal value)
  - Historically, Kingsport has experienced minimal adjustments (5% to 10%) – which would have been absorbed into the budget
  - The 2023 ratio assessment for Sullivan County is 0.6671 and 0.6921 for Hawkins County
  - As a result, the projected impact to our FY-24 General Fund budget is a loss of \$3.8M

## 2023 Appraisal Ratio

- What options do we have to offset the loss?
  1. Raise taxes by approximately \$0.19 to cover the loss
  2. Make significant cuts to the budget which would impact programs and service deliveries
  3. A combination of cuts and a tax increase
  4. Restructure the budget to absorb the loss
- Staff recommendation is to take option #4
  - Why?
    - At this point in the budget process, option #4 provides the least impact to our operations and long-term plans
    - Important to note, our need to bond so soon after the beginning of the fiscal year is driving our recommendation

## 2023 Appraisal Ratio

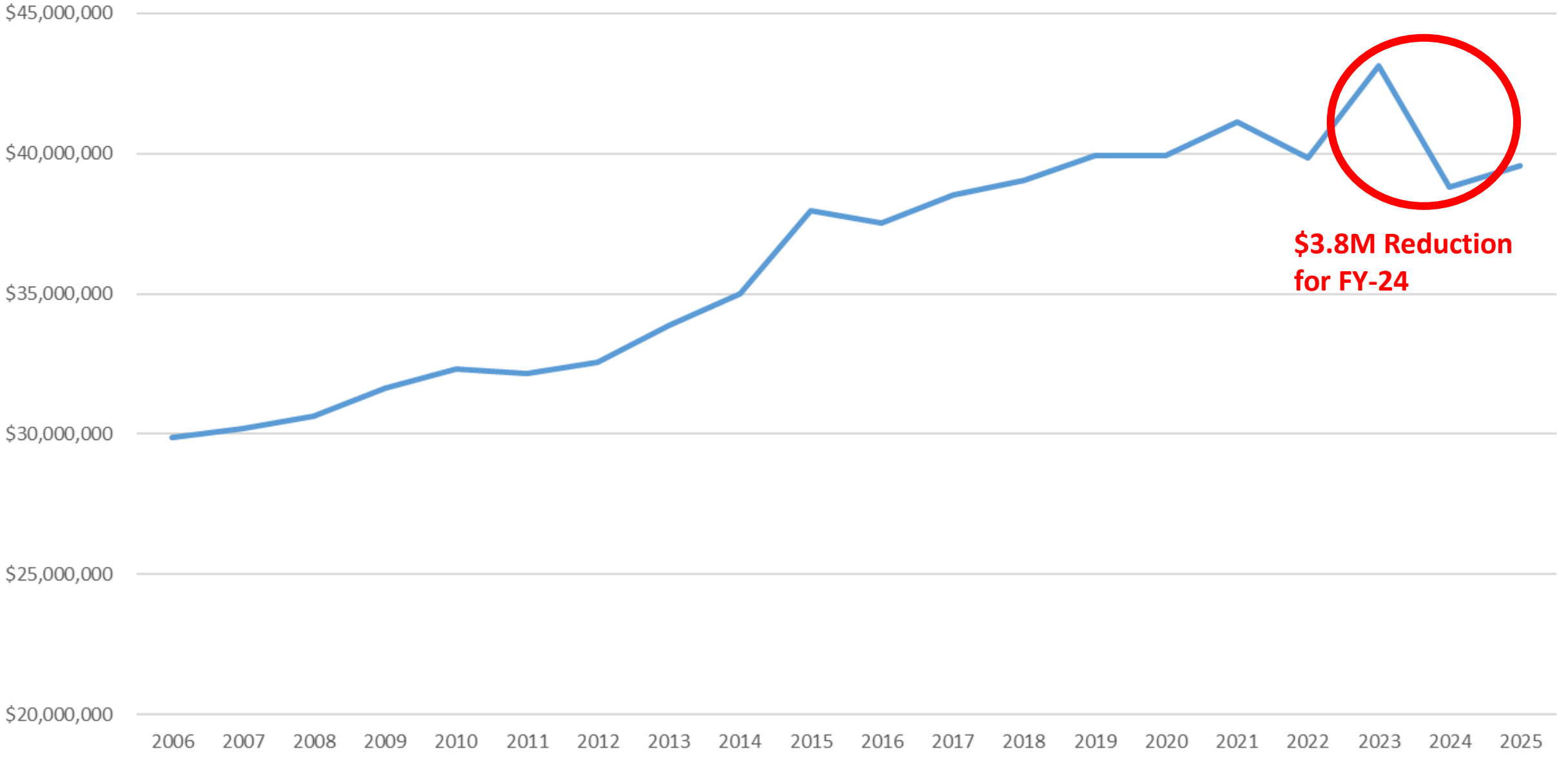
- How do we restructure the budget to cover our loss?
  - Step 1 - Funding from the American Rescue Plan (ARP) in the amount of \$3.4M will be transferred to the paving budget.
  - Step 2 – Cash identified for paving in FY-24 will be redispersed throughout the General Fund to cover the loss from the ratio assessment
  - Step 3 – To avoid any impacts to the Library project, staff proposes increasing the FY-24 bonds by \$3.4M to offset the loss of ARP funding
- Result - recommendation does not impact paving operations, nor does it negatively impact the Library project. Additionally, it avoids any substantial cuts to the operating budget



## 2023 Appraisal Ratio

- What about the impact to FY-25?
  - Having 12 months to prepare will put us in a much better position to manage the anticipated loss
  - Growth will offset the loss somewhat but not entirely
  - Year-end funding and mid-year budget adjustments will need to be closely scrutinized with some funding reserved for carryover into FY-25
  - Budget growth and flexibility will be limited throughout the fiscal year and possibly into the next
  - If necessary, additional cuts may need to be made to manage
- Summary – loss of revenue over 2 fiscal years puts every city/county impacted in the same predicament. Unprecedented property values coupled with the timing of our last reassessment is the reason we are seeing this. The Comptroller of the Treasury is evaluating introducing legislation next year to address this matter in the future.

## 20 Year Property Tax History

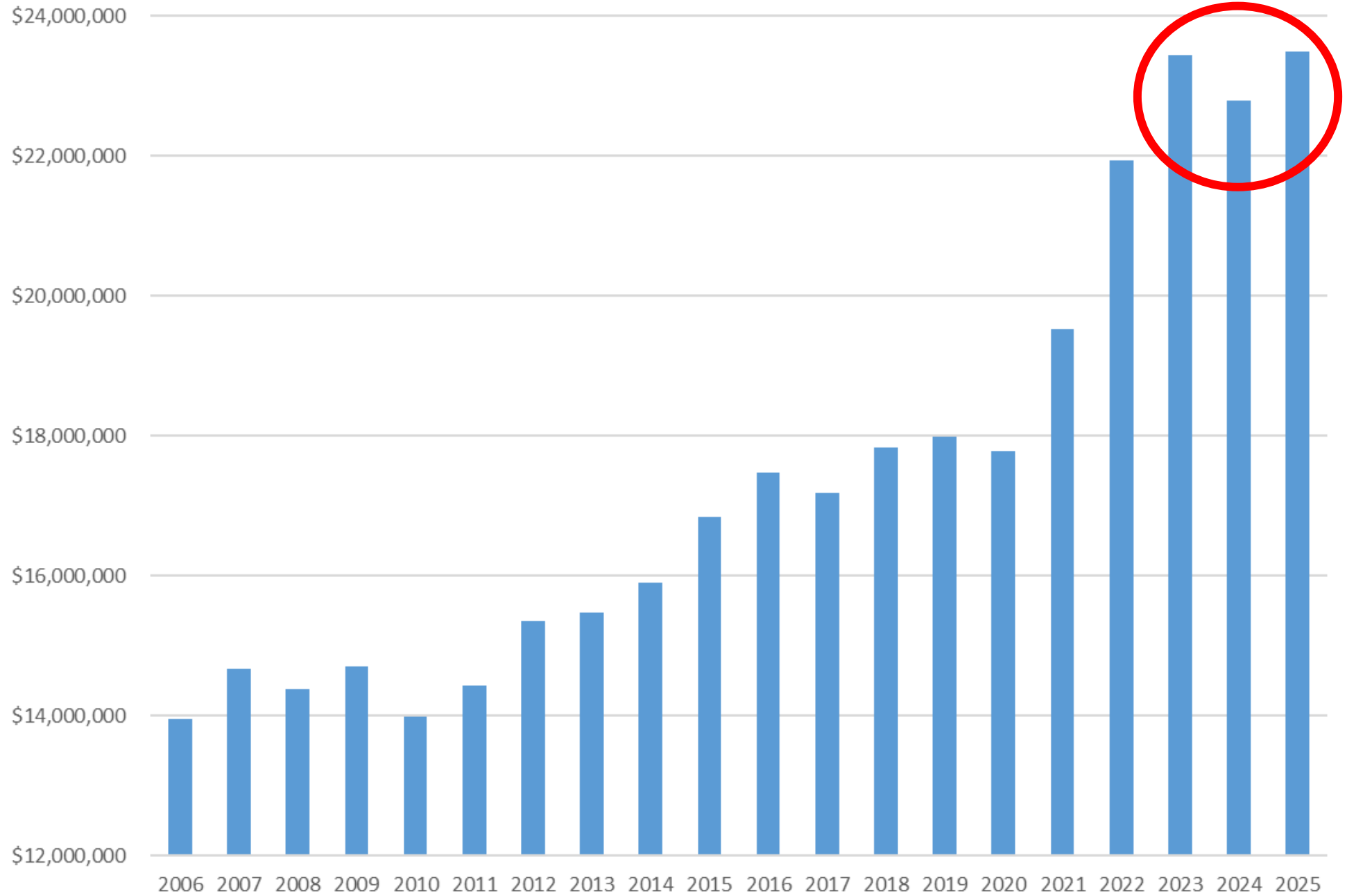


**\$3.8M Reduction  
for FY-24**

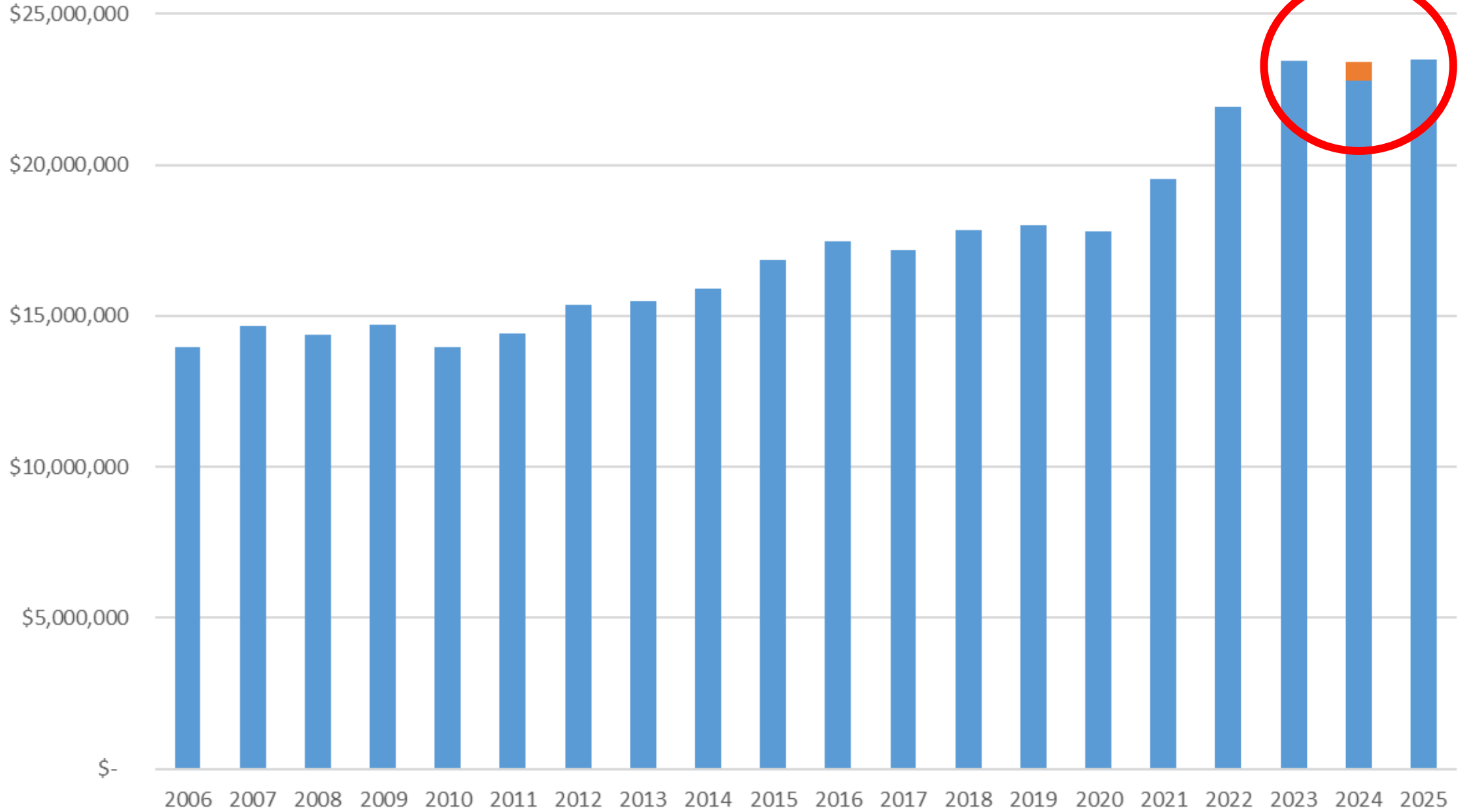
## Sales Tax Refunding

- Typically occurs when either an entity has overpaid sales taxes, improperly coded by the State (intended for another jurisdiction), or an audit is conducted by the State
- Kingsport anticipates over \$1.3M will be refunded by the Tennessee Department of Revenue in FY-24
  - Result of an audit conducted by the state for a local entity that overpaid in sales taxes
- Unplanned hit to the FY-24 budget
  - No notification was given by the State for the first refunding
  - To date \$658K was deducted from the November sales tax issuance

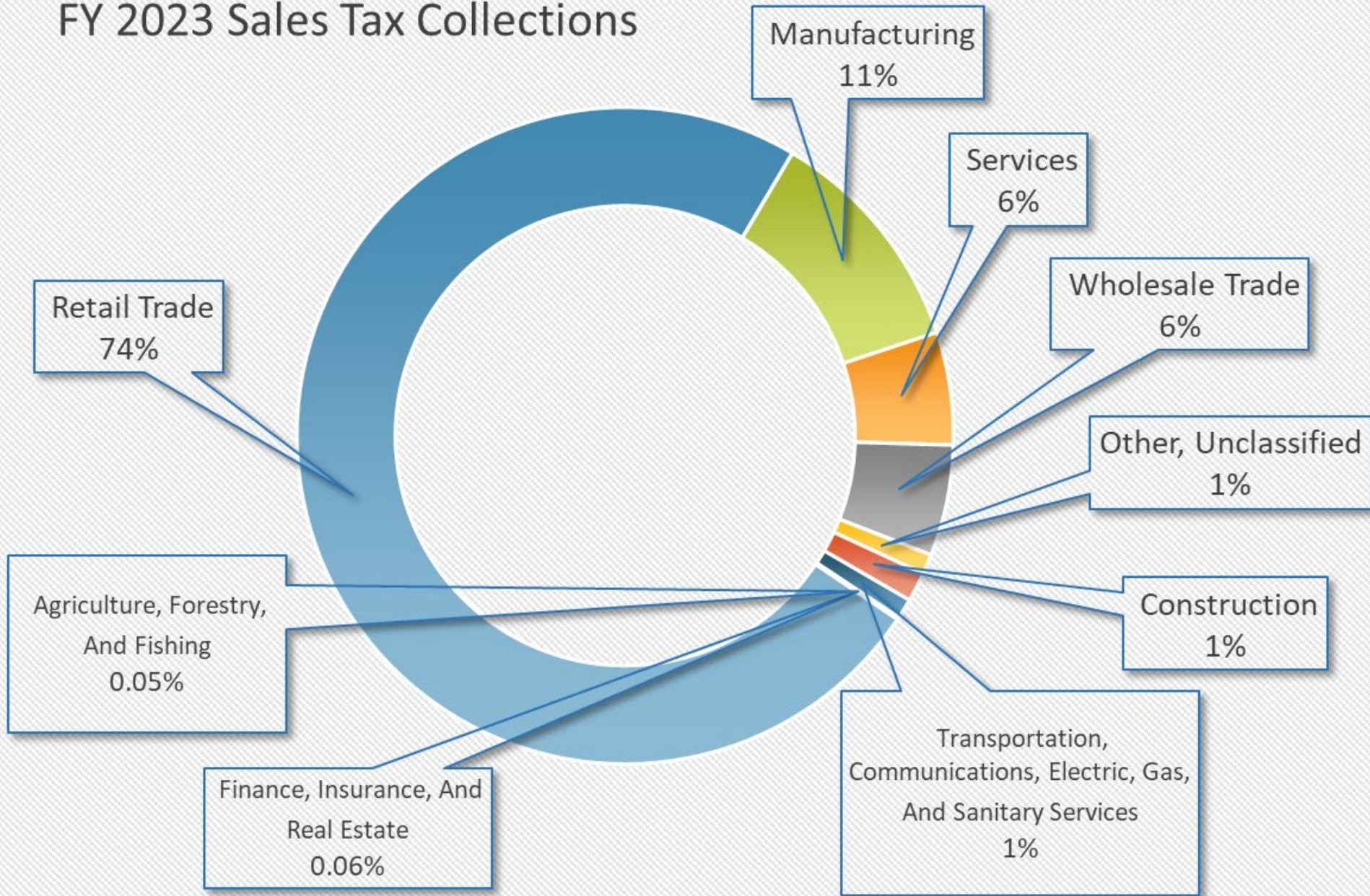
# 20 Year Sales Tax History



## 20 Year Sales Tax History



# FY 2023 Sales Tax Collections



# FY-24 Projected Revenue



General Fund Revenues	FY 21	FY 22	FY 23	FY 24 Budget	FY 24 Projected	FY 25
Property Tax	\$42,257,075	\$42,067,485	\$45,123,827	\$42,574,200	\$43,955,000	\$43,955,000
Gross Receipts	\$9,570,414	\$10,322,100	\$11,026,912	\$12,315,900	\$12,245,900	\$12,315,900
Licenses & Permits	\$385,363	\$691,451	\$761,761	\$795,000	\$650,000	\$650,000
Fines & Forfeitures	\$735,466	\$765,406	\$795,544	\$792,700	\$854,900	\$850,000
Earnings on Investments	\$31,473	\$17,295	\$800,256	\$800,000	\$1,100,000	\$1,100,000
Charges for Services	\$1,830,703	\$2,305,646	\$2,409,248	\$2,029,100	\$2,500,000	\$2,400,000
Interlocal	\$556,504	\$615,357	\$518,246	\$658,400	\$608,400	\$658,400
Local Option Sales Tax	\$19,528,179	\$21,934,952	\$22,402,103	\$23,436,100	\$23,000,000	\$23,500,000
State Shared Sales Tax	\$5,439,989	\$6,287,825	\$6,615,112	\$6,619,400	\$6,553,400	\$6,600,000
State Shared Revenue	\$3,741,567	\$2,149,910	\$1,589,660	\$1,674,800	\$1,647,800	\$1,650,000
Miscellaneous	\$2,396,153	\$4,560,977	\$6,193,451	\$3,467,400	\$3,227,800	\$3,800,000
<b>Totals</b>	<b>\$86,472,886</b>	<b>\$91,718,404</b>	<b>\$98,236,120</b>	<b>\$95,163,000</b>	<b>\$96,343,200</b>	<b>\$97,479,300</b>

- Conservative revenue projections have us at \$1.2M ahead of budget based on data received to date.
- Anticipated expenditures totaling approximately \$500K will erode total revenue projected.

## Anticipated Expenditures

- Replenishing the salt shed
- CIS – \$500K budgeted from GF
- HVAC/Chiller Units (lead time)
- Façade and Redevelopment Grants
- PetWorks
- IT (software/hardware)
- General operations



## Strategy For FY-24

- Goal would be to finish the fiscal year with a reserve of approximately \$1.5M
  - Why? Provides funding for capital items in FY-25 thus freeing up cash for operations.
  - How are we going to do this?
    - Despite refunding, our revenues are exceeding projections – after 6-months
      - State Shared Revenues and Property Tax
    - Holding key general fund positions and reviewing those monthly
    - Salary slippage from held positions plus natural turnover realized through the year
    - Re-capture local match for Transit as a result of ARP funding
    - Re-capture excess debt service funds
    - Prioritize cash funded projects – delay roll out, reprioritize, replace with bonds
    - Hold expenditures and possibly cutoff spending 60 – 90 days before end of budget

# FY-25 Revenue Projections



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## Planning for Future Debt Issues

- Sullivan County Property Tax Reappraisals will be done Tax Year 2025 for Fiscal Year 2026. Assessments will likely increase. This gives the opportunity to hold the tax rate the same and generate additional revenue to fund new debt service
- This additional revenue could be used to fund debt service for new elementary schools
- Current debt service requirements drop approximately \$2,500,000 in FY-28 and another approximately \$1,500,000 in FY-29.

## Future CIP

- FY-26
  - Lynn Garden Elementary School
  - Fire Station 2 construction
  - General Park Improvements
  - Fire Station 9 design
- FY-28
  - North Elementary School
  - Public Works Facility
  - Fire Station 9
  - General Park Improvements
  - General Public Works

Note: This list is subject to change and does not include utilities.



- East of I-26 Site



# Existing Kennedy Site



Lynn View  
Community  
Center Site

The word "QUESTIONS" is written in large, white, 3D-style capital letters. It is centered and surrounded by a cluster of overlapping, semi-transparent squares in various shades of blue and green. The squares vary in size and are arranged in a way that creates a sense of depth and movement around the text.



# Vacancy / Labor Market Update

February 23, 2024

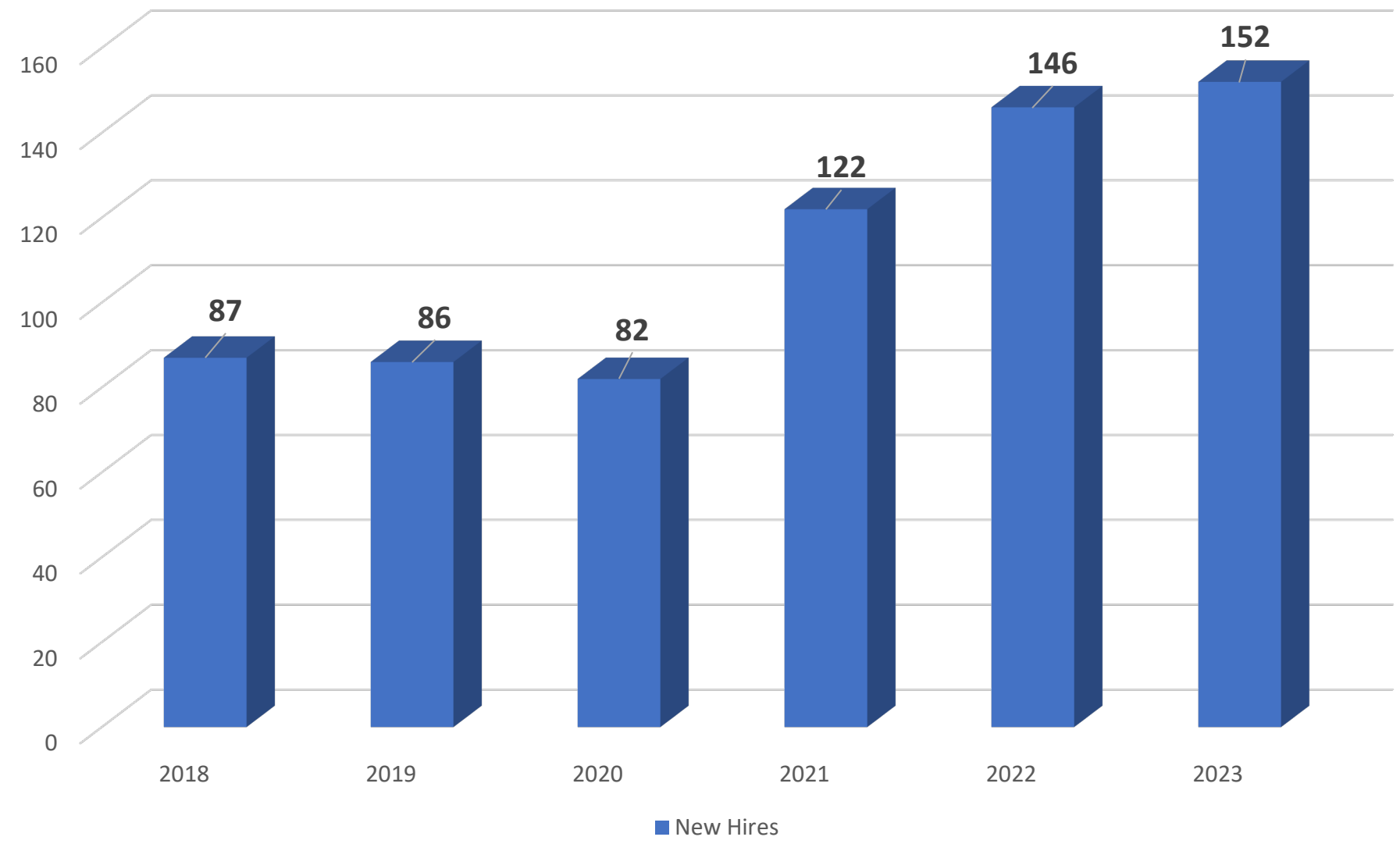
Tyra Copas, Human Resources Director

the city of Kingsport



- Hiring remains top priority
- In 2023, hired **152**
- 18% Of workforce <1 year

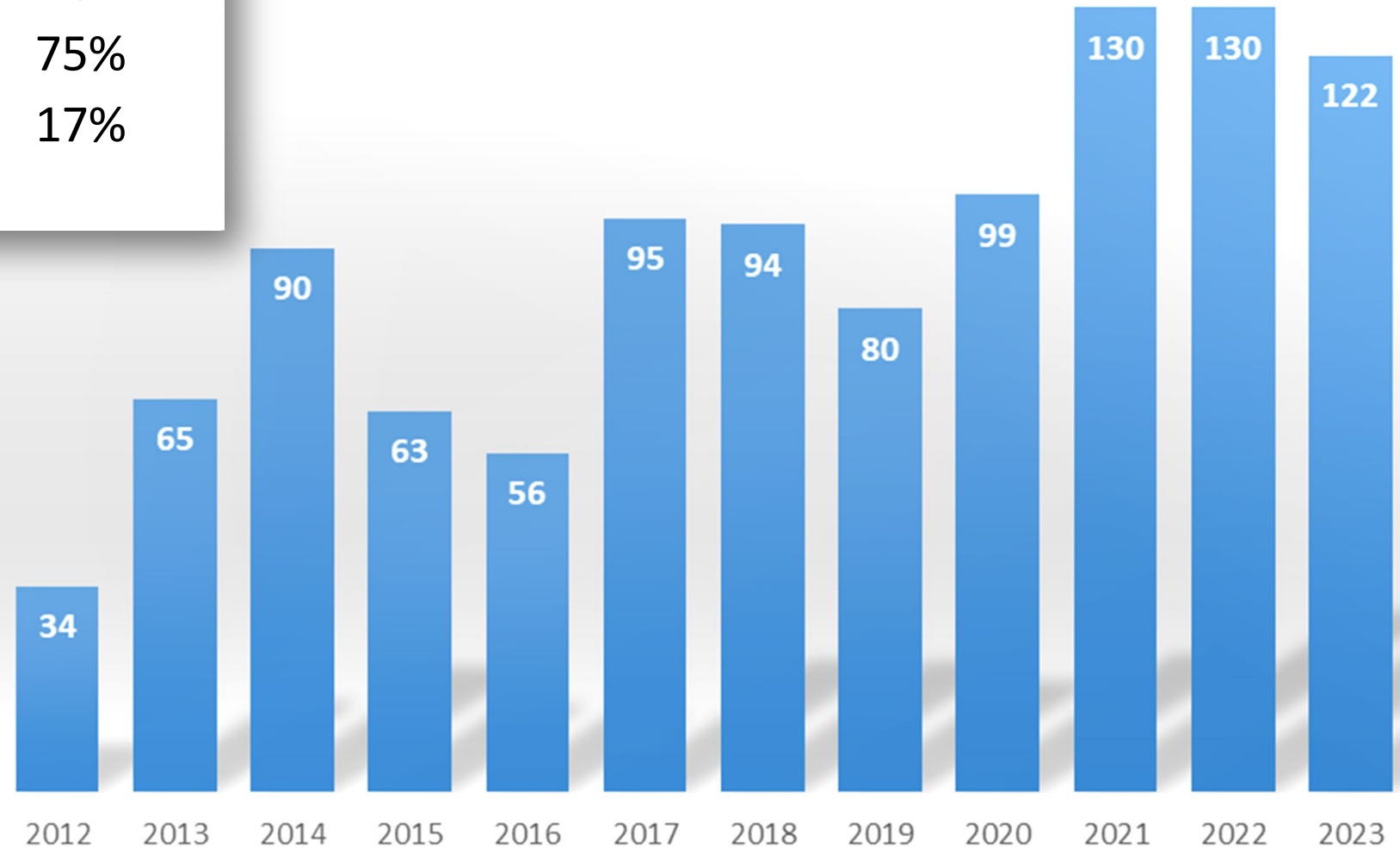
## New Hires



# Terminations

DECEASED	2	2%
INVOLUNTARY	8	7%
RESIGNATION	91	75%
RETIREMENT	21	17%
<b>Grand Total</b>	<b>122</b>	

## Total Terminations



## National Turnover Rates per Gallup (2022)

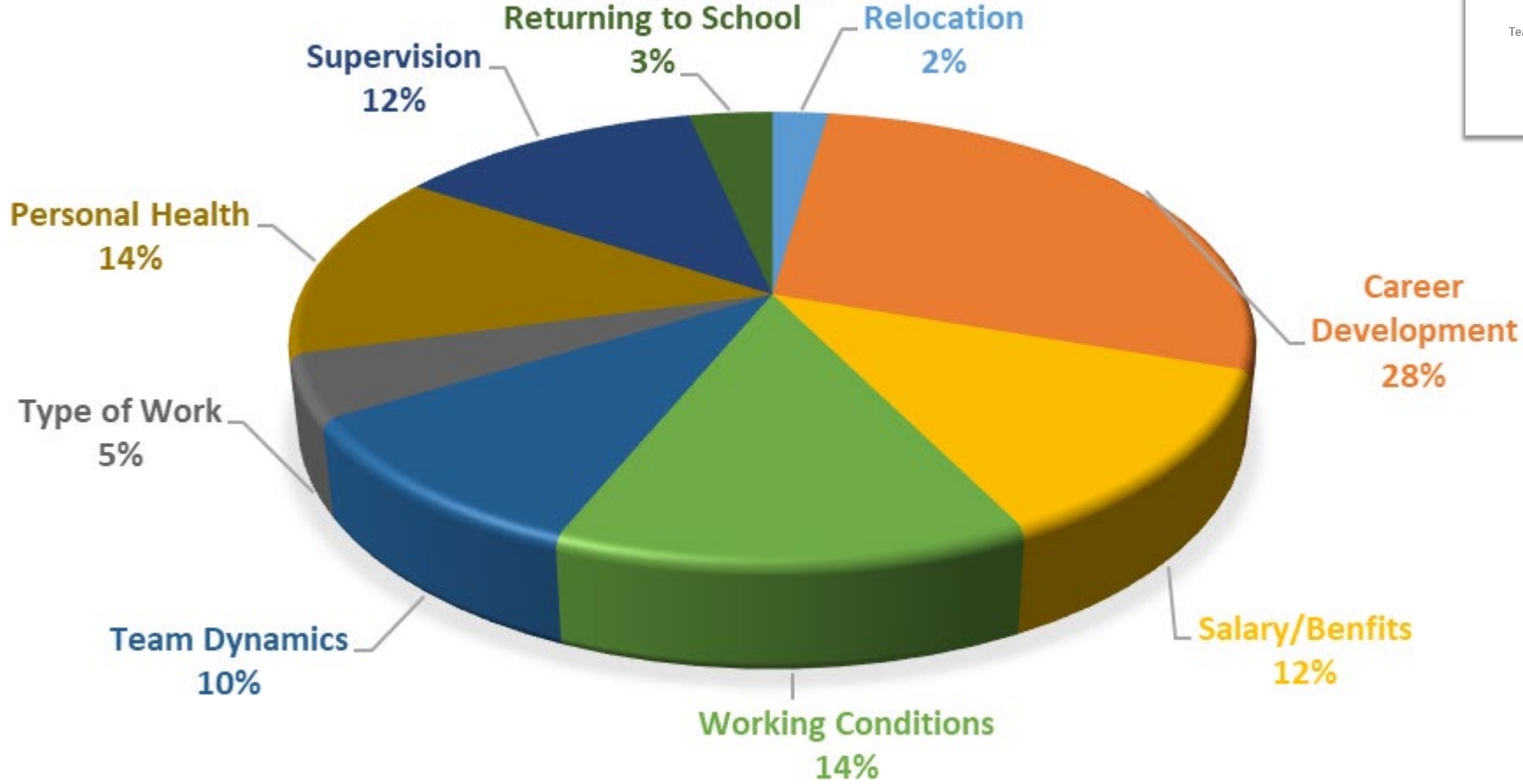
- **15%** Turnover Rate in 2023 (18% in 2022)
- Ranged from 30-40 vacancies throughout the year.

**Average turnover rate: 47%**

**Turnover rate by industry:**

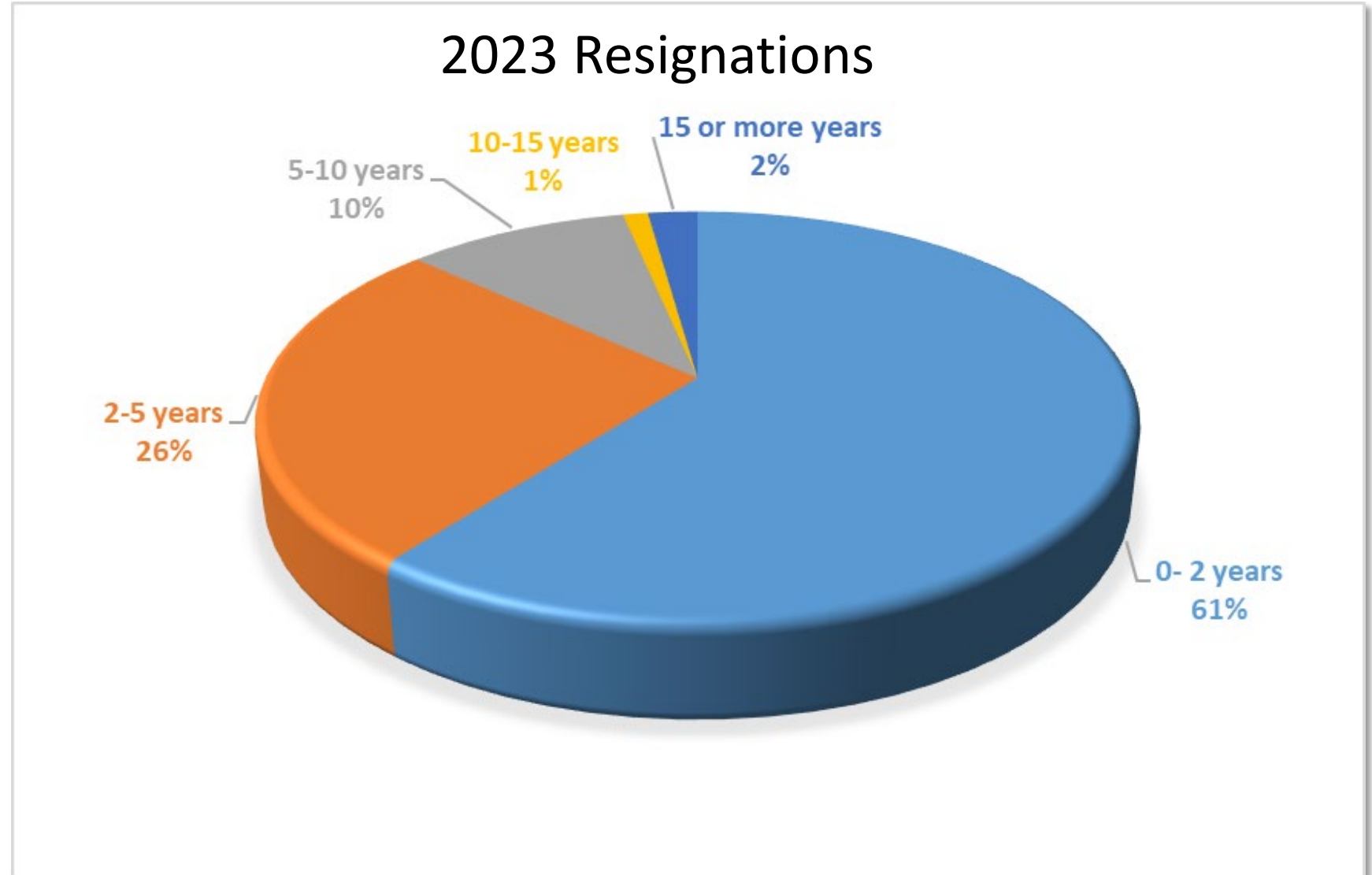
- Construction: 53%
- Manufacturing: 39%
- Trade, Transportation, and Utilities: 54%
- Information: 37%
- Financial activities: 29%
- Professional and Business services: 63%
- Educations and Health services: 38%
- Leisure and Hospitality: 82%
- Government: 20%

## 2023 RESIGNATIONS



**Salary / Benefits dropped 7% as the reason individuals resigned**

- 61% are leaving within the 1<sup>st</sup> two years of employment
- Pipeline development will help reduce resignations in early years



# Vacancies



Division	Budget Headcount	2023 Turnover	% Turnover	Hired	Hold	Current Vacant	% Vacant
Governing Body	8						
City Attorney	9	1	11%	3	1		
City Manager	11	1			1		
KATS	26	6	23%	7			
Public Information & Communications	4						
Information Technology	15	1	7%	3	1		
Human Resources	5						
Finance	32	1	3%	6			
Development Services	17	1	6%	2			
Police	148	21	14%	24		15	10%
Police - Dispatch	23	8	35%	7	2	4	26%
Fire	122	15	12%	21		6	5%
Leisure Services	95	16	17%		3	4	7%
Public Works/Utilities	315	51	16%	60	2	3	2%
<b>Total</b>	<b>804 Ft / 26 PT</b>	<b>122</b>	<b>15%</b>	<b>152</b>	<b>10</b>	<b>32</b>	<b>5%</b>
Overall Headcount	830						

} 12%

# On Hold Positions



Division	Budget Headcount	Hold
Governing Body	8	
City Attorney	9	1
City Manager	11	1
KATS	26	
Public Information & Communications	4	
Information Technology	15	1
Human Resources	5	
Finance	32	
Development Services	17	
Police	148	
Police - Dispatch	23	2
Fire	122	
Leisure Services	95	3
Public Works/Utilities	315	2
Total	804 Ft / 26 PT	<b>10</b>
Overall Headcount	830	

- **Intentionally holding 10 positions**
- Generates general fund savings of **\$56,743.49 monthly** (salary, retirement, benefits)
  - *\$340,460 for 6 months*
- Helps fund WBL and interns for future pipeline



- The **labor force participation rate** for Northeast Region: **52.8%**,
  - As of January 2024, U.S. Labor Force 62.5% (57.5% Men / 67.9% Women)
- Currently **6,873** jobs posted in our area.
  - **4,329** receiving unemployment with a **3.2 unemployment rate**



## Labor Force Estimates

**Release:** 1:30PM CT on 01/25/2024

Labor Force Estimates - Metropolitan Statistical Areas (MSA)

	December 2023 Pre.				November 2023		December 2022	
	Labor Force	Employed	Unemployed	Rate	Rate	Change	Rate	Change
<b>Johnson City, TN MSA</b>	93,406	90,427	2,979	<b>3.2</b>	3.6	-0.4	3.1	0.1
Carter County	24,262	23,453	809	3.3	3.7	-0.4	3.3	0.0
Unicoi County	7,216	6,920	296	4.1	4.2	-0.1	3.9	0.2
Washington County	61,928	60,054	1,874	3.0	3.4	-0.4	3.0	0.0
<b>Kingsport-Bristol, TN-VA MSA</b>	136,814	132,485	4,329	<b>3.2</b>	3.5	-0.3	3.1	0.1
Hawkins County	23,307	22,474	833	3.6	4.1	-0.5	3.5	0.1
Sullivan County	69,146	66,919	2,227	3.2	3.6	-0.4	3.1	0.1
Virginia Portion	44,361	43,092	1,269	2.9	3.1	-0.2	2.9	0.0

- Continued focus on pay plan - Step and COLA increase if possible.
- Maintaining benefit premiums will be key in FY25 for both recruitment and retention.
- Additional cost to recruit nationally, attend career fairs, etc.
- Potential of additional recruiting cost in specific divisions to remain competitive.
- Funding of WBL and Internships for pipeline development - key for longer term impact

- Majority of our divisions are now at fully staff
  - Focus in FY25 on the 5 divisions with vacancies, and divisions with high turnover.
- Labor market is still a challenge
  - Having to recruit more on the national level
  - Using WBL and interns to establish a future pipeline.
  - Changes approved by the BMA, such as pay plan, vacation policy, move back to TCRS, have aided in retention and recruitment. **Thank you!**
- Continued focus on pay and maintaining benefit premiums will be key in FY25 for both recruitment and retention.

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# Regional Sales Tax Update

2/23/2024

Michael T. Borders

the city of kingsport



## What will we review today?

- History of MeadowView, Cattails, Aquatic Center
- Statistics
- Regional Sales Tax (RST) Financials
  - Revenue
  - Debt
  - Operations Subsidies
  - RST Fund Balance
  - RST Projects
- RST Fund Challenges
  - Hotel/Motel Tax
  - Guest Volume
  - Events
  - Operating Revenue
  - Catering by Sales Type
  - Local Catering
  - Rounds of Golf Played
  - How we are addressing challenges

## Key Terms:

- Local catering: use of banquets/convention space without associated room nights
- Group catering: use of banquets/convention space with associated room nights
- KAC: Kingsport Aquatic Center
- CG: Cattails Golf
- MV: MeadowView Convention Center
- RST: Regional Sales Tax Fund
- Operating Revenue: Revenue the function makes through direct sales of goods and services.
- Operations Subsidy: Funds needed to cover operations expenditures not covered by operating revenue. Excludes: debt, depreciation, assets, liabilities, etc.

## History

- BMA passed ordinance to increase local option sales tax .25% March 31, 1992
- HB 2855 passed April 28, 1992
- Referendum was held May 19, 1992
- Tax went into effect July 1, 1992
- MeadowView opened November, 1996
- Cattails opened July 1, 1998
- 110 hotel rooms added – 2011
- ECC opened - 2011
- KAC opened May 2013
- KAC expansion complete – Spring 2020



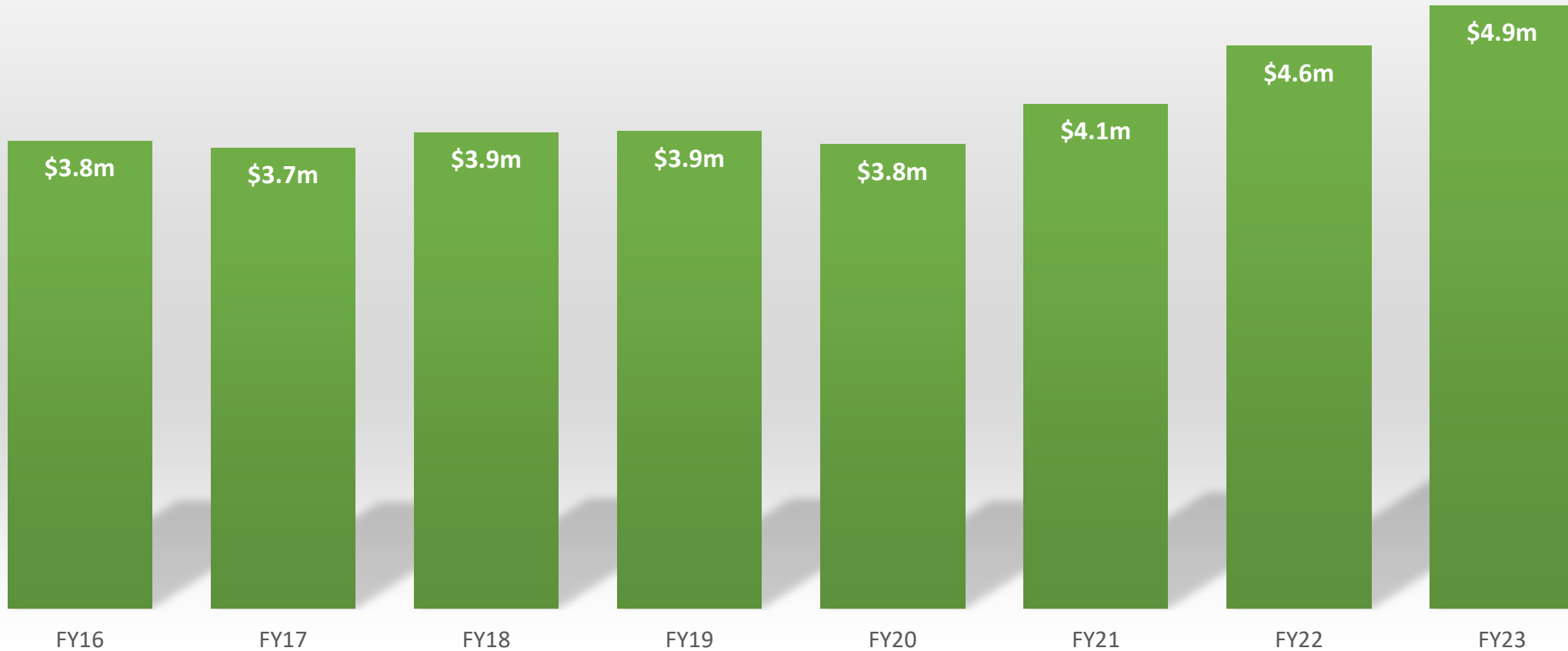
## Statistics

- 81,563 sqft of convention space
- 280,000 guests annually pre-COVID
- 480 Events at MeadowView
- KCOC, VK, COK 2018-2023: direct sales of:
  - \$1.1m banquets
  - \$935k hotel rooms
- 301 hotel rooms/42 event rooms
- 25927 Rounds of Golf
- 25 swim meets
- 1037 swim lesson participants
- 117,691 KAC attendees

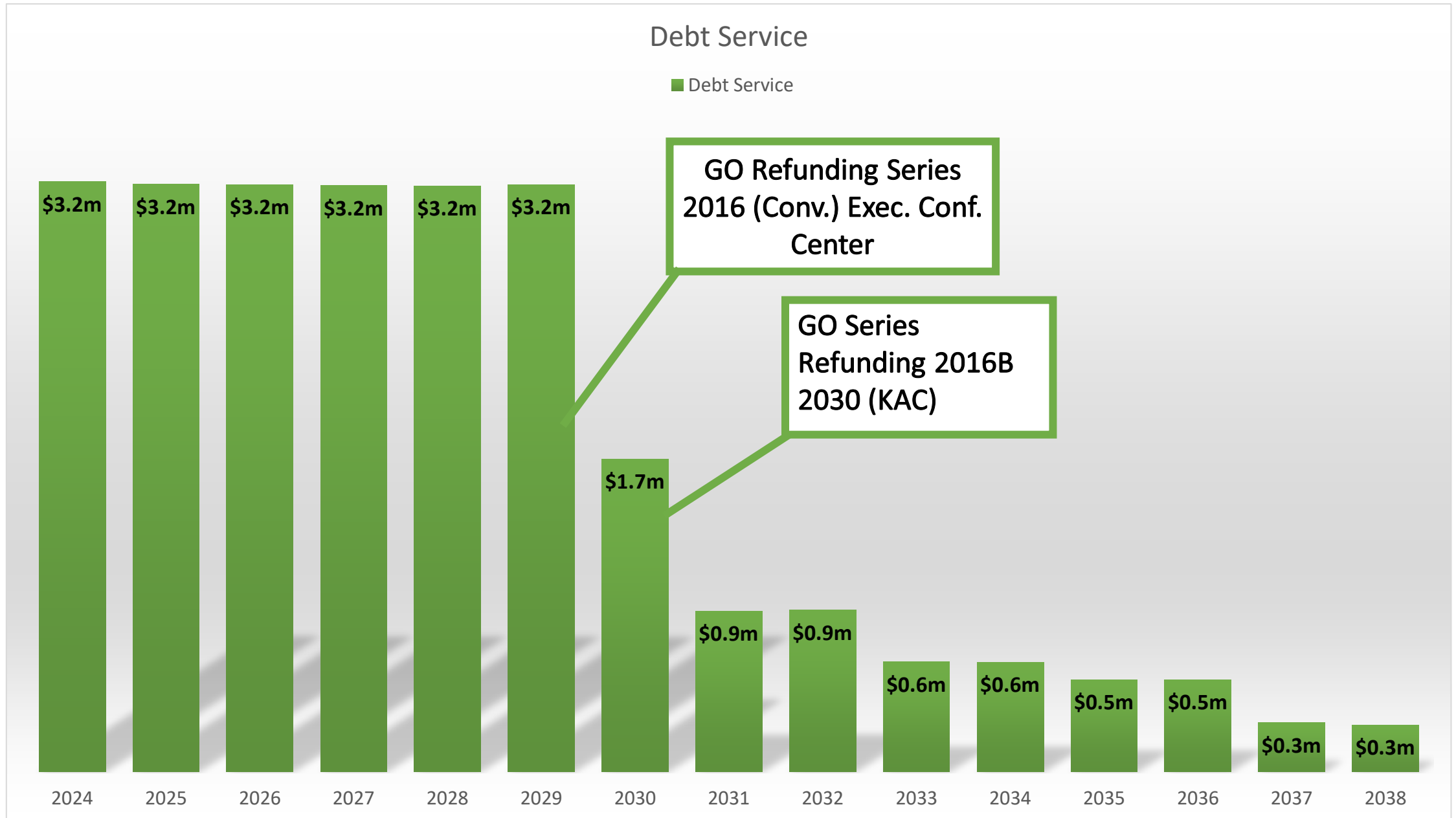
## RST Fund - Financials

### RST Revenue in Millions

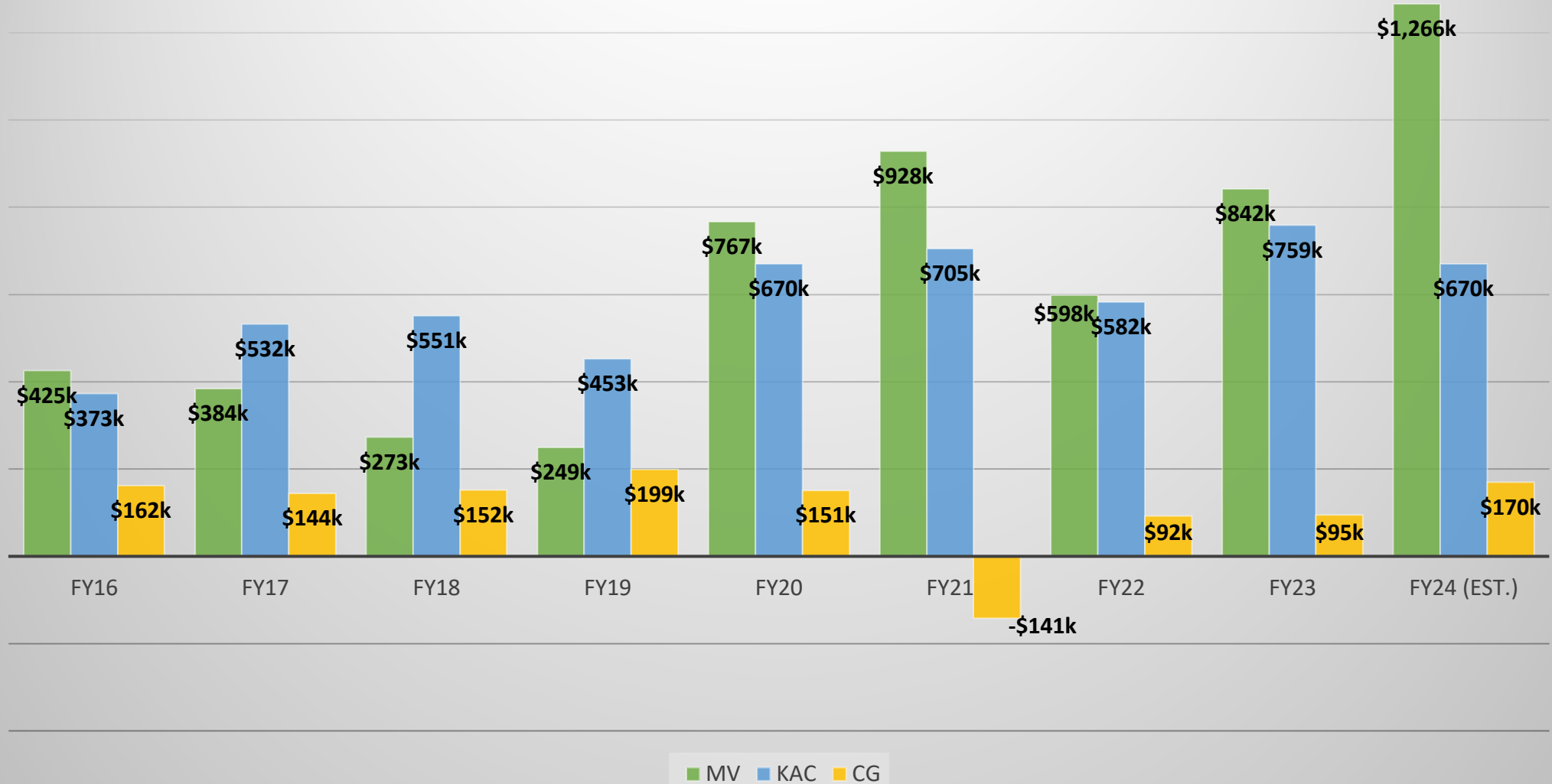
■ RST Revenue in Millions



**31%**  
**Increase**  
**FY17-FY23**

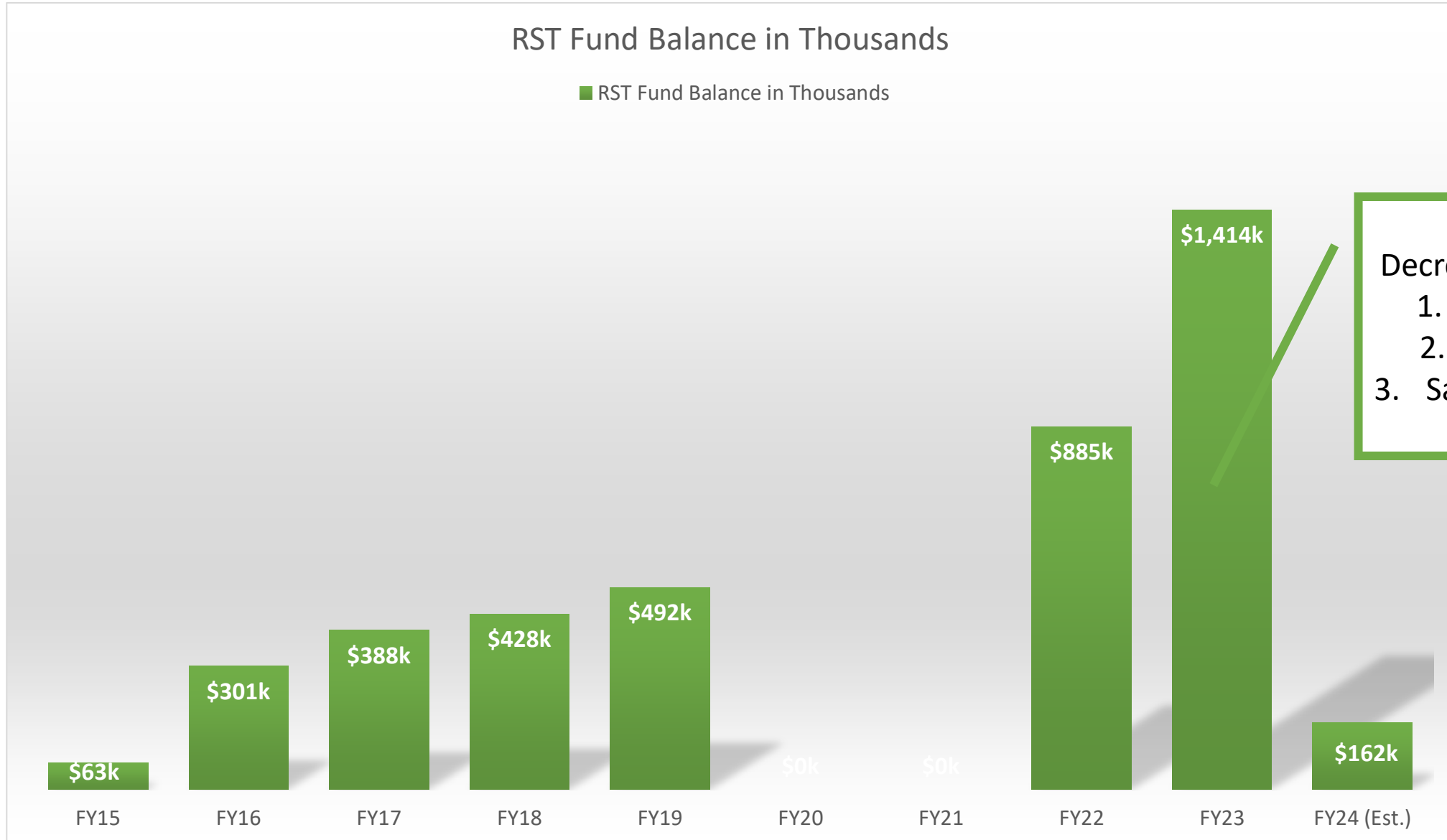


## Operations Subsidy in Thousands



## RST Fund Balance in Thousands

■ RST Fund Balance in Thousands



Decrease due to:

1. Projects
2. Subsidy
3. Sales Tax proj.

## Current Year Projects

- RST Funding FY24:
  - KAC Starting Blocks: \$128k
  - Lazy River: \$85k
  - Slide ReGel: \$100k
  - CG Pump Station: \$350k
  - CG Misc.: \$115k
  - KAC Misc.: \$120k
  - **Total: \$898k**
- Financial results drive reinvestment and sustainability

## RST Fund - Challenges

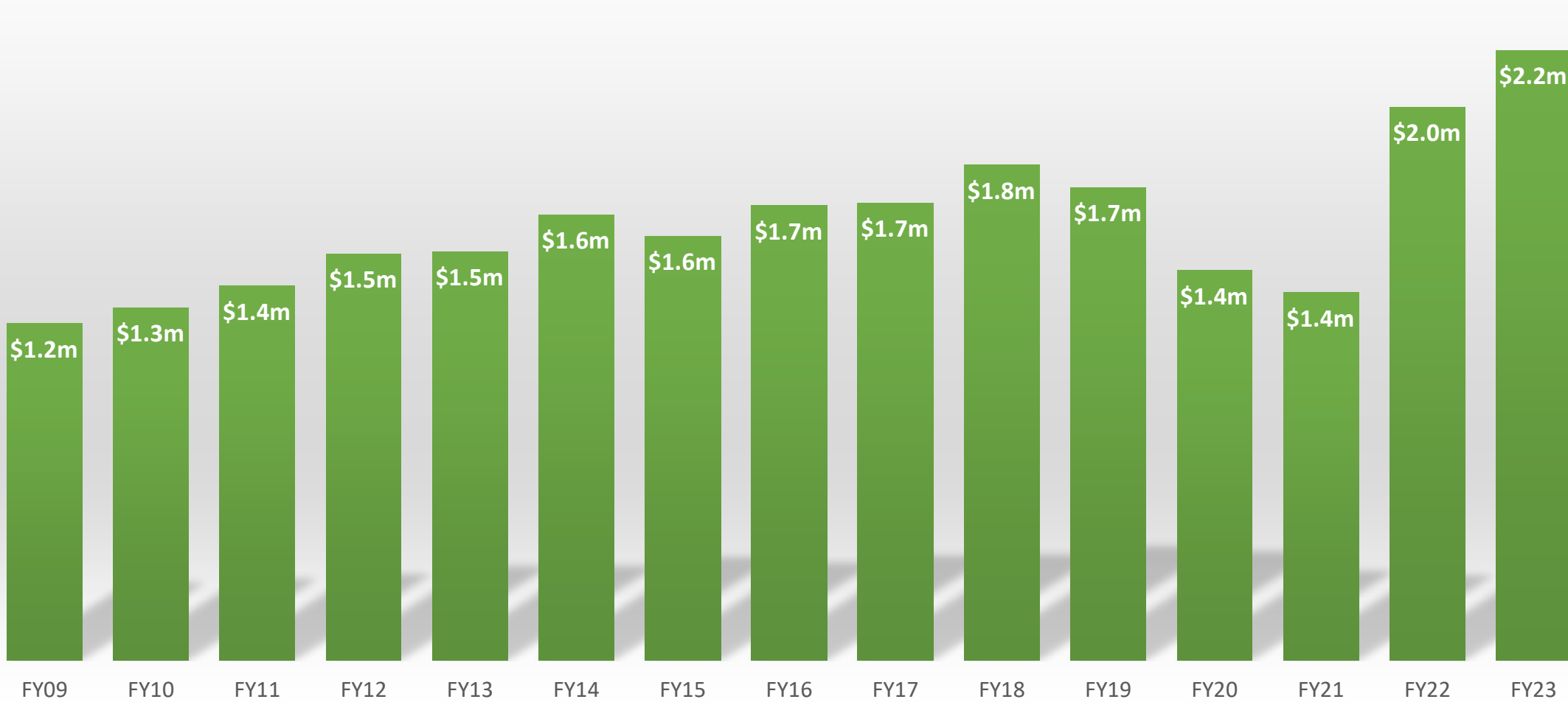


## RST Fund - Challenges

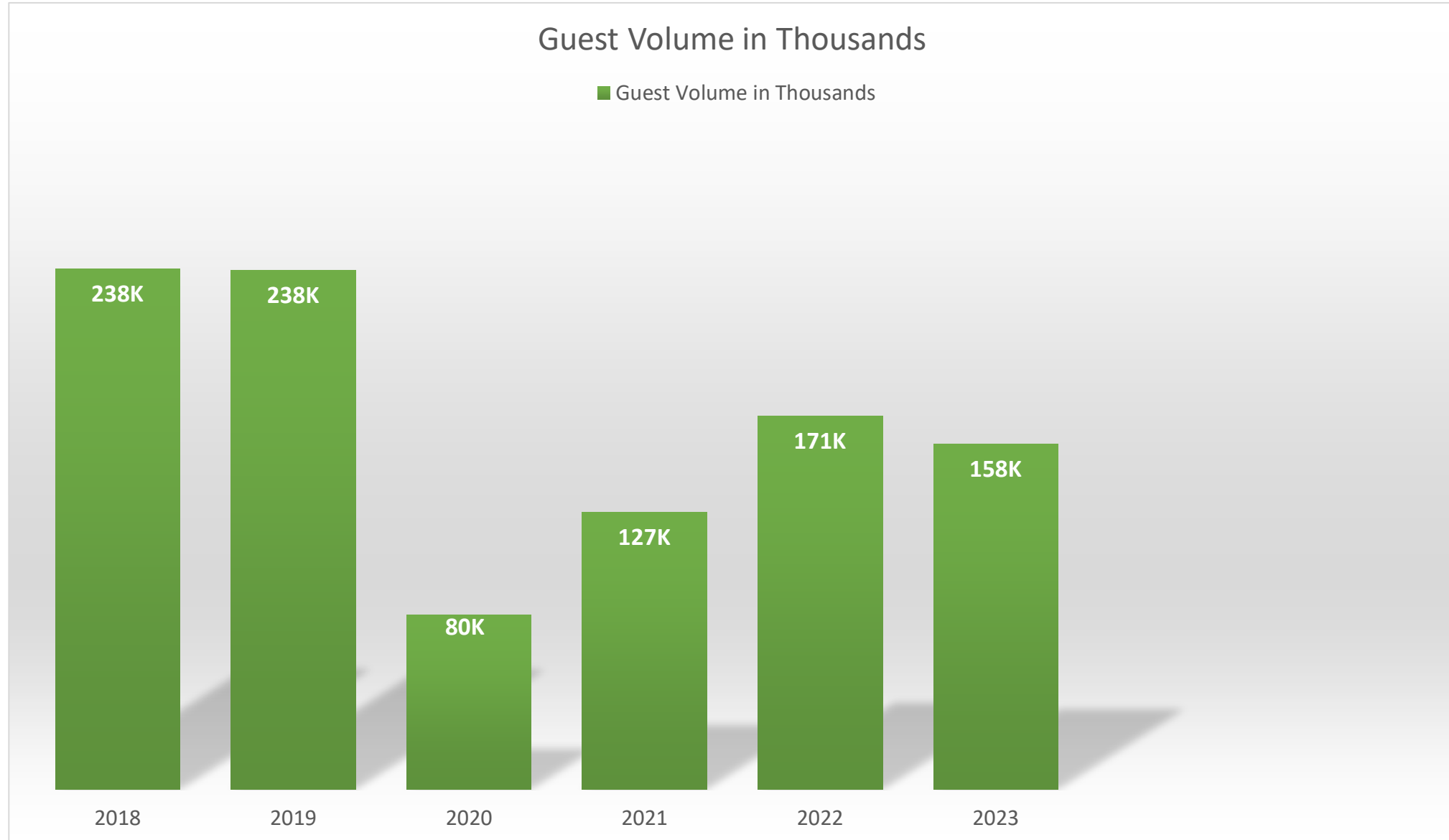
- COVID-19 hitting conventions
- Slow rebound of local catering/events
- Work from home shift
- KAC & CG – Weather dependent operations
- Volatility of Food Cost
- Labor Cost/availability – 50%+ increase in associate compensation
- Required upcoming ball/ECC renovation late 2020s
- New market competitors
- Repair/Replacement Costs

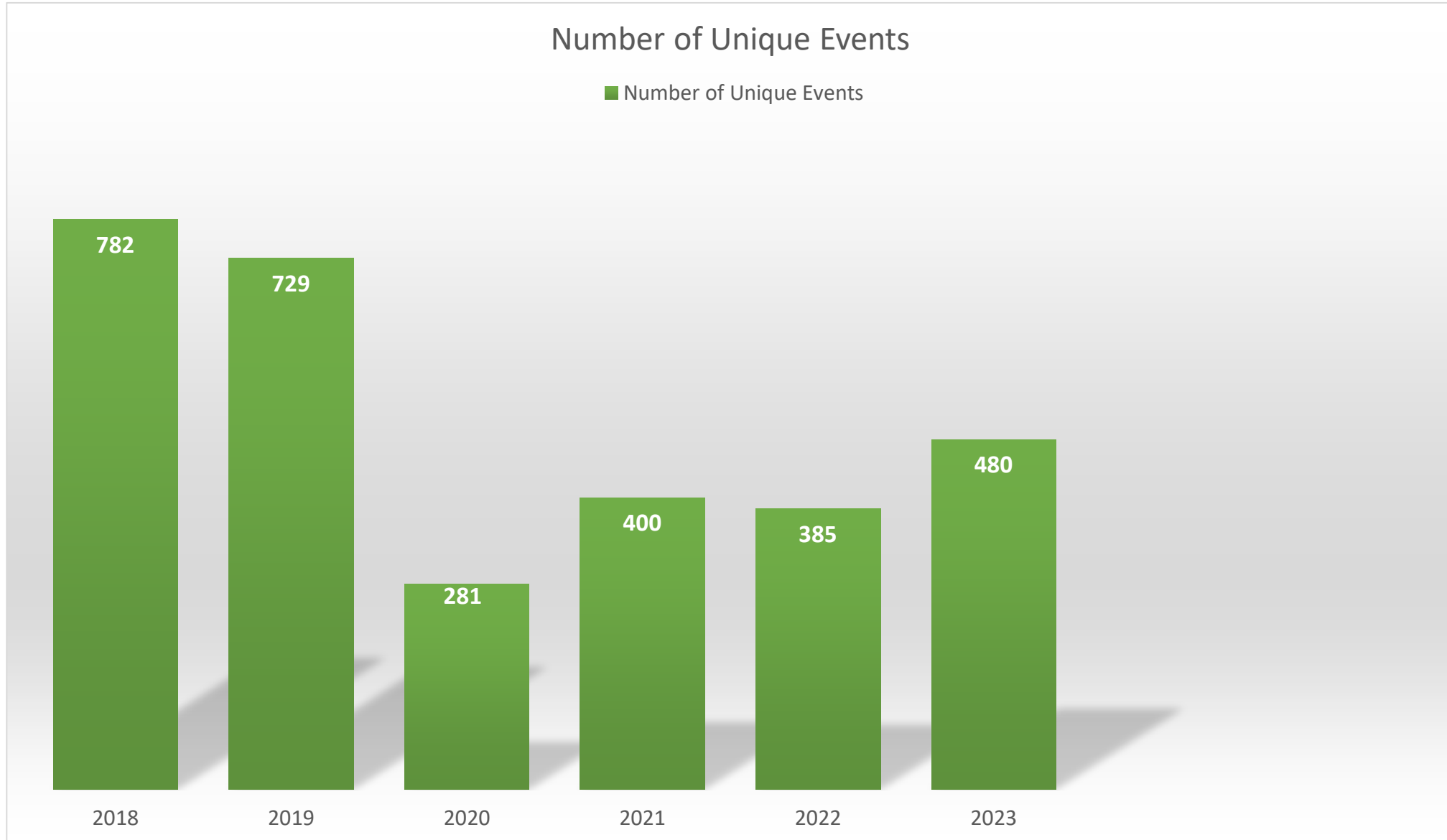
### Hotel Motel Tax In Millions

■ Hotel Motel Tax In Millions

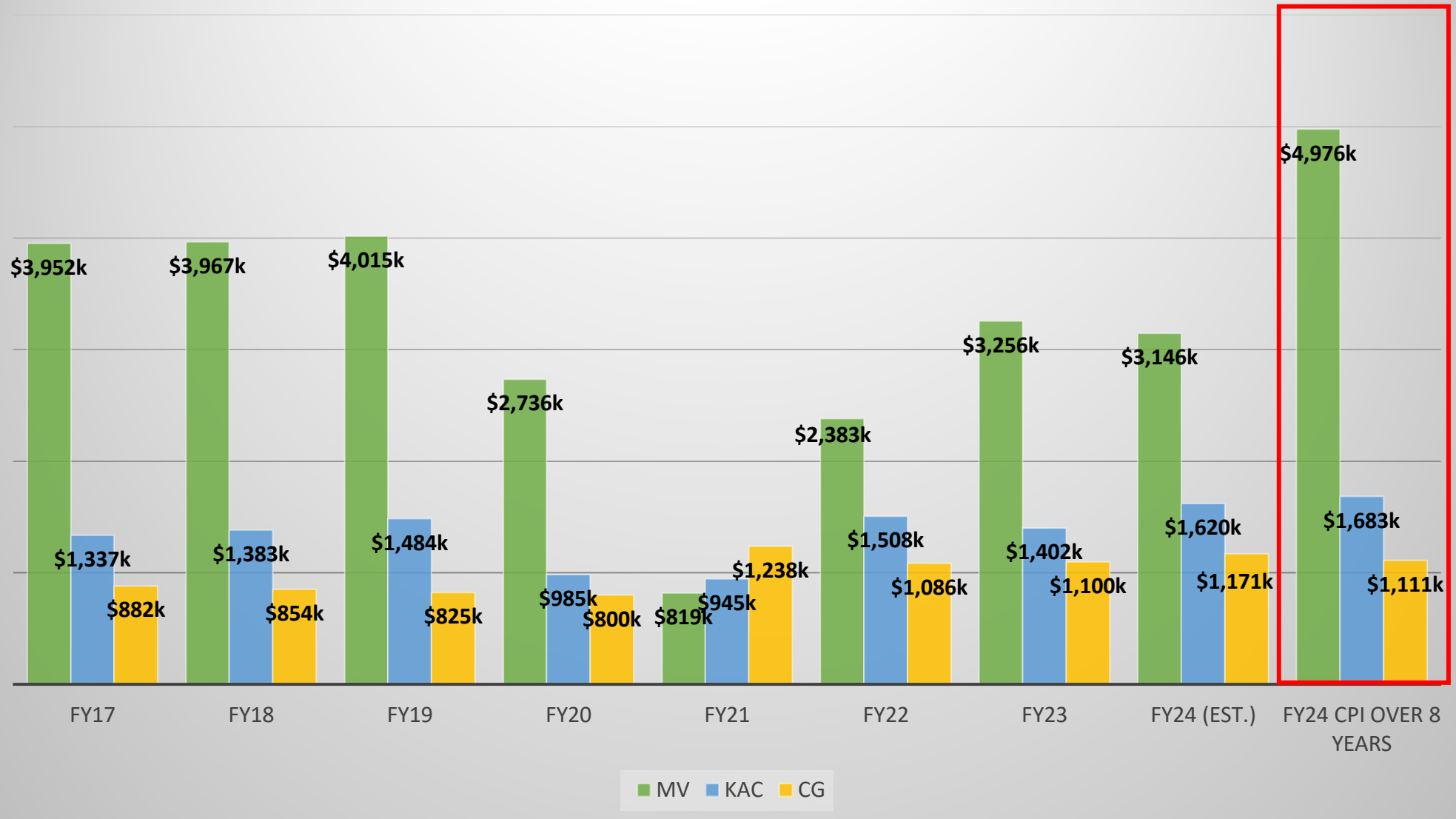


**33.4%**  
**Increase**  
**FY17-FY23**





## Operating Revenue in Thousands



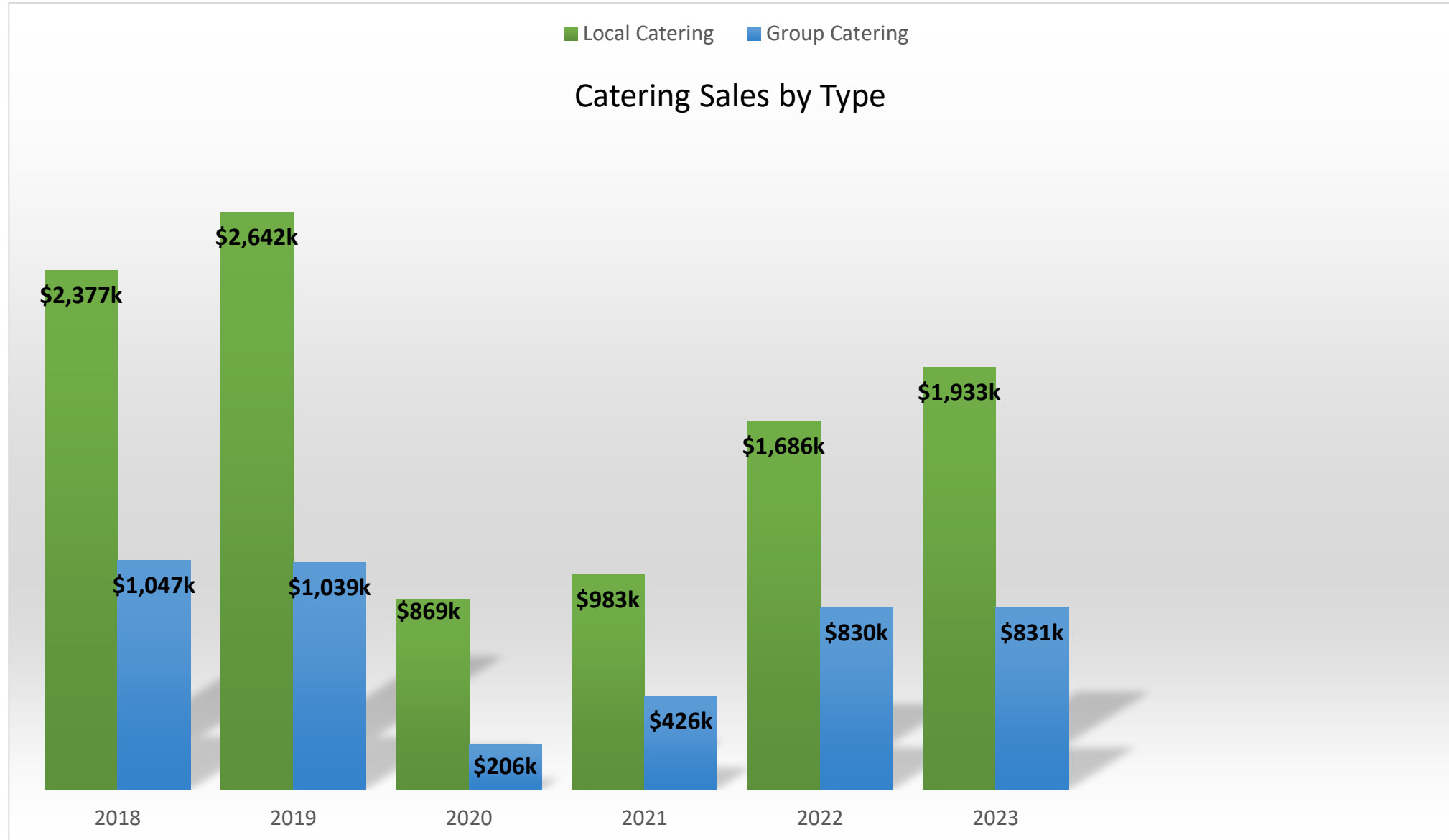
FY17 – FY24 Est.

MV – 20.4% Decrease

KAC – 21.16% Increase

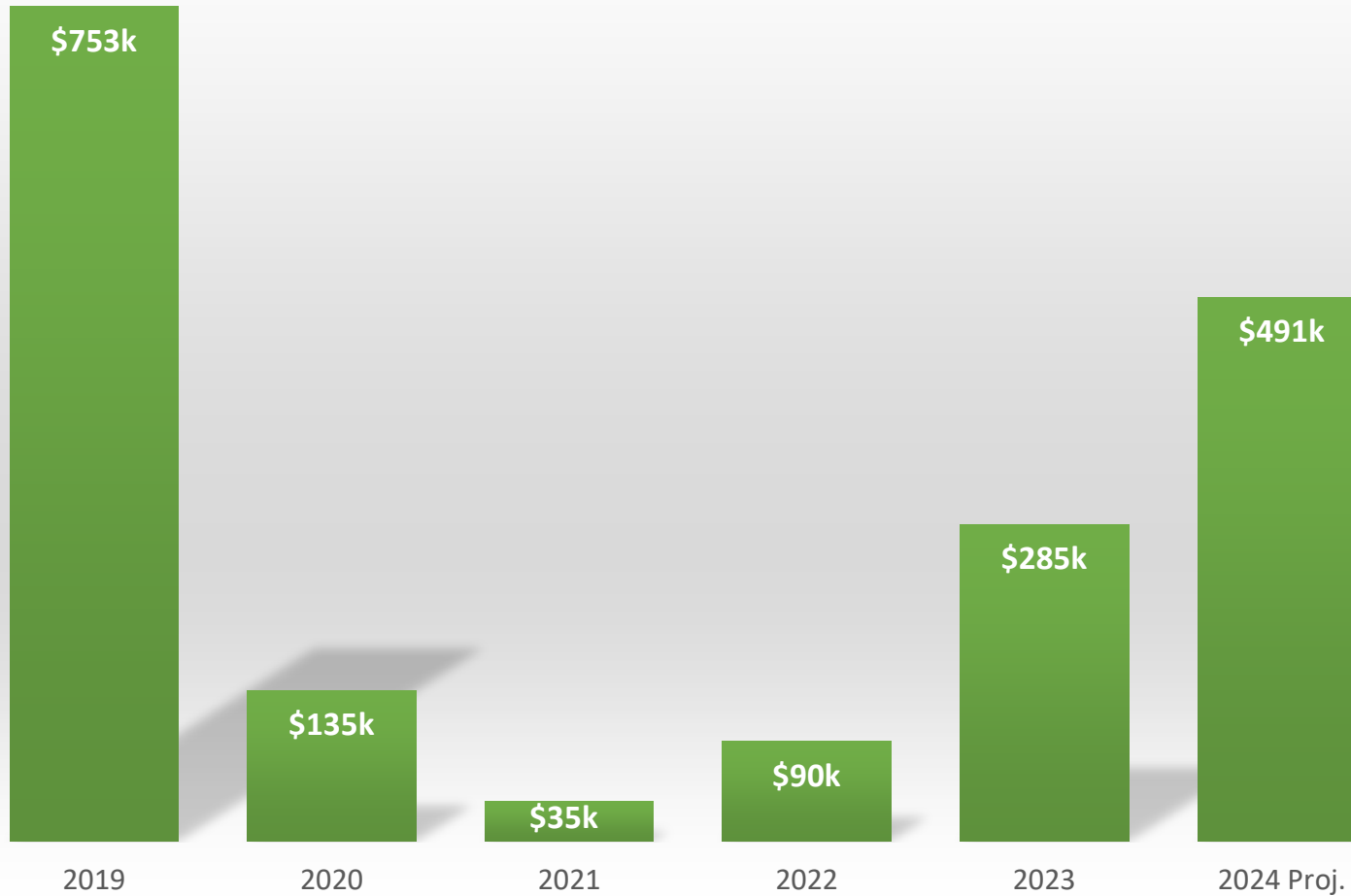
CG – 32.79% Increase

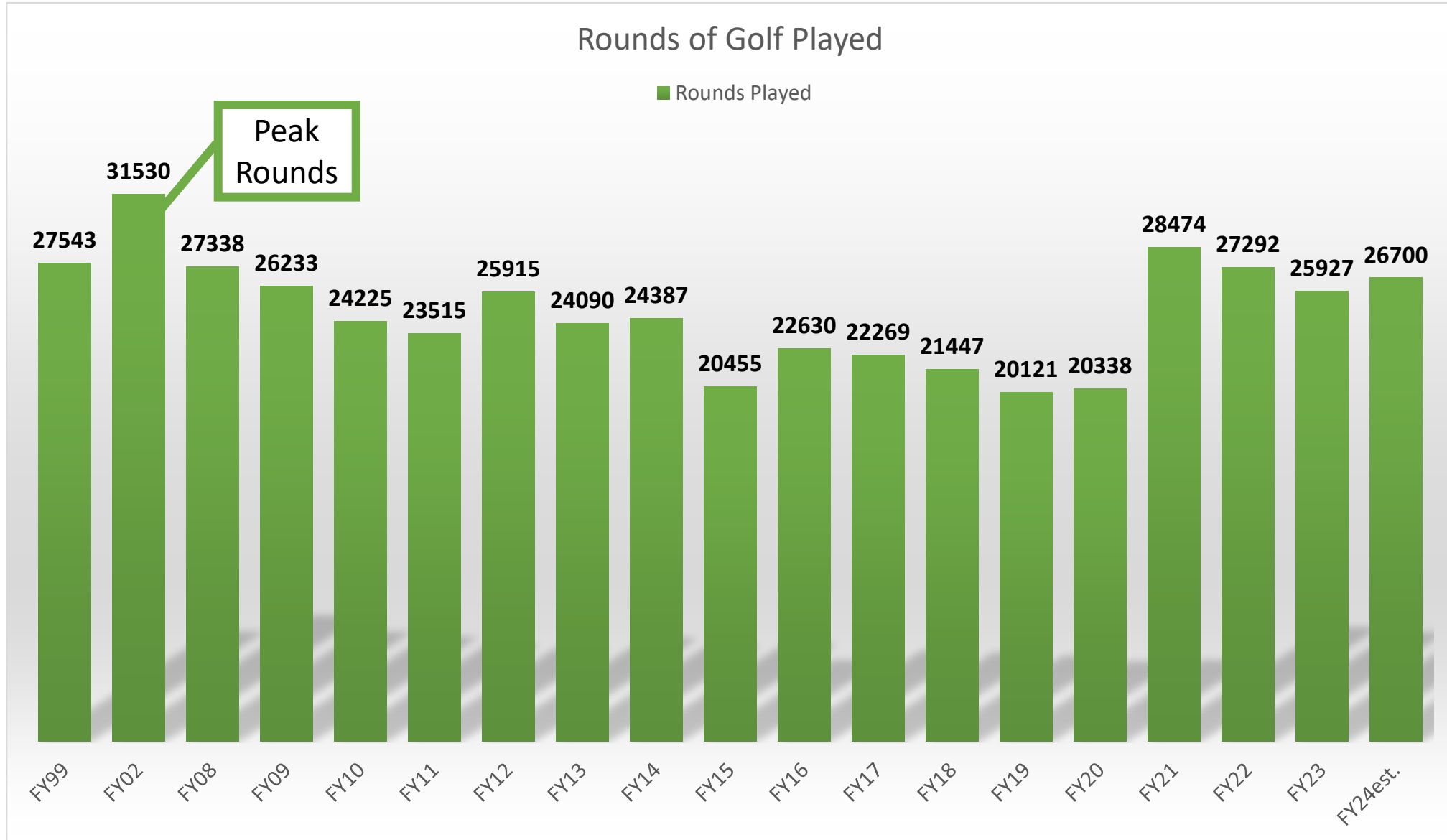
CPI – 26%



## Local Catering 2 Large Organizations

Local Catering 2 Large Organizations







## How are we addressing challenges

- Reengaged Eastman about the partnership of the property
- Proactive sales and marketing
- Dog Friendly – 2020
  - *6 Dog Shows 2024*
- Alternative revenue sources
  - *New events for the community*
  - *Addition of outdoor bar*
  - *Evaluating other options*
- Integrating Marriott & city marketing
- KAC – Revenue 75% recovery target
- Renovation of hotel rooms by Eastman

Any Questions?