

Agenda

Tuesday, May 8 (2 pm)

- Dr. Jeff Moorhouse (30 minutes)
 - Presentation of Schools Budget
- Ryan McReynolds (40-60 minutes)
 - Presentation of Utilities Budget
 - Proposed Rates
 - Capital
- Jeff Fleming (40-60 minutes)
 - Presentation of General Fund Budget
 - Introduction of Balanced Budget Option
- Public Input

Wednesday, May 9 (3 pm):

- BMA discussion of Balanced Budget Option
 - Reduce some special programs?
 - Postpone debt / capital spending?
 - Postpone ONEKingsport projects?
 - Raise revenue? (taxes or fees)
 - Other?
- Public Input
- BMA finalization of Budget Balancing Option



FY 2019 Budget



May 8, 2018

Board of Mayor & Aldermen

John Clark, Mayor
Mike McIntire, Vice Mayor
Colette George
Tommy Olterman
Jennifer Adler
Joe Begley
Betsy Cooper

Leadership Team

Jeff Fleming, City Manager
Chris McCartt, Administration
Ryan McReynolds, Operations
Jim Demming, Finance
Mike Billingsley, City Attorney
David Quillin, Police
Scott Boyd, Fire
George DeCroes, Human Resources
Heather Cook, Public Relations
Lynn Tully, Development



One Board, Two Budget Responsibilities

1. General Fund Budget, Schools & Capital → Taxpayers (inside city limits)
2. Utilities Budget & Capital → Ratepayers (city & non-city in 4 counties)

Budget Timeline

- May 8 Presentation of Budget
- May 15 Submit to Times-News for advertisement (10 business days prior)
- June 5 Budget Ordinance, Public Hearing & First Reading
- June 19 Budget Ordinance, Second Reading, Fee Resolution
- July 1 Begin new budget year





Distinguished Budgeting



- Kingsport received this award for past 23 years
- It is **Judy Smith's** 14th consecutive award
- It is technical, complicated, and voluminous, today's presentation is only an overview
- We work hard to earn your trust by demonstrating that we make good decisions
- What I'm presenting to you today is the result of thousands of hours of daily work by many people
- The budget is not a one-time event, it is an ongoing process compiled of daily decisions by city employees – it is the evaluation of each vacancy, the value of each purchase, the swipe of each credit card...
- And after the budget comes implementation, which we report throughout the year at BMA work sessions

The Budget Pipeline

- Jan-Feb City Manager hears each department's detailed budget requests
- Mar-Apr Budget reviewed and balanced
- May **City Manager charged to present balanced budget with no tax increase**
- June Budget finalized (2 readings) and submitted to State of Tennessee
- July 1 Beginning of fiscal year
- Aug-Sep CIP Finalized / Bond Rating Agency Review
- Oct Annual Bond Sale / Receive Funds
- Nov-Dec Departments prepare budget requests (6 months ahead)
- July-Dec Close Out prior year
- Dec Comprehensive Annual Financial Reports & Audit



What does Wall Street say about us?

- City of Kingsport is a \$215 million business
- Strong management, with good financial policies and practices
- Strong budgetary performance, with a slight operating surplus in the general fund
- Very strong budgetary flexibility, with an available fund balance
- Very strong liquidity, with available cash
- Weak debt and contingent liability position, but rapid amortization (66.4% retired in 10 years)
- Very strong institutional framework score
- Certificate of Achievement in Financial Reporting – 17th year in a row (only 6.6% cities/counties in U.S.)
- Clean audit, unmodified opinion – 19th year in a row
- No material weaknesses or significant deficiencies in financial controls and operations - **first time since 2010**





Fast Facts

- 2018 property tax rate is \$1.9750, **9.5 cents less than 2017 (\$2.07)** and 41.5 cents less 2000 (\$2.39)
- In 2017, the city's **ten largest property taxpayers accounted for 33.8%** of all taxable assessed value – that's **down from 35.5%** in 2008. A more diversified tax base is one factor that helped improve the city's financial ratings. All other
- Of the Tri-Cities, Kingsport maintains the **lowest cost of living**: 6.1% less than Johnson City, 4.8% less than Bristol
- At year-end 2017, Kingsport's unassigned general fund balance (the 'rainy day' fund) was **\$13,911,000** or approximately 17% of total general fund expenditures. This is **up from \$11,649,000** in 2014 (17%) and conforms to the board's adopted financial policy of 15%-20%
- Kingsport's **bond rating improved to Aa2 (high grade)**. In 2015, Moody's **removed the "negative outlook"** following **3 years of operating surplus** (after 6 prior years of operating deficits)
- Managed \$86 million in projects targeted at improving infrastructure (water, sewer, roads, parks, schools). Keeping the **projects within estimates, on-time, and within the established budget** has been a major initiative of the Board
- **Employee safety** has been a major initiative. A rating of "1" means that expected claims are similar for a government our size. Kingsport's ratings are: 0.87 (2014), 0.80 (2015), **0.62 (2017)**
- Kingsport's paving budget increased from an unpredictable annual appropriation of \$300,000-\$600,000 to \$1.35 million in 2016 with **annual increases to \$2.1 million by 2021**
- Since 2014, **substantially increased** investments in technology and maintenance of facilities, buildings and grounds
- Since 2007, received **\$2+ million in grants** for trail development and Parks/Rec received **31 state/national awards**

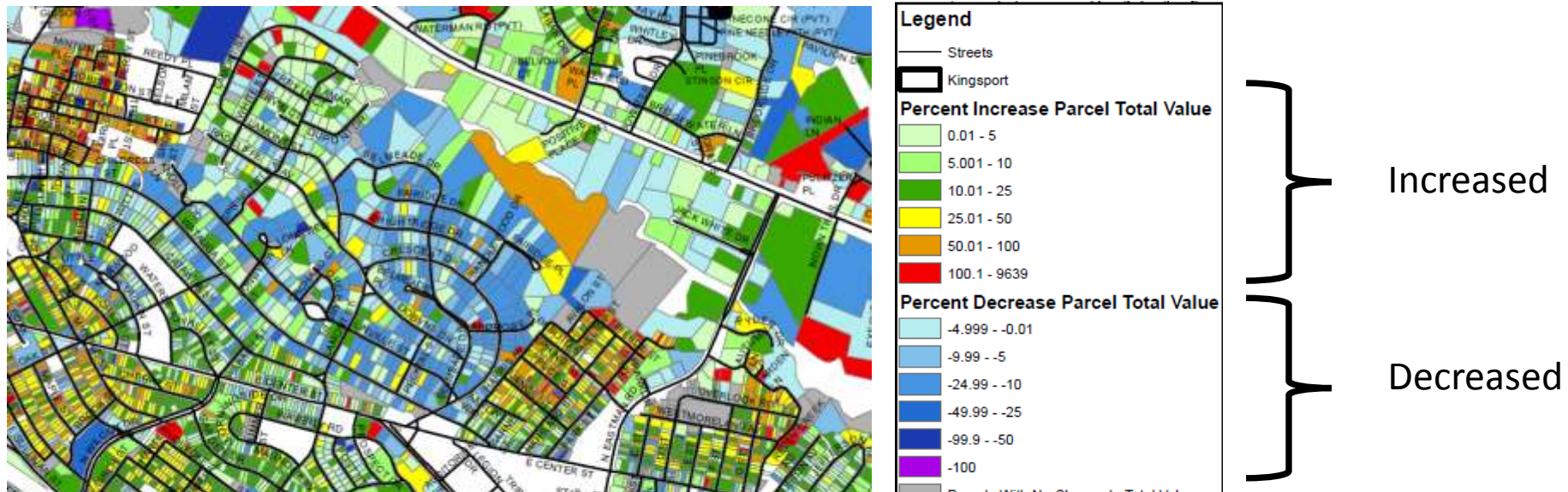
Customer Demands/Service Efficiencies since 2008

- Employees per capita has been on **declining trendline for more than 10 years**. Technology has been used to increase efficiencies and contain costs. Automated garbage & recycling, automated meter reading, remote monitoring of sewer lift stations and water tank levels, online payments for city services, automated pothole repair, 360 communication with customers via Your GOV app, mobile data and reporting for Police & Fire, Bays Mountain, Farmers Market, and Aquatic Center are using Point of Sale software and management apps.
- In the past 5 years, **reduced employee overhead by \$2.3 million** through turnover, redeployed resources, a defined contribution retirement system (instead of defined benefit), and modifications to health insurance
- Water consumption is 15.34 million gallons of water per day, **up 5%** from 2008. There are 850 miles of water main lines, **up 4%**. Conversely, the number of water employees was **down 8%**
- Unlike many cities where water is in crisis, Kingsport operates at **55% of capacity**. We welcome customers!
- 8.13 million gallons of wastewater treated per day (65.6% capacity). There are 591 miles of sewer lines, **up 14.7%** from 2008. # of sewer employees was **up 0.5%**
- Collected 20,197 tons of household refuse, **up 24.3%**, and 3,240 tons of recyclables, **up 24%** from 2008
- 500 miles of streets, **up 15.5%**, 237 acres of parks, **up 24%**
- 68,012 police calls **up 38.8%**, arrests **up 52.6%**, traffic citations **up 61.8%**, 8,167 fire/medical calls **up 26.7%**
- Bays Mountain Park attendance was 211,984, **up 22.5%**
- Library circulation was 253,765, **up 20.6%**, building attendance was **down 17.8%**
- Senior Center membership was 3,980, **up 68%**, building attendance was **up 74.3%**



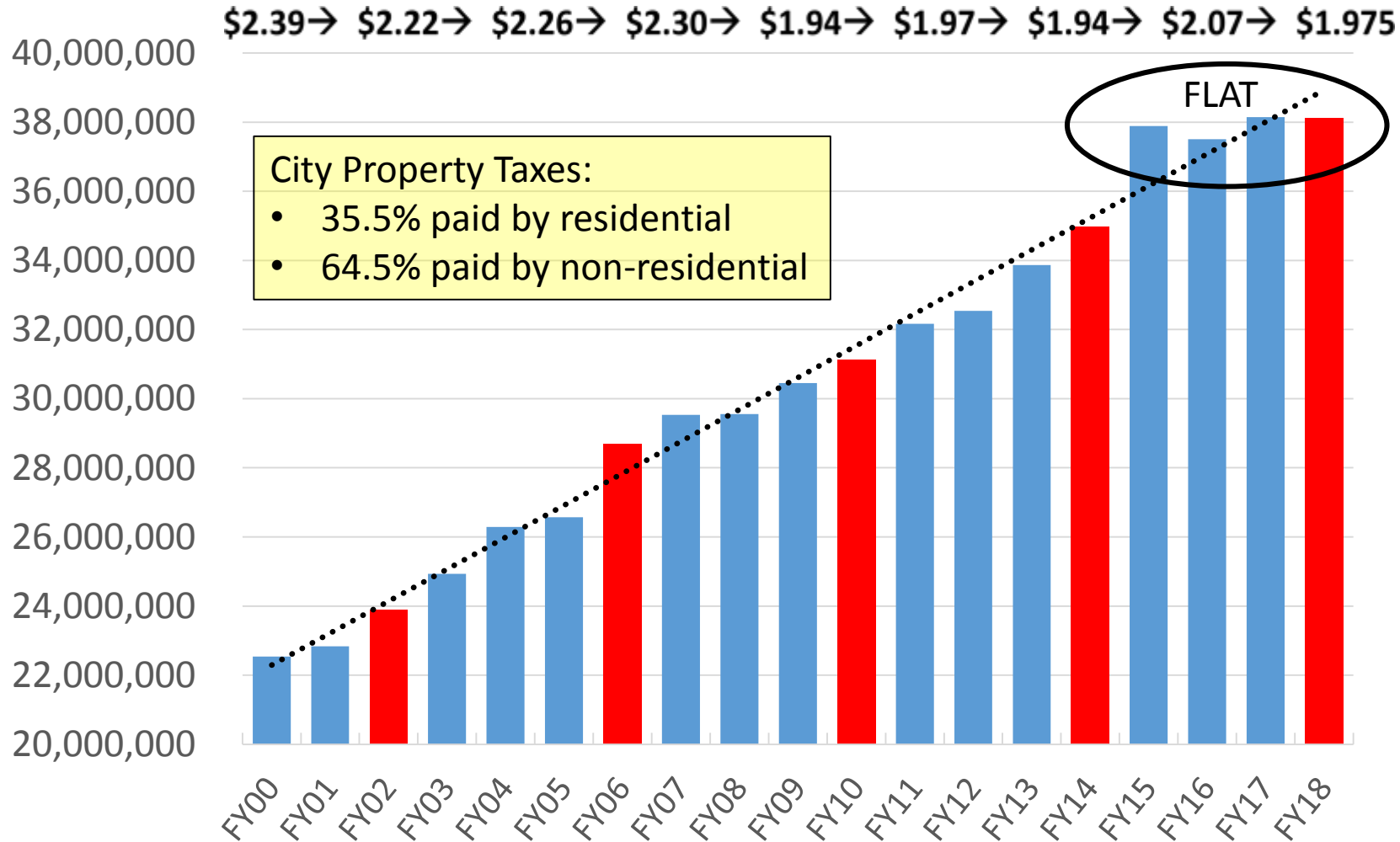
51% of City general revenue comes from property taxes. Last year was a reappraisal year for Sullivan County. What changed?

- ALL property values (city & county) are determined by the County Property Assessor
- Property tax collections are based on the combination of property value and tax rate
- The County's base data is critical because the State rolls back the tax rate automatically
- **Kingsport's tax rate rolled back from \$2.07 (FY17) to \$1.9750 (FY18) - a reduction of 9.5 cents**
- Individual impact to each property owner depends on their change in property value
- Overall revenue for the City of Kingsport remained the same



Property Tax Revenue

Tax rate *decreased* by 41.5 cents in 18 years



Red = reappraisal year, rate rollback

Next reappraisal in 2022 (personal property sooner)

Median house price = \$138,000

- City tax = \$681
- County tax = \$880*

Countywide property tax revenue*

- 46% generated in Kingsport
- 35% Other
- 18% Bristol

Shared with countywide schools based on enrollment:

- 46.6% to Sullivan County Schools
- 33.60% to Kingsport City Schools
- 19.78% to Bristol City Schools

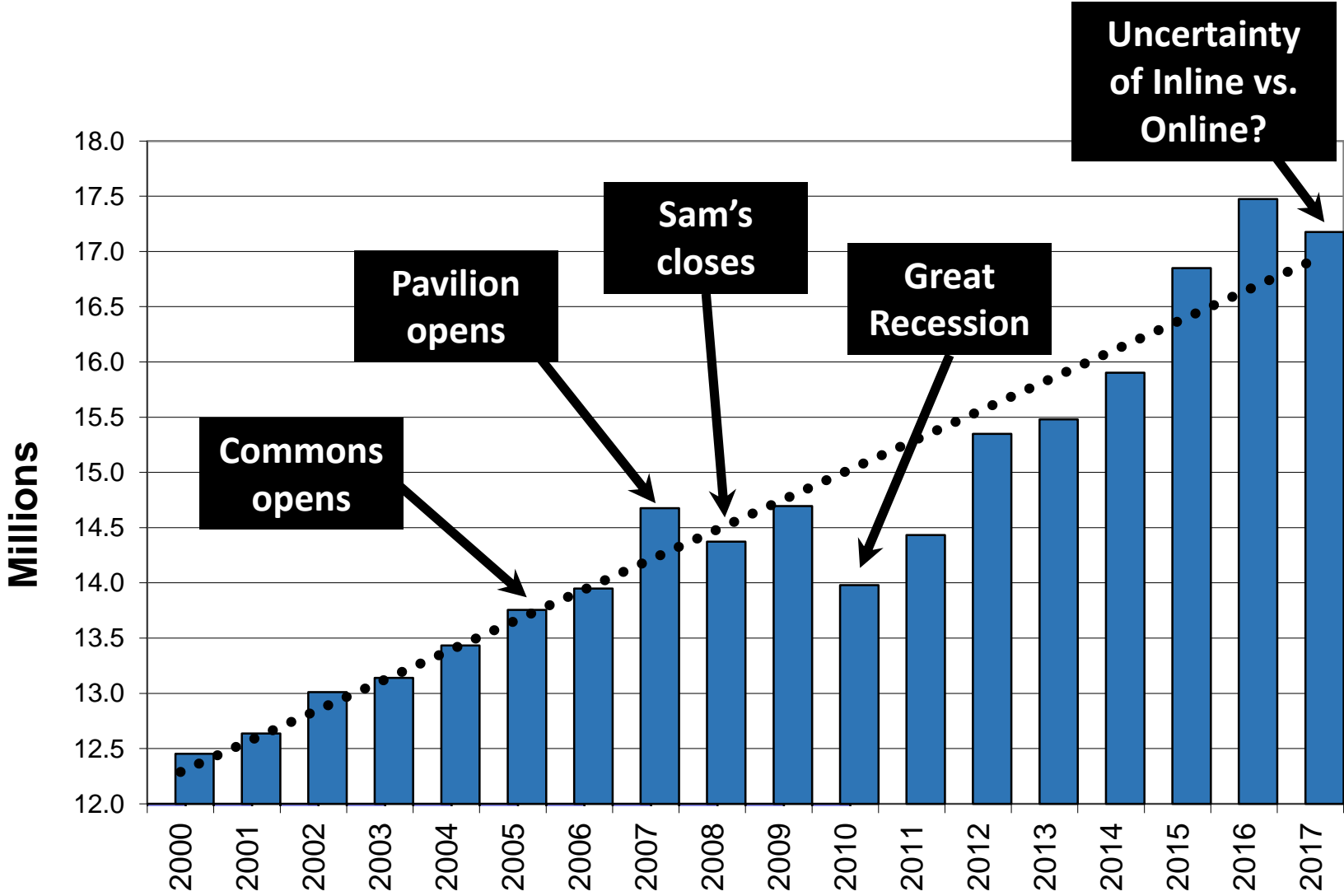
*paid by city residents, too



Benchmark cities increased 5.66% in 10 years
 Kingsport decreased -12.61%

City Tax Rates				Combined City+County Tax Rates			
City	2007	2018	% Change from 2007-18	City	2007	2018	% Change from 2007-18
Bartlett	\$1.3100	\$1.8300	39.69%	Bartlett	\$5.4000	\$5.9400	10.00%
Brentwood	\$0.4900	\$0.3600	-26.53%	Brentwood	\$2.7500	\$2.4900	-9.45%
Bristol	\$2.3000	\$2.1612	-6.03%	Bristol	\$4.8300	\$4.7112	-2.46%
Chattanooga	\$2.2020	\$2.2770	3.41%	Chattanooga	\$5.0960	\$5.0422	-1.06%
Cleveland	\$1.6500	\$2.0600	24.85%	Cleveland	\$3.6700	\$3.7684	2.68%
Collierville	\$1.2800	\$1.6300	27.34%	Collierville	\$5.3700	\$5.7400	6.89%
Columbia	\$0.9900	\$1.4400	45.45%	Columbia	\$3.4900	\$4.2550	21.92%
Franklin	\$0.4340	\$0.4176	-3.78%	Franklin	\$2.6340	\$2.4876	-5.56%
Johnson City	\$1.9300	\$1.8900	-2.07%	Johnson City	\$3.9300	\$4.2698	8.65%
Kingsport	\$2.2600	\$1.9750	-12.61%	Kingsport	\$4.7900	\$4.5250	-5.53%
Knoxville	\$2.8100	\$2.4638	-12.32%	Knoxville	\$5.5000	\$4.5838	-16.66%
Morristown	\$0.9700	\$1.2000	23.71%	Morristown	\$2.8100	\$3.1000	10.32%
Smyrna	\$0.8600	\$0.8840	2.79%	Smyrna	\$3.3000	\$3.5640	8.00%
AVERAGE	\$1.4989	\$1.5837	5.66%	AVERAGE	\$4.1208	\$4.1905	1.69%

Sales Tax Revenue



- Volatility**
- Nearly ¼ of total budget
 - Uncertainty of online v. inline
 - Kingsport +4% year to date
 - Bristol plateaued recently

- Sullivan County sales revenue*:**
- 61% generated in Kingsport
 - 26% Bristol
 - 13% Other

- Shared with countywide schools based on enrollment:**
- 46.60% to Sullivan County Schools
 - 33.60% to Kingsport City Schools
 - 19.78% to Bristol City Schools

**Sales outside the county are lost proportionately to all cities and schools*



Tri-Cities Cost-of-Living Comparison

April 2018

		City of Kingsport	City of Bristol, TN	City of Johnson City
City property taxes on Kingsport median house	\$138,000	\$ 681	\$ 746	\$ 652
Annual water service bill	assume 3,500 gallons per month	\$ 152	\$ 218	\$ 207
Annual sales tax on water bill		\$ 14	\$ 20	\$ 20
Annual sewer service bill	assume 3,500 gallons per month	\$ 322	\$ 231	\$ 311
Annual sanitation fee		\$ 96	\$ 174	\$ 108
Annual electric power bill	assume 1360 KWH per month	\$ 1,512	\$ 1,572	\$ 1,788
Annual gas bill	assume 5.09 Mcf per month	\$ 298	\$ 298	\$ 298
Annual franchise fee on gas bill		\$ -	\$ 18	\$ 9
	Subtotal (City only)	\$ 3,076	\$ 3,277	\$ 3,393
County property taxes	\$138,000	\$ 880	\$ 880	\$ 821
	Grand Total (including County)	\$ 3,956	\$ 4,156	\$ 4,214
	Kingsport compared to Johnson City	-6.1%		
	Kingsport compared to Bristol	-4.8%		

Cost-of-Living is always changing, let's look at the last 4 comparisons

	Kingsport compared to Johnson City	Kingsport compared to Bristol
April, 2018	-6.1%	-4.8%
October, 2017	-4.4%	-1.8%
October, 2016	-3.5%	-2.0%
July, 2016	-5.1%	-3.5%

Includes:

- City property taxes
- County property taxes
- Water
- Sewer
- Stormwater
- Sanitation
- Electricity + franchise fees
- Natural Gas + franchise fees*

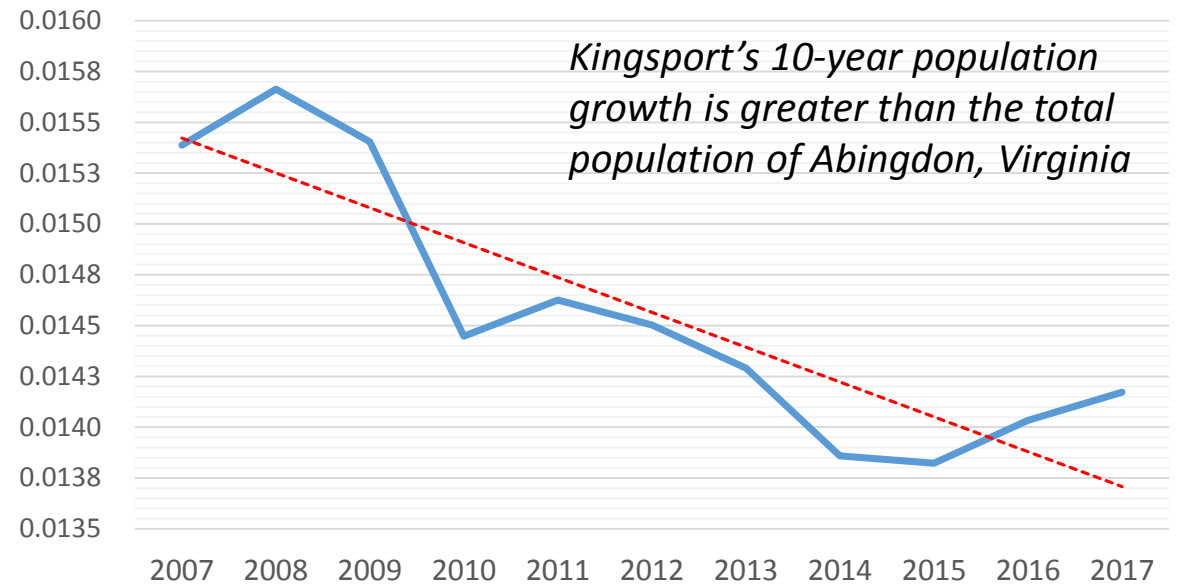
*Kingsport has no gas franchise fee



Updated April 24, 2018

Employees Per Capita = Doing More With Less

	Census (July 1)	CAFR FYE	Population	FTE
1.8% growth per year	2006	2007	44,191	680
	2007	2008	44,435	696
	2008	2009	45,763	705
	2009	2010	49,076	709
Annexation Ended	2010	2011	48,205	705
	2011	2012	49,232	714
	2012	2013	51,501	736
1% growth per year since	2013	2014	52,962	734
	2014	2015	53,028	733
	2015	2016	53,014	744
	2016	2017	53,558	759

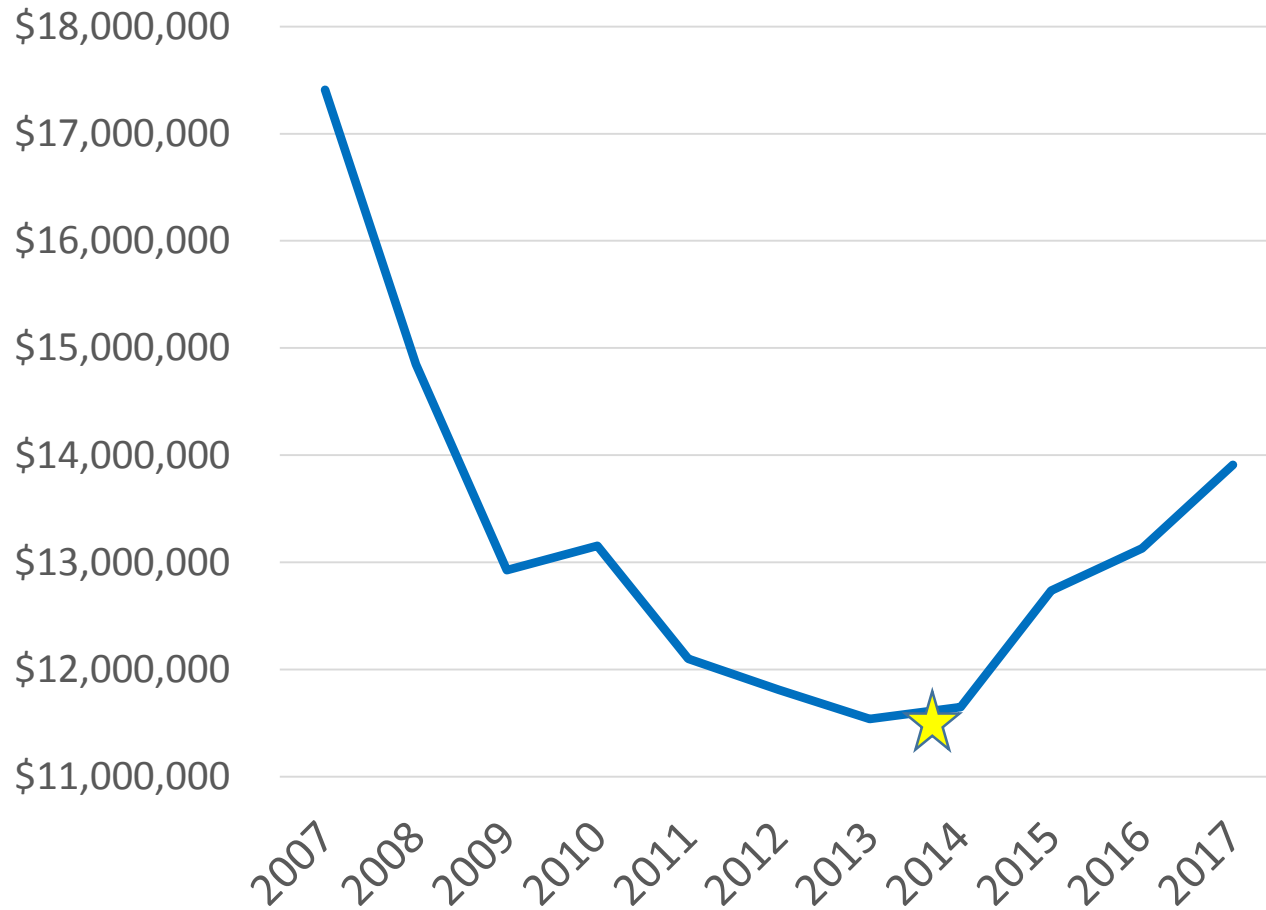


City staff has demonstrated sustained operating efficiencies. Since 2009:

- Kingsport's **population increased 17.03%** while general fund **expenditures per capita increased 4.81%**
- Conversely...
 - Bristol's population increased 6.58%, while expenditures per capita increased 18.23%
 - Johnson City's population increased 6.69%, while expenditures per capita increased 16.12%

*Full Time Equivalent Employees reported in CAFR December 31

Fund Balance (“Rainy Day” Fund)



Fund balance policy (15%-20%)

2007-2013 fund balance **decreased** \$5.87 million

2013-2017 fund balance **increased** by \$2.37 million...and we still funded year-end budget gaps

FY17: \$1.6 million to unfunded projects, \$790,298 to fund balance

FY16: \$1.9 million to unfunded projects, \$394,980 to fund balance

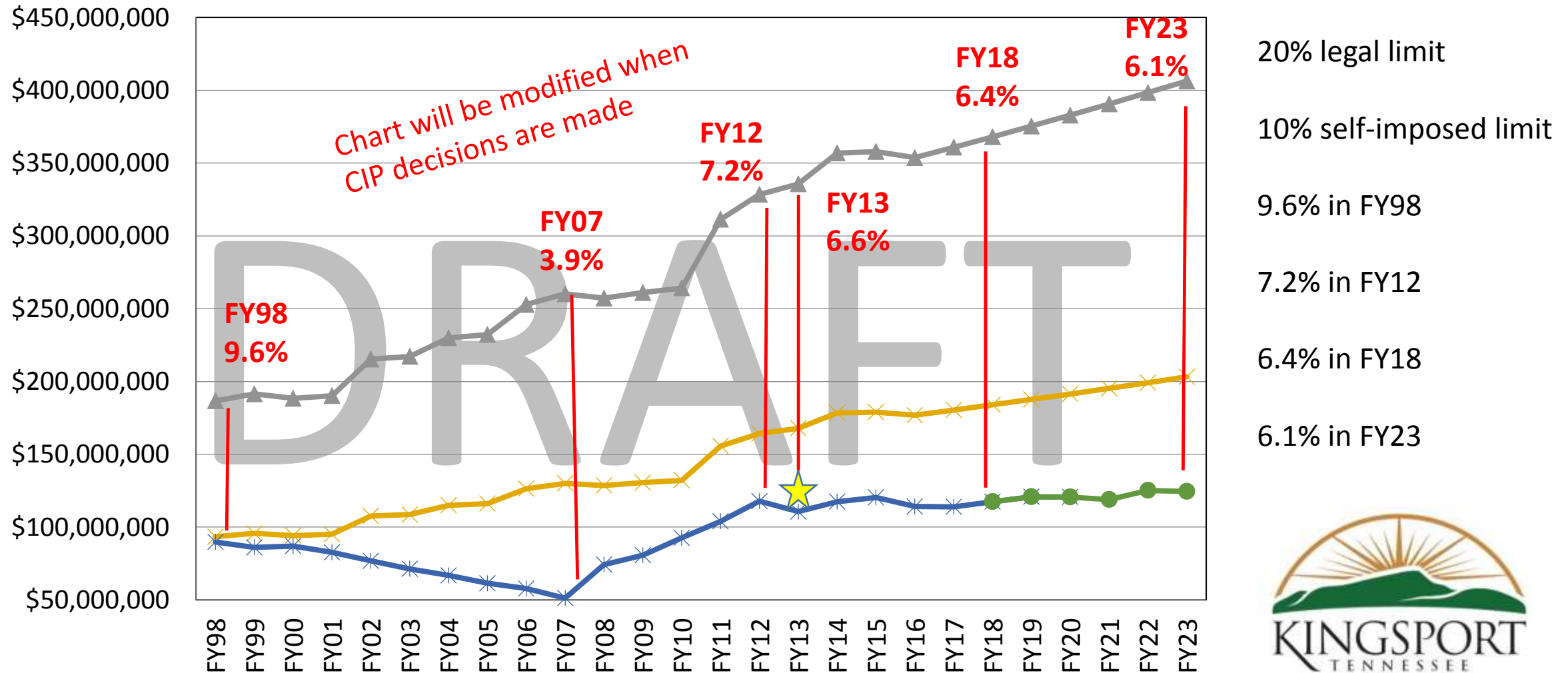
In FY15, \$1.4 million to unfunded projects, \$1,087,020 to fund balance

In FY14, \$0 to unfunded projects, \$111,145 to fund balance



Manageable Debt:

Kingsport operates substantially under the legal limit





*“Effective leadership is putting first things first.
Effective management is discipline, carrying it out.”
Stephen Covey*

Capital Investments – all sources

	Past (3 years)	Present FY18	Future (4 years)	Grand Total
Schools - New Construction	\$ 45,281,286	\$ -	\$ 3,900,000	\$ 49,181,286
Local Roads - New Construction (inc. MPO)	\$ 9,922,212	\$ 5,880,000	\$ 19,820,000	\$ 35,622,212
Bays Mountain, Parks, Seniors, Allandale, Greenbelt, Aquatics, MeadowView	\$ 10,957,160	\$ 1,886,500	\$ 9,204,250	\$ 22,047,910
Local Roads - Paving & Maintenance	\$ 4,986,599	\$ 4,035,000	\$ 9,830,000	\$ 18,851,599
Library	\$ 536,298	\$ 225,000	\$ 8,375,000	\$ 9,136,298
Economic Development	\$ 2,627,740	\$ 819,500	\$ 5,228,000	\$ 8,675,240
Facilities Maintenance - Schools	\$ 2,794,895	\$ 1,000,000	\$ 4,000,000	\$ 7,794,895
ONE Kingsport	\$ 650,000	\$ 700,000	\$ 5,670,000	\$ 7,020,000
Facilities Maintenance - City	\$ 2,348,315	\$ 1,022,500	\$ 2,400,000	\$ 5,770,815
Transit Center	\$ 5,492,286			\$ 5,492,286
Aesthetics, Landscaping	\$ 479,300	\$ 690,000	\$ 2,929,000	\$ 4,098,300
Courts/Public Facilities	\$ -	\$ 3,900,000	\$ -	\$ 3,900,000
Fire - all capital inc. master facilities plan	\$ 960,803	\$ 424,560	\$ 2,228,303	\$ 3,613,666
Sidewalk Maintenance & Extensions	\$ 750,000	\$ 435,000	\$ 2,100,000	\$ 3,285,000
Technology Infrastructure	\$ 813,200	\$ 360,000	\$ 1,440,000	\$ 2,613,200
Traffic Lights & Signals	\$ 869,399	\$ 550,000	\$ 760,000	\$ 2,179,399
Aerospace Park (partnership between 2 counties, 3 cities)	\$ -	\$ 107,200	\$ 857,600	\$ 964,800
PETWORKS Animal Center (partnership between county & cities)	\$ -	\$ 680,000	\$ -	\$ 680,000
TOTAL	\$ 89,469,493	\$ 22,715,260	\$ 78,742,153	\$ 190,926,906
Investments per Year	\$ 29,823,164	\$ 22,715,260	\$ 19,685,538	\$ 23,865,863

DRAFT
*Chart will be modified
 when CIP decisions are
 made*

FY19 Budget – The One-Page Summary



- **City Manager charged to present balanced budget with no tax increase**
- Covers \$644,000 annual loss of County funding to City Schools (Maintenance of Effort)
- Keeps sustainable paving plan in tact (dedicated funding source)
- Capital cuts require that we reprioritize future projects, too
- **Cut 20% from special programs (-\$98,400)**
 - Downtown Kingsport Association
 - Healthy Kingsport
 - Kingsport Office of Small Business & Entrepreneurship
 - Move to Kingsport
 - Keep Kingsport Beautiful
 - Redevelopment (KHRA)
 - Downtown Concert Series
- **Cut from ONEKingsport (-\$245,000)**
- **Employee hiring freeze**
 - No new employees
 - 10-year downward trend of employees per capita
 - Technology allows increased efficiency/output
 - Cut \$2.3 million from employee overhead past 5 years
 - Step increases for existing employees
- **Cut \$8.2 million in planned borrowing (-\$339,722)**
 - School facilities (cut \$3.9m, keep \$1m)
 - Local roads (\$2.9m) – delays Main St, MLK Dr
 - Fire Facilities (\$366,000) – delays planned renovations
 - Parks, playgrounds, signals, street lights, equipment (\$1m)
 - Pick-up with year-end cash (as available)
- **Keep \$5.5 million in planned borrowing**
 - Aquatic Center expansion (\$1.8m) – funded by visitors
 - School facilities (keep \$1m, cut \$3.9m)
 - Bays Mountain Park (\$1.2m)
 - City facilities maintenance (\$600,000)
 - Technology infrastructure (\$360,000) – work smarter
 - Higher Education parking lot (\$250,000)
 - Library improvements (\$225,000) – multi-year commitment

“Effective leadership is putting first things first. Effective management is discipline, carrying it out.” - Stephen Covey

Special Programs

	FY14	FY15	FY16	FY17	FY18	FY19 reduce 20%
	\$466,550	\$396,100	\$396,100	\$476,400	\$491,400	\$393,000

Discretionary Contributions

Children's Advocacy Center	\$6,000	\$5,400	\$5,400	\$5,400	\$5,400	\$5,400	0%
Kingsport Ballet	\$5,000	\$4,500	\$4,500	\$7,200	\$7,200	\$7,200	0%
Kingsport Theatre Guild	\$5,000	\$4,500	\$4,500	\$7,200	\$7,200	\$7,200	0%
Symphony of the Mountains	\$5,000	\$4,500	\$4,500	\$7,200	\$7,200	\$7,200	0%
Arts Guild	\$2,000	\$1,800	\$1,800	\$0	\$1,800	\$1,800	0%
Total	\$40,000	\$27,000	\$27,000	\$27,000	\$28,800	\$28,800	

Partnerships

Downtown Kingsport Association	\$115,000	\$117,500	\$117,500	\$122,200	\$122,200	\$115,000	-6%
Healthy Kingsport	\$0	\$54,000	\$54,000	\$60,000	\$60,000	\$50,000	-17%
KOSBE (Small Business)	\$110,000	\$99,000	\$99,000	\$114,400	\$114,400	\$100,000	-13%
Move to Kingsport	\$55,000	\$49,500	\$49,500	\$57,200	\$57,200	\$25,000	-56%
Keep Kingsport Beautiful	\$47,000	\$42,300	\$42,300	\$48,800	\$48,800	\$43,000	-12%
KHRA Redevelopment	\$63,800	\$33,800	\$33,800	\$63,800	\$63,800	\$40,000	-37%
Downtown Concert Series				\$10,000	\$25,000	\$20,000	-20%
Total	\$466,550	\$396,100	\$396,100	\$476,400	\$491,400	\$393,000	

ONEKingsport Funds*

FY18 Actual - Spent to date:

- \$181,000 Inventor Center build-out
- \$30,000 Inventor Center operating

FY18 Actual - Unspent to date:

- \$200,000 Whitewater Park design
- \$75,000 Whitewater Park turnaround/unloading
- \$190,828 planned rollover for future projects

FY 19 Budget - Planned:

- \$90,000 Product Creation Center operating
- \$120,000 Brickyard Park - Outdoor Venue design
- \$125,000 Brickyard Park - Pump Track
- \$159,550 upper parking at Riverbend Park
- \$182,278 planned rollover for future projects

