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May 20, 2008

**Board of Mayor and Aldermen
Farragut, Tennessee**

Dear Board of Mayor and Aldermen:

The proposed budget for Fiscal Year 2008-09 is presented for your review and consideration. This budget document is formatted in a manner identical to previous years for ease in comparison and understanding of our financial projections. Our financial condition is very healthy and I am confident that this will continue next fiscal year. I do not receive the estimates for state shared revenues until after the fiscal year begins, so I have tried to take a conservative approach to estimating what those revenues will be next year.

A critical factor in budgeting is to be as accurate as possible in estimating what the current fiscal year end results will be for both revenues and expenditures, particularly in the General Fund, as this is the fund where the majority of our revenues are reported. As an example, for Fiscal Year 2007, my estimate for General Fund revenues was \$6,478,715 and the audited revenues were \$6,431,696. This is a difference of \$47,019 or 0.73%. Likewise, the estimate for General Fund expenditures was \$3,566,130 and the audited figure was \$3,567,544. That is a difference of \$1,285 or 0.36%. This gives me a great deal of confidence in my estimates for next fiscal year and is a guide to how much we have available to provide services and build capital projects.

The current fiscal year is on track to finish with total revenues 11.66% greater than budgeted primarily due to total local taxes and license and permit revenues exceeding the budget and also due to intergovernmental revenues exceeding the budget in the General Fund. I have budgeted very conservative growth in intergovernmental revenues, although it does not appear that the State Legislature will be reducing any funds that we normally receive in state-shared taxes. General fund revenues comprise 89.25% of the total revenues for the Town of Farragut and I am projecting a decrease of 1.2% from my estimate for fiscal year 2007-08, in an effort to be as conservative as possible. Expenditures for the current year in the general Fund will be 2.9% lower than budgeted.

I. BUDGET SUMMARY AND REVIEW

The budget for Fiscal Year 2009 is a balanced budget, with total expenditures in all funds (excluding inter-fund transfers) of \$11,796,775. This is an increase of \$157,512 (1.35%) over the current fiscal year budget. Total revenues for Fiscal Year 2009 are projected to be \$8,339,700. Budgeted revenues are projected to be \$870,625 greater than the budget for the current year, principally due to increases in our local tax revenues and licenses/permits revenues. The difference between budgeted expenditures and revenues will be made up by the use of cash reserves in the amount of \$3,457,075.

The budget is divided into various funds for accounting and control purposes. The General Fund is the primary fund for revenues and for basic operating expenditures. Revenues receipted into the General Fund account for 89.25% of the total annual revenues of the Town. The other significant source of revenue outside of the General Fund is the Street Aid Fund revenue that is provided by the State of Tennessee on a per capita basis from gasoline and motor fuel taxes. Revenues for the other funds (Debt Service, Capital Projects, Equipment Replacement, etc.) are primarily a result of transfers from the General Fund to these funds and interest earnings on fund balances. I have lowered budgeted revenues in all interest bearing accounts due to the lower rates of interest that we have been experiencing this past year. In Fiscal Year 2009, I am recommending that \$3,270,000 be transferred from the General Fund to these other funds, with the majority being transferred to the Capital Projects Fund.

The pie chart (**Chart 1**) on the following page shows the proportion of revenues from all sources for Fiscal Year 2009. This chart shows that the local option sales tax accounts for 25 % of our total revenues and that the revenues from intergovernmental sources accounts for another 25.3% of our total revenues. The Use of Fund balance accounts for 29.3% of revenues, which is the largest “piece of the pie” in fiscal year 2009.

Total Revenue Sources All Funds Fiscal Year 2009

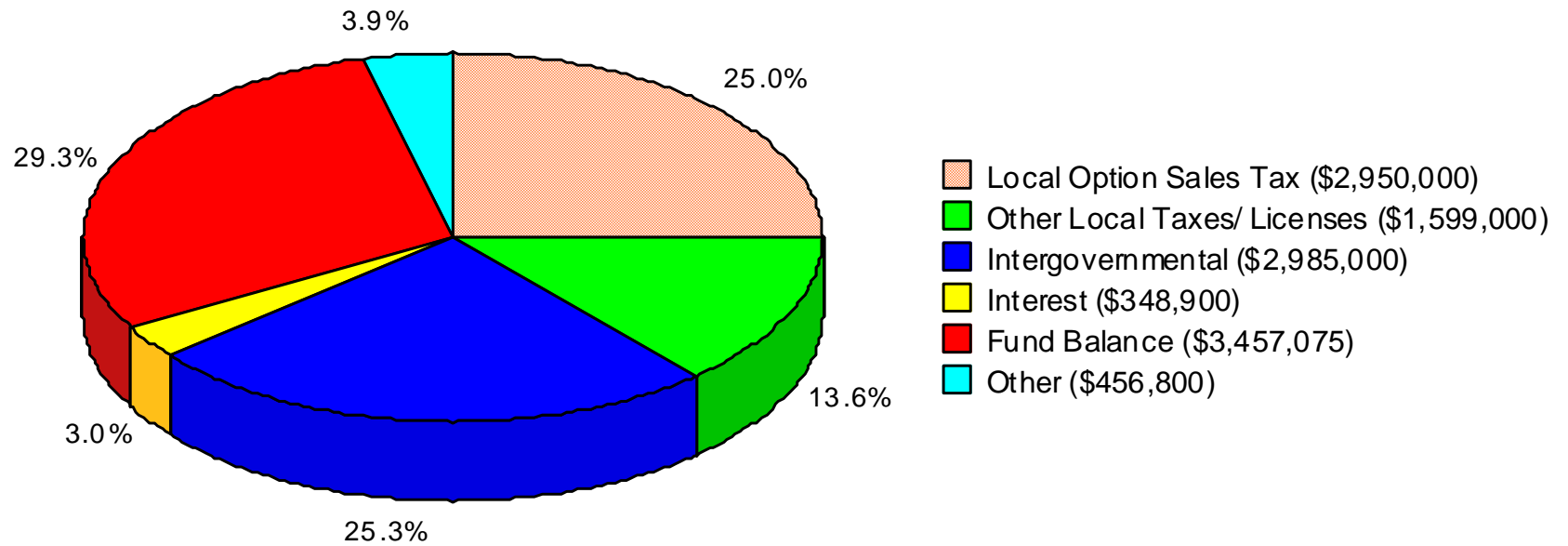
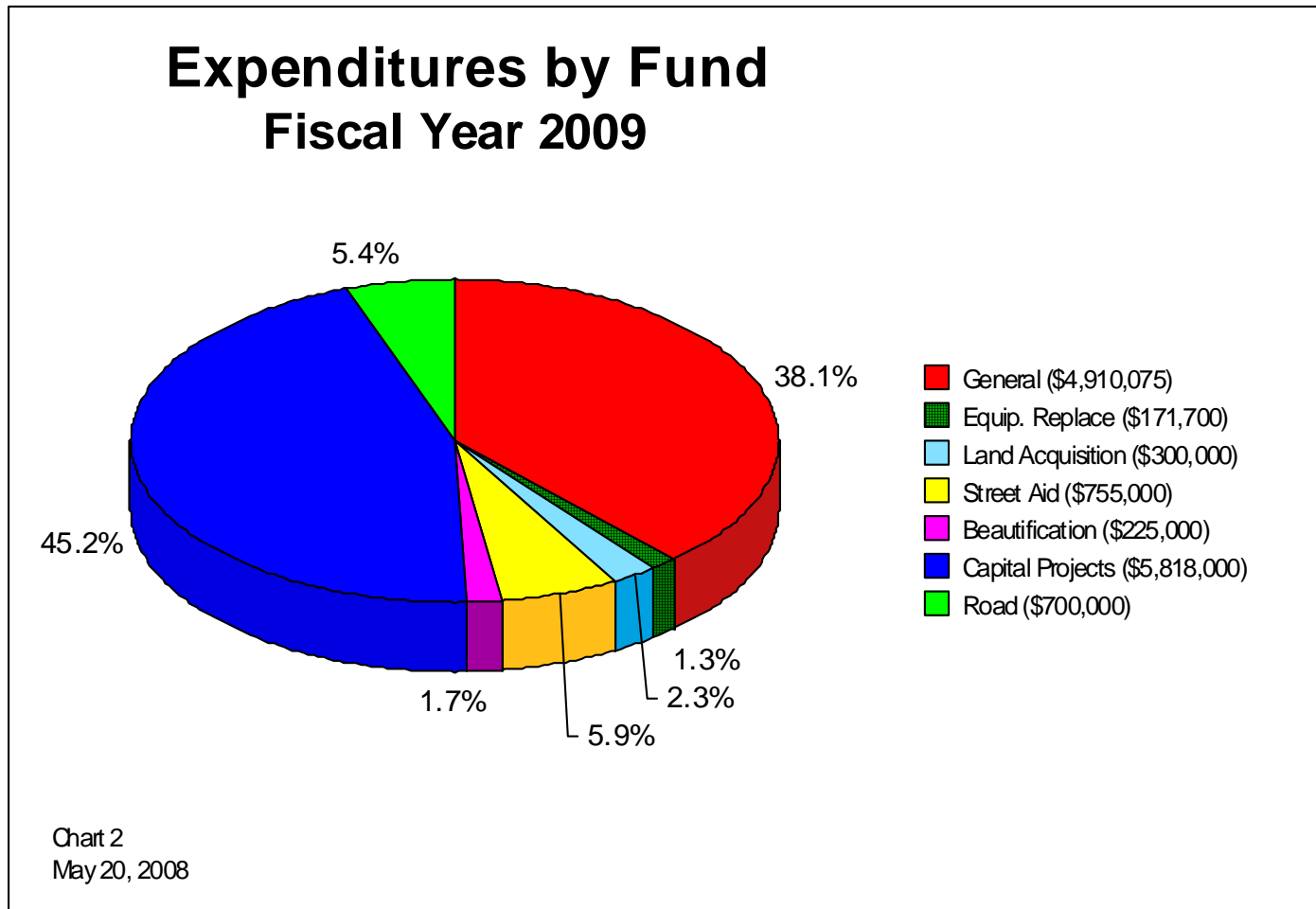


Chart 1
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The pie chart (**Chart 2**) below shows the proportion of expenditures of each of the funds to the total expenditures for Fiscal Year 2009. Our general operating expenditures account for 36.6% of total expenditures. Capital Project and Street Aid fund expenditures account for another 52.9% of the budget for next year.



II. FUND SUMMARIES

Immediately following this letter are several spreadsheets (identified as “Schedules”) that summarize the budget for Fiscal Year 2009. The first schedule shows the combined summary of revenues, expenditures and changes in fund balance for all of the various funds that the Town uses. There are no expenditures budgeted for the Debt Service, Personnel Reserve, Insurance Reserve, or Building Funds in the next fiscal year. The subsequent spreadsheets provide greater detail of revenues and expenditures for each of our funds.

The Board of Mayor and Aldermen has previously established goals for maintaining fund balances in each of the funds as follows:

<u>Fund</u>	<u>Goal</u>
General	Minimum of 30% cash reserve of current operating budget
Road Fund	Encourage cost sharing of road improvements with developers; review balance annually
Land Acquisition	Utilize balance in future years to aid in capital project development of parks; maintain balance of \$50,000
Building Fund	Utilize balance in future years to pay for improvements and repairs to Town Hall in the future; maintain balance of \$25,000
Equipment Replacement	Maintain balance necessary to fund equipment replacement schedule for 10-year period of time
Beautification Fund	Utilize this fund for banners and other special enhancement projects; maintain balance of \$50,000
Capital Projects Fund	Maintain balance necessary to fund scheduled projects
Insurance Reserve	Build balance to \$500,000 by year 2010
Personnel Reserve	Maintain balance to account for compensated absences per GASB requirements

These recommendations are based on sound financial management principles and reflect changes in the Town’s financial position and stability over the past several years. The projected balances for each of our funds at the end of Fiscal Years 2008 and 2009 are shown at the bottom of Schedule I. The Town invests its available cash reserves in the State of Tennessee Local Government Investment

Pool, consistent with the Town's investment policy. In the past few years, interest rates have been at historically low levels, which have resulted in reduced interest earnings in all funds.

III. GENERAL FUND

The General Fund is the central accounting fund for the Town's services and is also where the vast majority of the Town's revenues are initially credited before being transferred to other funds.

Revenues:

General Fund Revenues are projected to increase 12.92% compared to the budget for Fiscal Year 2009. Locally generated revenues will increase next fiscal year based on projections for the current fiscal year, which are running ahead of our conservative budget. I am projecting a slight increase in state shared revenues and a substantial increase in licenses/permits due to continued building activity and higher fees. My projections for revenues are typically very conservative although realistic and revenues have exceeded our budget for the past several years.

Please refer to the pie chart (**Chart 3**) that follows on the next page for a breakdown of revenues for the General Fund for Fiscal Year 2009. Locally generated revenues account for 67.4% of all revenues, with state-shared revenues accounting for 32.6% of total general fund revenues. Those proportions have been consistent for the past several years although next fiscal year we will be relying more on local funds than on state-shared funds than in fiscal year 2008.

General Fund Revenues Fiscal Year 2009

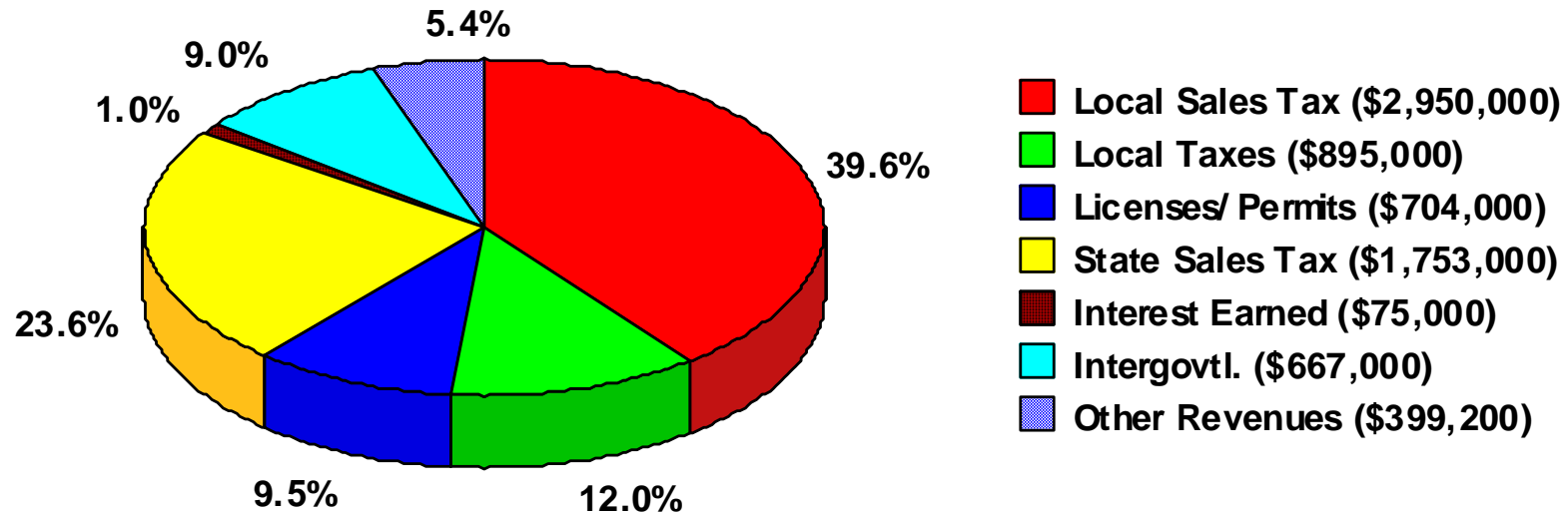


Chart 3
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Expenditures:

Expenditures for Fiscal Year 2009 in the General Fund are proposed to be \$4,910,075. This is an increase of \$616,950 compared to the Fiscal Year 2007 budget or 14.37%. This increase is partially due to the increasing cost for personnel related expenditures, fuel and other similar expenses. I am recommending that we hire a full-time Human Resources (Personnel) Director, a part-time Museum Coordinator and two new full-time Equipment Operators.

In addition to the changes recommended in staffing levels, the Town will be faced with the following other additional operating expenditures in fiscal year 2009:

- ~Projected increases in employee health insurance and workers compensation insurance premiums;
- ~Additional sponsorship of the Farragut/West Knox Chamber of Commerce;
- ~Adding an appropriation to pay for a Knox County Sheriff's Deputy to enforce Red-Light Violations, in the event we keep moving forward with that concept (note that I have not included any revenue for violations, only expenditures);
- ~Increasing the amount of donations to the four (4) public schools from \$32,000 to 40,000 (total), plus adding Hardin Valley Academy as a potential recipient of these donations.

The General Fund contains the operating budget for each of our departments. The operating budgets for each of the departments are shown in detail in Section III of the budget document. The pie chart (**Chart 4**) on the following page shows the proportional budget for each of the departments in the General Fund.

General Fund Budget FY 2009 Expenditure by Department

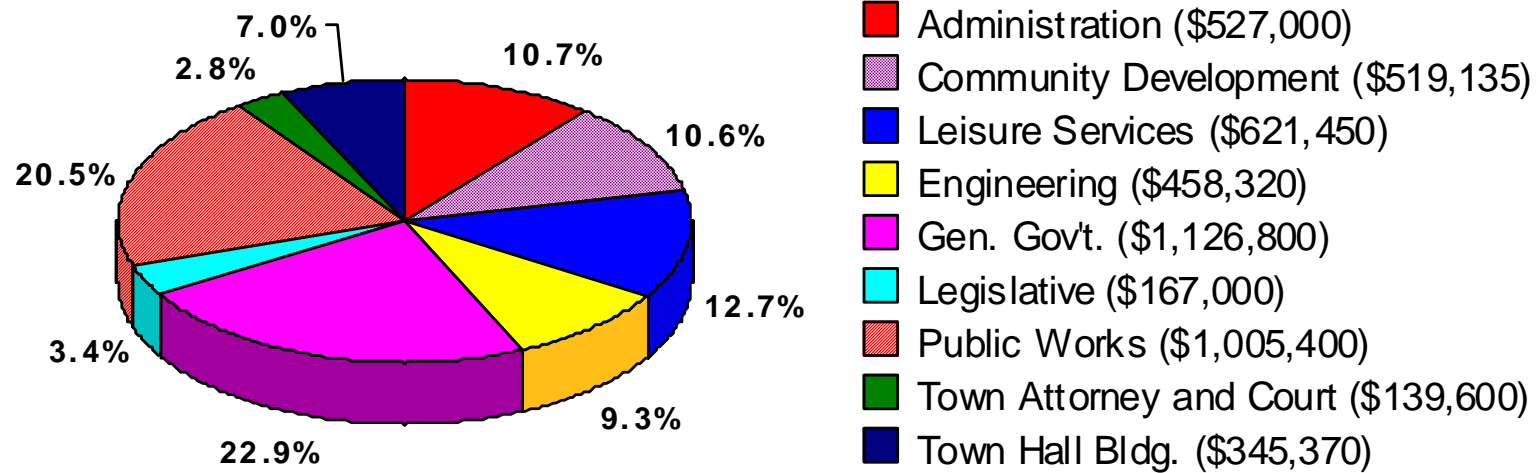


Chart 4
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Personnel:

As noted above, the budget for fiscal year 2009 includes the addition of three new full-time employees and one part-time employee. Personnel related expenditures comprise 66% of the operating budget of the Town, which is to be expected since we are a service-oriented business. The Town is fortunate to have dedicated and professional employees and I appreciate the support that the Board of Mayor and Aldermen has for the Town staff. The budget for next fiscal year includes a merit pool for salary adjustments equal to 4% of current salaries. The Town does not have a step/grade system for employees, so salary increases are only distributed based on performance. I have also included funds in the budget for a consultant to review our organization chart and salary structure in fiscal year 2009.

Transfers to other funds and fund balance:

The budget for Fiscal Year 2009 proposes a total of \$3,270,000 to be transferred from the General Fund to other funds. This is an increase of \$200,000 from the current fiscal year. The primary transfer is to the Capital Projects Fund (\$2,200,000). The projected General Fund balance at the end of Fiscal Year 2009 is \$2,189,887 or 44.6% of the budgeted operating expenditures. This fund balance meets the goal established by the Board of Mayor and Aldermen for the General Fund.

IV. CAPITAL PROJECTS FUND

The Capital Projects Fund budget is proposed to be \$5,818,000 for Fiscal Year 2009, which is a decrease of \$226,500 from the current year budget. This fund is almost entirely supported by transfers from the General Fund. We have a number of projects in various stages of either planning or construction, although the largest proposed project expenditure is for Campbell Station Road between Jamestowne and Parkside (\$1.3 million) and then McFee Road Park (\$1.0 million). The capital budget is the single most difficult budget to make accurate projections in, due to the fact that our fiscal year does not coincide with the construction season and we cannot bid out new projects until the new fiscal year begins, and then we must rely on good weather and stable petroleum prices.

In the fourth section of the budget document is a detailed 5-Year Capital Improvement Program (CIP), which includes explanations for proposed projects and a detail of revenues and expenditures. The CIP was reviewed by the Planning Commission at their meeting on April 17, 2008, and they have recommended your approval of the proposed plan. The schedule of proposed revenues and expenditures for this fund is identified as Schedule VI, which follows this cover letter in the budget.

STREET AID FUND

The revenues for this fund are derived from a per capita revenue share from the State of Tennessee and these funds must only be used for road improvements/maintenance and sidewalk construction/maintenance. Budgeted revenues for Fiscal Year 2009 are \$590,000. The ending fund balance on June 30, 2008 is projected at \$493,728.

The Street Aid Fund expenditures are budgeted at \$755,000 for next fiscal year. This is a decrease of \$10,000 or 1.3% from the budgeted amount for the current year. The primary expenditure in this fund is for resurfacing activities. I am recommending that additional funds from the Capital Fund be used for resurfacing next fiscal year. The schedule of proposed revenues and expenditures for this fund is identified as Schedule V, which follows this cover letter in the budget.

V. OTHER FUNDS

Debt Service Fund:

All of the Town's outstanding debt was paid in full by August 1, 2001. The very first debt issue of the Town was for the purchase of property for Anchor Park and the last issue to be retired was the debt for the purchase of the property for McFee Road Park. In 1996, the Board of Mayor and Aldermen adopted a philosophy of paying for large capital projects with available revenues, rather than borrowing additional money. In 1997, the Town Hall bonds were restructured to take advantage of lower interest rates and to shorten the term of the bonds, which resulted in net savings of approximately \$137,000. The CIP for the next five years projects more than \$17.5 million of expenditures, also without the need to issue debt. The projected fund balance on June 30, 2009 is \$82,960 which I am recommending be kept in that fund for possible future debt issues.

Equipment Replacement Fund:

The Equipment Replacement Fund is utilized as a true replacement fund for our major pieces of equipment and vehicles and was established by the Board of Mayor and Aldermen setting money aside early in the Town's history. This fund is used as a "revolving fund" of revenues and expenditures to replace equipment, as needed which allows us to balance out "peaks" and "valleys" of equipment costs over time. In fiscal years 2013 and 2014 we have large proposed expenditures in comparison to the earlier years and there are adequate funds available to replace the equipment as needed. Revenues for this fund are comprised of annual transfers from the General Fund and interest earnings on the fund balance. This schedule is identified as Schedule VIII following this cover letter and the detailed 10-year schedule is included in the last section of the budget book.

Beautification Fund:

This fund has been used to purchase seasonal street banners for the Town and to celebrate the winter holiday, the Dogwood Arts Festival, the autumn and winter seasons and also Independence Day. In fiscal years 2002 and 2003, funds were used for the purchase of outdoor sculptures as requested by the Farragut Arts Council to be placed in Campbell Station Park. A total of \$225,000 is requested for appropriation next year, which will be used to pay for the new Admiral Farragut statue that has been commissioned by the Board. The estimated fund balance on June 30, 2009 is \$21,372.

Road Fund:

This fund was established several years ago, with the idea of being used to “cost share” with private developers on road improvements that benefit both the Town and a developer. In prior years, this fund was used to pay for improvements to Old Stage Road, with a contribution from the developer of Rockwell Farms; for construction of South Watt Road from Kingston Pike to the entrance to the new ice arena and for a portion of the cost of Evans Road with the developer of the Farm at Willow Creek. The estimated fund balance on June 30, 2008 is \$1,008,501. I am recommending an appropriation of \$700,000 to be available for future cost sharing projects including improvements to Everett Road as has been previously approved by the Board. Please refer to Schedule X for the details on activity in this fund.

Building Fund:

In fiscal year 2000, we completed construction of the second floor space on the east side of Town Hall and the multipurpose community room and added onto the rear parking. In fiscal year 2003, this fund was utilized to replace the carpeting and chairs in the Board Room and to replace carpeting on the first floor east side of the building. In the next five to ten years we will need to replace the roof, which will cost in excess of \$100,000. The estimated balance of this fund on June 30, 2009 is \$279,447.

Land Acquisition Fund:

This fund is available for the Town to purchase land for public purposes. There is an appropriation of \$600,000 for the potential purchase of land in the current fiscal year although at this time it does not appear likely that we will spend those funds. The estimated balance of this fund on June 30, 2008 is \$580,774, which includes a transfer of \$400,000 that was not considered in the adopted budget for fiscal year 2008. This fund is difficult to predict depending upon what the Board decides to do with the potential purchase of additional property on McFee Road.

Our other funds do not contain any proposed appropriations for the next fiscal year. These funds are the Personnel Reserve Fund and Insurance Fund. The projected balance of these other funds is a total of \$679,000 at the end of Fiscal Year 2009. Those fund balances will increase only due to interest earnings, with no transfers from the General Fund.

VI. WORK PROGRAM

For the last several years, the Board of Mayor and Aldermen has adopted a work program consisting of approximately 30-50 items to be used as goals and objectives for the Town staff to accomplish throughout the ensuing fiscal year. A report is presented to the Board at the end of each quarter of the fiscal year, highlighting the progress that has been made in achieving the goals of the work list.

The Work Program for Fiscal Year 2009 will be presented to the Board in July 2008 for consideration of major program objectives. The proposed budget for Fiscal Year 2009 has sufficient flexibility to fund the goals and objectives within the Work Program.

VII. SUMMARY

The proposed budget for Fiscal Year 2009 continues in the tradition of Farragut of expanding services while maintaining conservative fiscal policies. Our financial condition remains sound and will continue to be so in FY 2009. Development activity within our corporate boundaries has increased in the last few years, particularly in the areas of institutional and commercial projects. Residential development (new subdivisions and building permits) has continued to increase over the last five years or more. The future looks very bright for the Town of Farragut as the largest capital project in the Town's history was started during FY 2005 (the Campbell Station Extension Project), which has improved traffic flow and provided access to additional commercial opportunities within the heart of our Town. We are also seeing new development of the former K-Mart site which will add additional retail opportunities, plus additional retail development along Parkside Drive within Farragut's corporate limits which should increase our local sales tax revenues. Kroger's is in the process of building a new store as is Ingle's, both of which are more than twice the size of their current stores. Those retailers are good for Farragut as they are less likely to be hit by poor economic conditions than other retailers.

My thanks to the management staff and especially to Allison Myers and Bettye Newby for their assistance in developing this budget proposal and the associated backup materials. The Town is fortunate to have a staff that is dedicated to providing the best possible service to this community.

Respectfully submitted,

Daniel C. Olson
Town Administrator