TAX FUNDS

The City tax supported funds (General Fund and Capital Fund) provide for services and facilities including police, fire, library, planning and development, and parks and recreation programs.

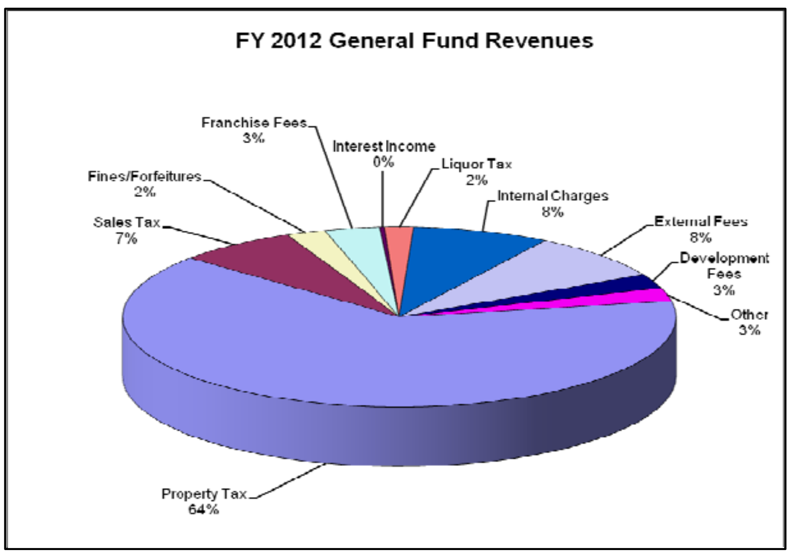
GENERAL FUND

Among the many sources of revenue that fund general city operations, nine are the most significant. The Revenue Manual provides analysis of the major sources due to their importance in budgeting and financial planning.

The City's "structural balance" policy suggests that revenues be identified by category – base on-going revenue, cyclical or program revenue, or one-time revenue. Base revenues support on-going core services such as police, fire, parks, library, and streetlights. Cyclical revenues support planning and development, recreations programs, and other services that are expected to vary based on external influences such as the economy.

Revenue sources are monitored periodically and the data is used to update six-year projections. For each revenue source, base rates, changes in law or procedures, effect of external influences, anomalous events, trends, issues and projection assumptions are updated and reviewed.

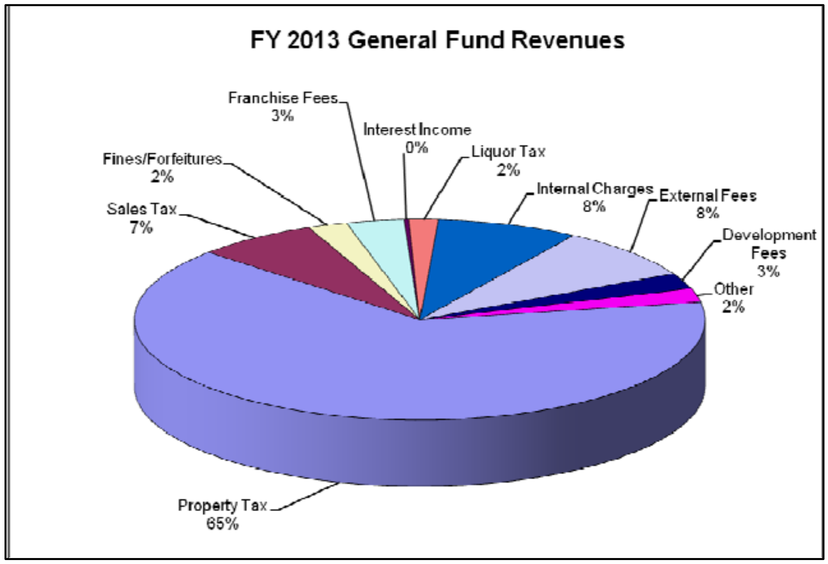
- Property Tax
- Sales Tax
- Fines & Forfeitures
- Franchise Fees
- Interest Income
- Liquor Tax
- User Fees
- Internal Charges
- Growth/Development Fees



The aftermath from the "Great Recession" is still being felt as the City moves slowly into recovery. Generally, revenues are not anticipated to suffer further significant deterioration. Unfortunately, they are not projected to experience any substantial growth, either.

The updated projections are an effort for the City to maintain a fiscally responsible posture without being overly conservative. Revenues with significant changes over the prior base level are considered to be one-time until it can be verified that the new level is truly a change in the base.

The proportionate share of General Fund revenues for FY 2012 and FY 2013 are displayed in the two associated tables. As can be seen, property taxes are responsible for an increasing proportion of the City's resources.



In the table below, FY 2009 and FY 2010 amounts are actual revenues received in each fiscal year. FY 2011 Budget represents the adopted budget. The FY 2011 Projection is an estimate of actual revenues anticipated to be received by the end of year based on the year to date receipts and variables that affect the particular revenue source. FY 2012 and FY 2013 are the proposed budget amounts for each category and fiscal year. FY 2014 through FY 2017 projections are based on economic conditions and assumptions that are explained by revenue category in the analysis that follows.

General Fund Revenues *(Tax Supported)*	**FY 2009 Actual**	**FY 2010 Actual**	**FY 2011 Budget**	**FY 2011 Projected**	**FY 2012 Proposed**	**FY 2013 Proposed**	**FY 2014 Projected**	**FY 2015 Projected**	**FY 2016 Projected**	**FY 2017 Projected**
Property Tax	97,285	100,754	106,184	105,684	108,329	112,383	115,754	119,227	122,804	126,488
Sales Tax	12,025	11,560	11,799	11,799	11,791	12,027	12,388	12,759	13,142	13,536
Fines/Forfeitures	3,329	3,793	3,943	3,943	3,857	3,881	3,997	4,117	4,240	4,368
Franchise Fees	5,867	5,324	6,241	6,211	5,488	5,652	5,821	5,996	6,176	6,361
Interest Income	412	436	500	500	462	474	477	481	486	496
Liquor Tax	2,978	2,737	3,255	3,255	2,841	2,926	3,014	3,104	3,197	3,293
Internal Charges	13,243	13,256	14,645	14,034	13,468	13,944	14,607	15,300	16,027	16,789
External Fees	10,820	14,077	15,546	14,196	14,191	14,544	14,835	15,131	15,434	15,743
Development Fees	4,285	3,900	4,421	4,332	4,328	4,468	4,602	4,740	4,882	5,028
Other	6,646	346	4,664	5,722	4,120	3,902	3,922	3,961	4,000	4,080
Total General Fund Revenues	156,890	156,184	171,197	169,675	168,874	174,200	179,416	184,817	190,389	196,182
(increase over prior year)	1.7%	-0.4%	9.6%	-0.9%	-0.5%	3.2%	3.0%	3.0%	3.0%	3.0%
Total General Fund Costs	152,772	156,844	171,197	177,086	168,874	175,213	179,416	184,817	190,389	196,182
(increase over prior year)	-4.9%	2.7%	9.2%	3.4%	-4.6%	3.8%	2.4%	3.0%	3.0%	3.0%
Revenues as Percent of Total Costs	103%	100%	100%	96%	100%	99%	100%	100%	100%	100%

PROPERTY TAX

Property tax revenue is the City's largest source of general government revenue. Property taxes are assessed to taxpayers based on "taxable market value" of properties and upon a rate formula prescribed in State code. Since 1995, a "3 Percent cap" limitation has been a key characteristic of Idaho cities property taxation.

The City's total assessed property value has experienced some of the greatest percentage changes over the past few years ranging from a 15.3% increase in tax year 2007 to a 12.5% decrease in tax year 2010. This volatility affects the property tax levy rate, which is a formula based on a governing body's budget relative to assessed property values.

Most taxing districts, except school districts, are governed by the "3% + growth" formula for calculating their property tax revenue budget.

Fiscal Year	2009 A	2010 A	2011 B	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Annual Increase	3,033	2,932	3,052	1,640	3,243	3,364	3,493	3,629	3,772
Growth Formula	2,306	1,005	1,147	594	812	932	1,026	1,129	1,245
Base	92,364	97,703	101,639	105,839	108,073	112,128	116,425	120,944	125,702
Total Base	**97,703**	**101,639**	**105,839**	**108,073**	**112,128**	**116,425**	**120,944**	**125,702**	**130,719**
% Change	5.7%	4.0%	4.1%	2.1%	3.8%	3.8%	3.9%	3.9%	4.0%
Adjustments	0	0	0	0	0	0	0	0	0
Total Proceeds	97,703	101,639	105,839	108,073	112,128	116,425	120,944	125,702	130,719

PROJECTIONS / ASSUMPTIONS

Idaho Code changes

- New Construction Roll – Idaho Code section 63-301A was amended in 2007 to exclude new construction in revenue allocation areas (RAA) from the new construction roll (NCR). The new construction value added during the existence of a RAA will be added to the NCR when the RAA is dissolved. The impact for the City of Boise is a delay in realization of the base revenue related to new construction in RAA areas. In the year of dissolution, there will be a significant onetime bump in the new construction roll value and consequently a similar increase in the City's base budget.

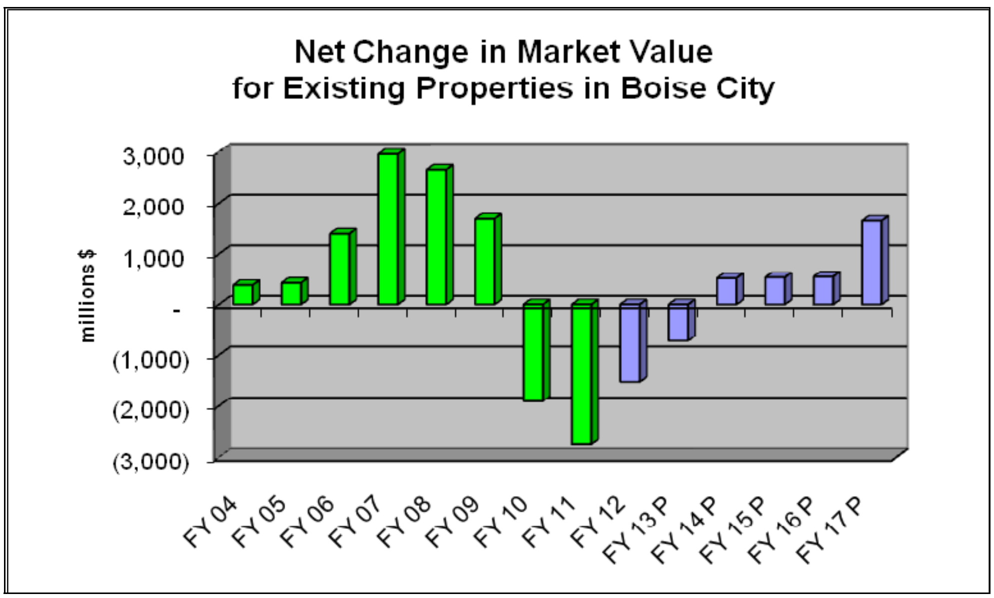
- Homeowner exemption – In the 2006 Legislative session, the homeowner exemption was expanded to include the "homestead," which is defined as the home and up to one acre of land, and the exemption limit was increased to $75,000 indexed to the Idaho housing price index. In 2011 (FY 2012), the indexing modified the exemption to $92,040. This change does not affect the City's budget authority, but changes the distribution of taxes among property owners.

Property Tax Budget

- The City's property tax budget is estimated to increase 2.1% for FY 2012 and 3.8% for FY 2013. This is compared to a 4.1% increase for FY 2011 and is composed of:
    - 1.5% and 3.0% for the "cap" in FY 2012 and FY 2013, respectively
    - 0.6% in FY 2012 and 0.8% in FY 2013 for annexation and new construction.

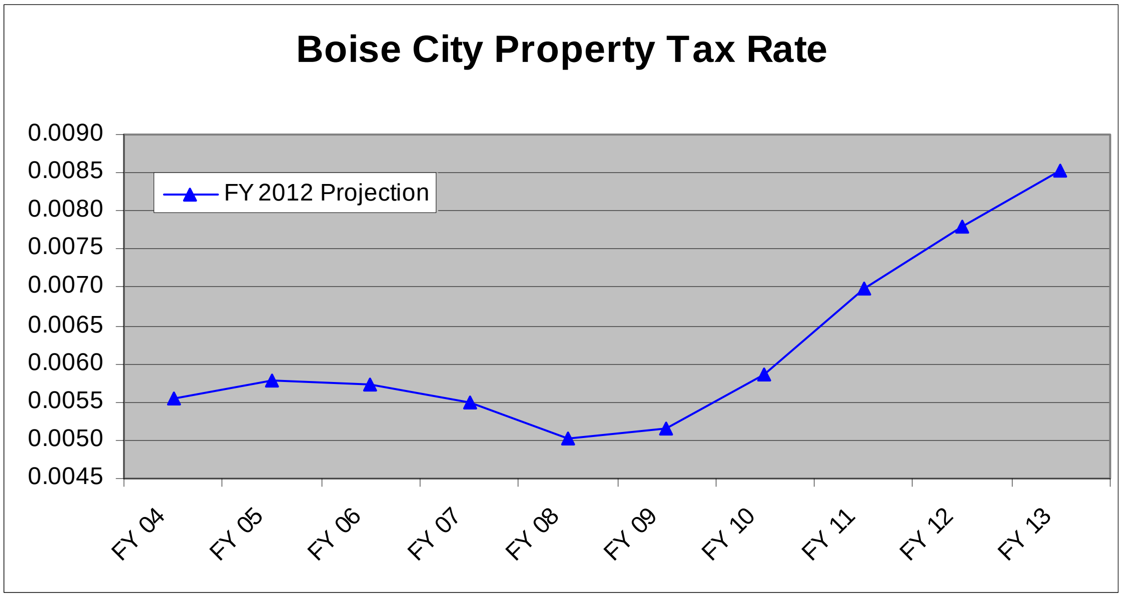
Property Valuation

- The FY 2012 total market value for the City of Boise decreased approximately 7.8% compared to the prior year.
    - This is the third consecutive year the City of Boise has experienced declines in total market.
    - Assessed values are anticipated to decline 4%, on average in tax year 2012 (FY 2013) as well.
    - Market value is the value of the property before exemptions are applied.



Levy rate

- The City's levy is estimated to increase by 11.5% for FY 2012. This will affect tax bills in December 2011 and June 2012.
    - For every $100,000 of taxable value, this equates to an increase in taxes of approximately $78 over the prior year.
    - A decline in taxable value will offset the mill levy increase in property taxes so the estimated change in property taxes on an average residential taxable value of $146,747 is basically zero.
- If model assumptions hold through FY 2012, the City's levy is estimated to increase by 5.9% for FY 2013.



SALES TAX

The State of Idaho shares sales tax revenues with certain local governments based upon a formula established in State Code. Sales tax is characterized in the Structural Balance policy as base (for such sales as food) and cyclical (for sensitive discretionary purchases). Sales tax has historically been the City's second largest General Fund revenue source. Due to the stagnant sales tax revenue experienced over the last several years, this revenue category is now the fourth largest source for the General Fund.

Fiscal Year	2009 A	2010 A	2011 B	2011 p	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Revenue $	12,025	11,560	11,799	11,799	11,791	12,027	12,388	12,759	13,142	13,536
% Change	-13.9%	-3.9%	2.1%	0.0%	-0.1%	2.0%	3.0%	3.0%	3.0%	3.0%

Sales tax is shared revenue and all statewide proceeds are pooled. Therefore, statewide sales projections, based on the economic condition of the state, are a key variable. Distribution to cities is based upon population and assessed market value.

PROJECTIONS / ASSUMPTIONS

- As of June 2011, the Bureau of Economic Analysis anticipates the Idaho gross domestic product to have increased by 2.0% in 2010. The State projects GDP to increase about 1.2% in 2012 increasing to 1.6% in 2013. Personal income is projected to increase by 4.7% in 2011, 3.8% in 2012 and 4.4% in 2013. While these projections appear to indicate a more robust economic outlook, these figures were presented prior to the economic slowdown that has occurred since the spring of 2011. As a result the City's assumed 0.1% decrease in FY 2012 as compared to FY 2011, and 2.0% increase in FY 2013.

- The City's proportionate assessed market value is 24.12%, a decrease from the 28.15%, which was used for FY 2009. Proportionate population also decreased from 20.07% for FY 2009 to 19.47% in FY 2011.

- The sales tax projection for the four year projection window is indexed by the expected GDP, which shows moderate growth through the projection window. The City's proportionate assessed market value and proportionate population are assumed to remain unchanged.

THREATS / OPPORTUNITIES

- Further deterioration in the labor markets would have an adverse effect on sales.

- Stronger economic growth than projected could enhance revenue.

- Possible legislative changes to the distribution formula and allowable exemptions continue to be watchful items.

FINES AND FORFEITURES

Fines and forfeiture revenue include traffic fines, false alarm fines, parking fines, overdue library fines, and animal control fines.

Fiscal Year	2009 A	2010 A	2011 B	2011 p	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Revenue $	3,329	3,793	3,943	3,943	3,857	3,881	3,997	4,117	4,240	4,368
% Change	-10.5%	13.9%	4.0%	0.0%	-2.2%	0.6%	3.0%	3.0%	3.0%	3.0%

PROJECTIONS / ASSUMPTIONS

- Total fines and forfeitures for FY 2012 are nearly 2.2% less than the projected amount for FY 2011 due to higher levels of compliance amongst the citizenry. The projection window includes an average annual increase of approximately 3.0% based primarily on rate increases.

THREATS / OPPORTUNITIES

- Legislative action could increase traffic fine revenue, although none is foreseen.

- Court practices in assessing and administering traffic fines could perhaps lead to enhanced traffic fine revenue.

- Traffic fine revenue has proven to be unpredictable compared to the number of tickets issued.

FRANCHISE FEES

Franchise fees are collected from businesses having an agreement allowing the operation of their business within the City. The City charges a franchise fee for water, solid waste, cable, natural gas and electricity. Electric franchise revenue is discussed under capital revenues.

REVENUE MANUAL

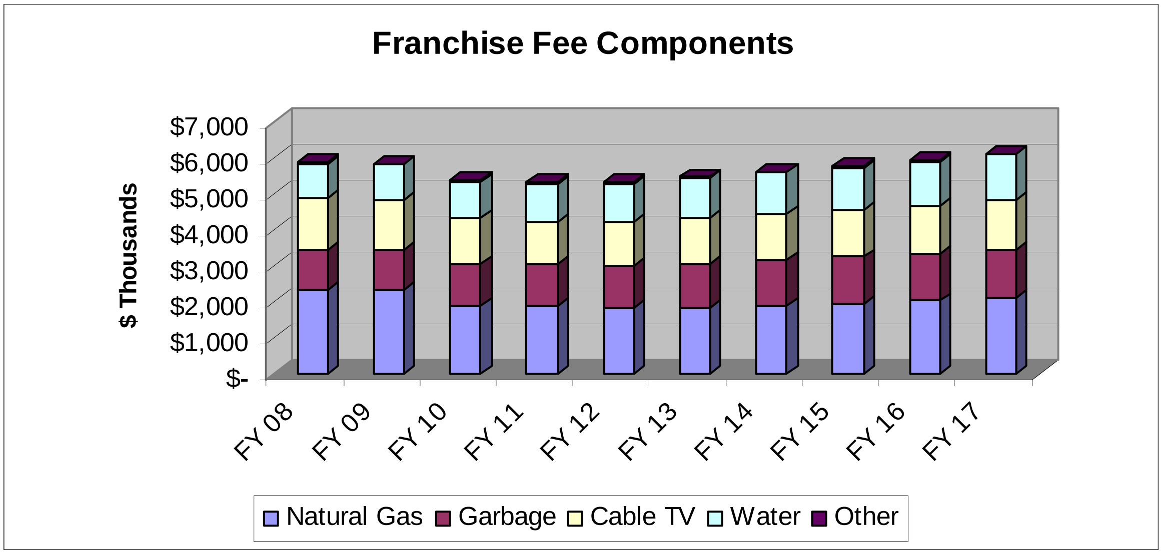
Fiscal Year	2009 A	2010 A	2011 B	2011 p	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Revenue $	5,867	5,324	6,241	6,211	5,488	5,652	5,821	5,996	6,176	6,361
% Change	-0.1%	-9.3%	17.2%	-0.5%	-11.6%	3.0%	3.0%	3.0%	3.0%	3.0%

PROJECTIONS / ASSUMPTIONS

- There are no assumed rate increases for the FY 2012/2013 Biennial Budget. Although rate increases are likely, none were announced at the time the budget amounts were determined.
- Natural gas franchise revenue is estimated to decrease about $723,444 or 11.6%, in FY 2012 as compared to the FY 2011 Adopted Budget. Intermountain Gas published a significant rate decrease subsequent to the adoption of the FY 2011 Budget. In June of 2011, another rate decrease was submitted by Intermountain Gas for an additional 5% rate reduction. Revenues were lowered based on the cumulative effect of these rate reductions.
- Cable franchise revenue is less in FY 2012 compared to the FY 2011 Adopted Budget based on the assumption of declining discretionary income. Actual revenue received during FY 2011 supports this assumption. FY 2013 revenue growth is assumed to be flat.
- Water franchise revenue growth is assumed to remain nearly unchanged.
- Public Works is not recommending increases in solid waste rates for FY 2012 or FY 2013. Projections assume a 3.0% increase in revenue due to growth in population and usage.

THREATS / OPPORTUNITIES

- Inclement weather could have significant impacts on franchise revenue.
- Continued popularity of satellite television and greater offerings of over-the-air television could greatly impact cable franchise revenue.
- Future adoption of trash rate increases that will require City Council action.



INTEREST INCOME

The City earns interest revenue on available cash balances through various investment vehicles in accordance with Idaho State Code. Additionally, the City earns interest for penalties on various fees such as property taxes that is included in the revenue totals. The City's investment portfolio is monitored daily and constantly reviewed as to security type, maturity, duration, and source to maintain a balanced portfolio.

Fiscal Year	2009 A	2010 A	2011 B	2011 p	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Revenue $	412	436	500	500	462	474	477	481	486	496
% Change	-69.0%	5.8%	14.6%	0.0%	-7.5%	2.6%	0.5%	1.0%	1.0%	2.0%

The projections are estimated based on average cash balances in each fund and short-term interest rates. For FY 2012/2013, projected short-term interest rates are estimated to increase slightly from 1.0% in 2011 to 2.0% in FY 2012 and 3%-4.5% in FY 2013 through FY 2017.

PROJECTIONS / ASSUMPTIONS

- Reduction of the cash flow reserve from the FY 2011 level of 7.0% to 5.0%
- The four years of the projection window reflect a modest annual increase over the preceding year.
- Projected rates of return are based on the projected short-term yield curve and projected average cash balances.

THREATS / OPPORTUNITIES

- It is unlikely that interest rates will further decrease; thus, increasing interest rates are probable over the next several years.

- The impact of international economic events and unprecedented Federal spending programs may provide broader investment opportunities.

LIQUOR TAX

The City receives from the State a portion of the surcharge on all liquor sales. The past several years there has seen significant growth in liquor sales and profits. Increased liquor tax revenue is attributed to increased liquor sales, a shift in preference from top shelf premium liquor to higher volumes of second tier premium liquor, and additional distribution locations.

Fiscal Year	2009 A	2010 A	2011 B	2011 p	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Revenue $	2,978	2,737	3,255	3,255	2,841	2,926	3,014	3,104	3,197	3,293
% Change	6.1%	-8.1%	18.9%	0.0%	-12.7%	3.0%	3.0%	3.0%	3.0%	3.0%

The State Liquor Dispensary distributes funds quarterly in level installments, subject to adjustments. Additional installments may be made as the state reviews actual and anticipated liquor sales, usually at the end of its fiscal year.

PROJECTIONS / ASSUMPTIONS

- The formula for distribution of moneys in the Liquor Account was changed by S1388, which was signed into law on March 31, 2006. The formula change reduces the share allocated to cities and counties from 60% in 2009 to 50% by 2014. The revenue decrease due to the lower percentage of allocated monies under the formula is projected to be partially offset by higher sales growth.

- The State Liquor Dispensary projects sales growth of approximately 2% to 5% through 2015.

- In addition, the distribution model calculates revenue share based on point of sale. Growth in neighboring cities or further stores being added across the state would negatively impact the share that the City of Boise receives.

INTERNAL CHARGES

Internal charges are derived from services that departments provide to each other. For example, other departments reimburse Human Resources for recruitment services and Legal for litigation services.

Fiscal Year	2009 A	2010 A	2011 B	2011 p	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Revenue $	13,243	13,256	14,645	14,034	13,468	13,944	14,607	15,300	16,027	16,789
% Change	6.1%	0.1%	10.5%	-4.2%	-4.0%	3.5%	4.8%	4.8%	4.8%	4.8%

PROJECTIONS / ASSUMPTIONS

- The City attempted to transition to full cost accounting in FY 2010. The intent of the transition was to match the timing of reimbursement and expenditures for services rendered. Unfortunately, because of the need for an audited financial statement for Federal reporting requirements, the implementation was abandoned. This resulted in large fluctuations in the budget as the City reverted to reimbursements that lag two years from the time the service was provided. Primarily enterprise funded departments budget and track these reimbursements.

- The largest single cost component for internal services is personnel expenditures. Only health care cost increases are assumed in FY 2012 according to the proposed strategy. The increase in FY 2013 is based on the recommended wage and benefit increases.

- Internal charges are based on an annual 4.75% cost of service increase for the projections of FY 2014 through FY 2017 and little or no change in the level of service provided. The growth rate is based on assumed personnel cost increases and operational cost increases.

THREATS / OPPORTUNITIES

- Significant changes in the cost of service.

- Department restructuring.

- Allocation changes between direct and indirect internal charges.

USER FEES

User fees are charges for specific services. The City charges external user fees to consumers for services for which a direct benefit can be easily identified and billed.

Fiscal Year	2009 A	2010 A	2011 B	2011 p	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Revenue $	10,820	14,077	15,546	14,196	14,191	14,544	14,835	15,131	15,434	15,743
% Change	3.1%	30.1%	10.4%	-8.7%	0.0%	2.5%	2.0%	2.0%	2.0%	2.0%

PROJECTIONS / ASSUMPTIONS

- Based on stabilization in unemployment and uncertainty in discretionary income, user fees are projected to remain flat in FY 2012.

- Park and recreation fee increases, although minor, are included in FY 2012.

- For the projection window, a moderate annual rate increase of approximately 2% is assumed.

THREATS / OPPORTUNITIES

- Economic changes such as shifting employment or wages could result in discretionary income changes of certain user groups.

- Weather conditions have a significant impact on parks and outdoor recreation activities.

- Private competition, such as Roaring Springs Water Park competing with City swimming pools, redirects potential revenue.

- More aggressive recovery of costs could enhance revenues. However, fee increases could reduce user levels.

DEVELOPMENT FEES

Development fees fund planning and growth management, including long- and short-term planning and zoning, review of development plans and subdivisions and building inspection. Development fees also pay for a portion of development related impacts on service provided by other City departments.

Fiscal Year	2009 A	2010 A	2011 B	2011 p	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Revenue $	4,285	3,900	4,421	4,332	4,328	4,468	4,602	4,740	4,882	5,028
% Change	-38.6%	-9.0%	13.3%	-2.0%	-0.1%	3.2%	3.0%	3.0%	3.0%	3.0%

The number of building permits through May 2011 (eight months of FY 2011) was 2% lower than the same time last year. The market value of the permitted projects, however, was 5% higher for the same time period. Single-family and multi-family housing units were 32% lower and unchanged, respectively, while commercial construction was 11% above this time last year due to a slight rebounding in overall activity.

PROJECTIONS / ASSUMPTIONS

Development fees are intended to cover the cost of providing planning and building services, with the exception of code enforcement and comprehensive planning.

- Project valuation is assumed to be comparable to last year for similar projects.
- No fee increases are assumed.

THREATS / OPPORTUNITIES

- Downtown development activity spurred by the Simplot project could provide cyclical revenues.
- Federal stimulus funding could boost development activity by directly funding projects or indirectly funding projects through revolving loans and other local credit incentives.
- Annexation of vacant land provides opportunity for development within the City limits.
- The projected development revenue is based on gradual increases in building activity as compared to recent years. More substantial development activity could provide additional cyclical revenue.

CAPITAL REVENUES

Capital revenues in the Capital Fund include electric franchise fees revenue, interest income, grants, donations, impact fees, and General Fund transfer in.

REVENUE MANUAL

Fiscal Year	2009 A	2010 A	2011 B	2011 p	2012 P	2013 P	2014 p	2015 p	2016 p	2017 p
Electric FF	1,660	1,674	1,782	1,782	2,090	2,550	2,627	2,705	2,786	2,870
Interest	379	127	699	699	175	195	201	207	214	220
Impact Fees	1,069	933	1,206	1,270	958	992	1,022	1,052	1,084	1,117
Grants/Donations/Other	441	2,061	3,123	7,327	1,280	0	2,954	2,954	2,954	2,954
GF Trans In	5,240	100	4,000	4,168	3,440	4,003	4,124	4,247	4,375	4,506
Total	8,788	4,895	10,810	15,246	7,943	7,741	10,928	11,167	11,413	11,667
% Change	-46.8%	-44.3%	120.8%	41.0%	-47.9%	-2.5%	41.2%	2.2%	2.2%	2.2%

PROJECTIONS / ASSUMPTIONS

- A base increase of 0.25% to the electric franchise fee current rate of 1.0% in FY 2012. FY 2013 will have a 0.25 base increase which will bring the electric franchise fee rate to 1.5%.
- Interest income and Grants/Donations in the Capital Fund had benefited from high fund balances related to reserves for proposed capital facilities. Recent reductions of fund balance coupled with nominal interest rates and lack of eligible grant programs have deteriorated these revenue resources.
- The Parks & Recreation Department will continue to develop partnerships for the construction of major projects such as the Marianne Williams Park, Esther Simplot/River Recreation Facility and Julia Davis Park.
- No other fee increases are assumed.

THREATS / OPPORTUNITIES

- A rebound in development activity will positively affect impact fee revenue.
- A drought could impact power rates, thus impacting electric franchise fee revenue.
- Economic conditions causing interest rates to fluctuate.
- Further increases in the electric franchise fee rate, as provided by Idaho State Code up to 3% through approval of the utility board of directors or the electorate, could provide additional revenue to fund the several other proposed capital projects.