

DEBT SERVICE FUND



FY19 ADOPTED BUDGET

DEBT MANAGEMENT POLICY

Shelby County has adopted and maintains an updated debt management policy to provide written guidance related to the purpose and use of debt to fund the County's capital needs and the process of issuance of the County's debt obligations. The debt policy is intended to assist in maintaining the County's ability to incur debt and other long-term obligations at favorable interest rates and to repay debt responsibly without impairing other resources. Responsible issuance of debt for capital needs provides an investment in our community and makes these capital expenditures affordable to current users while allowing capital costs to be more equitably distributed to both current and future users.

The debt policy formally establishes the parameters for issuing debt in consideration of the County's ability to repay financial obligations within the context of legal, economic, financial and debt market conditions. It is intended to provide guidance in debt issuance decisions, to promote sound financial management, to protect and enhance the County's credit rating, to ensure the legal use of debt proceeds and to provide for the evaluation of debt issuance options. Specific guidelines in the policy address the types of acceptable investments, diversification, interest structure, the use of derivatives, and debt refunding.

The Debt Management Policy for Shelby County was first established by resolution in 2002 and updated in 2005 and 2011. The current Debt Management Policy was updated and adopted by resolution in 2014.

USE AND PURPOSE OF DEBT

Debt is issued primarily for school construction and for major capital improvements to County facilities, roads and equipment. A five-year Capital Improvement Plan is developed and updated annually as a part of the budget process. The plan includes consideration of all funding sources and the timing of the capital projects identified in the operating and capital budgets. During the annual budgeting process, the current year proposed capital improvement projects are reviewed and prioritized to ensure consistency with the County's goals and objectives.

The County's share of allocations in the Capital Improvement Plan is limited to approximately \$75 million each year. To the extent practical, no more than \$55 million will be funded by debt each year. About 80% of the County's total expenditure for Debt is related to schools.

CAPITAL FINANCING

Decisions regarding the use of capital financing are based in part on the long-term needs of the County versus the amount of other funding resources dedicated in a given fiscal year to capital outlay on a "Pay-As-You-Go" basis, as defined below. It is the County's preference to provide capital outlay on a Pay-As-You-Go basis, except for Education capital funding and for projects in excess of \$5 million. The County also includes Pay-As-You-Go funding in the Operating Budget for smaller asset acquisitions and improvements each year rather than in the Capital Improvement Budget. These capital expenditures are detailed in the CIP section of this book. The Capital Improvement Plan identifies the projects intended to be financed by the issuance of debt.

Capital financing typically includes two types of funding: Pay-As-You-Go and Debt financing:

Pay-As-You-Go financing is defined as all sources of funding other than debt issuance – including state, federal and local governmental reimbursements or grants, CIP fund balance, private donor contributions, investment earnings and any other dedicated revenue sources.

To the extent available, this form of financing will be used for:

- Projects that do not constitute assets of the County
- Smaller projects or those with a shorter useful life
- Other non-school related projects

Debt Financing is generally obtained either through a short term borrowing program or the issuance of long term general obligation debt. A short term borrowing program may be established each fiscal year to cover the estimated amount of current year payments for projects authorized in that year as well as the payments expected from projects appropriated in previous fiscal years and continuing into the current year. When short term borrowing is used, it is converted to long term general obligation debt within two to three years of the initial draw date.

REVENUE SOURCES FOR DEBT SERVICE

Property taxes are the primary funding source for repayment of annual debt service, with about 15% of the tax rate allocated directly to the Debt Service Fund. The allocation for debt service has been reduced over the past decade through controlled limitation of new debt issuance.

Prior to FY2017, the Wheel Tax revenue collected on license renewals was divided between the Education Fund and the Debt Service Fund for repayment of debt incurred for school construction. Since then, the County Commission has allocated 100% of the Wheel Tax to Education to increase overall funding for operations. This change represents another significant debt funding restructure made possible through gradual debt reduction.

Current debt service obligations are paid with current funding sources. Fund balance is used only for savings opportunities associated debt refinancing, repayment or other non-recurring costs. Fund Balance is maintained at or above the recommended policy level.

BOND RATINGS

Credit ratings issued by the bond rating agencies are a major factor in determining the cost of borrowed funds in the municipal bond market. Determination of a credit rating by a rating agency is based on the rating agency's assessment of the credit worthiness of an issuer with respect to a specific obligation. To make this judgment, the rating agencies analyze the issuer in four broad areas: economic base, debt burden, administrative management and fiscal management. In an effort to maintain the ability to access the municipal markets at the lowest cost, Shelby County intends to maintain or increase the current ratings assigned by the nation rating agencies.

Current bond ratings: Moody's AA1
 S&P/Fitch AA+

Debt Service Fund Overview

FY19 Adopted Budget

DEBT LIMIT

Debt may generally be issued without regard to any limit on indebtedness. However, the Debt Management Policy stipulates that General Obligation Bonds and Notes should be maintained at a level considered manageable by the rating agencies based upon current economic conditions such as population, per capita income and assessed valuation. Several debt affordability target ratios were established for this purpose. The County conducts its finances so that the amount of general obligation debt does not exceed 12% of the County's taxable assessed valuation or 5% of the appraised valuation. On a per capita basis, debt should be maintained at a level below 6% of the personal income of County residents. Comparisons of actual performance versus standards established by the current County Debt Management Policy are shown on the following page.

Shelby County's tax-supported debt level peaked in fiscal year 2007 at \$1.85 billion and has been declining since then. It is the County's intent to consistently reduce its outstanding debt over time until debt reaches a level of approximately \$700 million.

Debt Affordability Targets:

Debt to Appraised Property Value Percentage	Under 5%
Debt to Assessed Property Value Percentage	Under 12%
Debt to Per Capita Personal Income Percentage	Under 6%
Principal Debt Percent Retired in Ten Years	Over 50%
Debt Service as Percent of Non-Capital Expenditures	Under 20%
Debt per Capita	Under \$2,000

BONDED DEBT RATIO ANALYSIS						
(in thousands)						
		2014	2015	2016	2017	2018
Estimated Population						
Appraised Property Valuation		\$ 60,586,935	\$ 59,884,234	\$ 59,897,289	\$ 60,418,966	\$ 67,369,896
Assessed Valuation		18,165,887	17,966,889	17,939,880	18,102,855	20,264,792
Total General Fund Revenue		380,460	381,887	387,500	387,470	393,476
Total General Obligation Debt		1,269,191	1,143,350	998,061	989,747	890,040
<u>Debt Ratio Targets</u>	<u>Goal</u>					
Debt to Appraised Valuation %	under 5%	2.09%	1.91%	1.67%	1.64%	1.32%
Debt to Assessed Property Valuation %	under 12%	6.99%	6.36%	5.56%	5.47%	4.39%
Debt Per Capita	under \$2,000	1,375	1,331	1,204	1,138	955 *
Debt to Per Capita Personal Income %	under 6%	3.24%	3.08%	2.69%	2.51%	2.21% *
Principal Debt % Retired in 10 Years	over 50%	73.89%	80.38%	90.44%	88.44%	93.38%
Debt Service as % of Non-Capital Expenditures	under 20%	16.07%	16.03%	23.94%	21.45%	12.84% *
<u>Fund Balance Targets:</u>						
General Fund - Unassigned as % of annual revenue (preferred balance > 25%)	20 - 30%	26.93%	28.22%	27.30%	28.35%	29.35%
Debt Service Fund - Committed as % of annual revenue	20 - 30%	45.14%	44.17%	32.90%	37.70%	36.76%

* Estimates based on preliminary close of Fiscal Year 2018

Shelby County's debt obligations are within the stated affordability targets, with favorable trends achieved over the past four years.

Debt Service Fund Overview

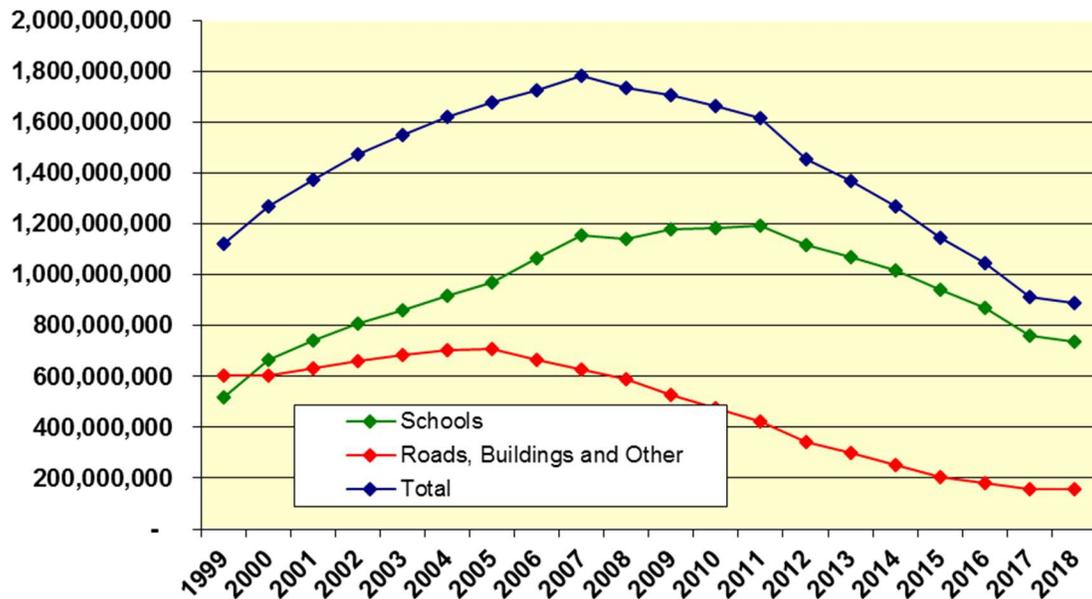
FY19 Adopted Budget

FY19 Debt Service for Outstanding Debt

Description	Debt Service at 6/30/2018	FY19 Principal	FY19 Interest	FY19 Debt Service
2006B PUBLIC IMP/SCHOOLS	150,145,000	-	6,651,424	6,651,424
2009A PUBLIC IMP/SCHOOLS	49,685,000	20,515,000	2,390,350	22,905,350
2009B PUBLIC IMP/SCHOOLS	29,455,000	4,425,000	1,268,663	5,693,663
2009C PUBLIC IMP/SCHOOLS	60,000,000	-	3,416,213	3,416,213
2011A REFUNDING BOND PI/SCH%	60,355,000	7,850,000	2,739,863	10,589,863
2011A REV-PORT COMM	16,807,500	615,000	786,050	1,401,050
2012A REFUNDING PI/SCH	208,275,000	18,800,000	9,847,125	28,647,125
2012B REFUNDING SCHOOL%*	390,000	390,000	15,600	405,600
2015A REFUNDING PI/SCH	103,985,000	29,400,000	4,939,188	34,339,188
2016A REFUNDING PI/SCH	64,790,000	2,970,000	3,029,275	5,999,275
2017A PUBLIC IMP/SCHOOLS	80,030,000	2,620,000	4,001,500	6,621,500
2009QCSB	27,891,401	3,439,402	835,068	4,274,470
2010QSCB	38,231,311	4,196,919	3,260,765	7,457,684
TOTAL GENERAL OBLIGATION BONDS	890,040,212	95,221,321	43,181,082	138,402,403
Swap Interest & Issuance Cost			1,902,030	1,902,030
Capital Lease - Forensic Facility	5,754,636	356,070	99,798	455,868
SunTrust Loan Interest & Fees			1,450,000	1,450,000
TOTAL DEBT OUTSTANDING	895,794,848	95,577,391	46,632,910	142,210,301

*2012B Refunding Bonds will be retired in FY2019

Outstanding Debt - Principal Only



Debt Service Fund Overview

FY19 Adopted Budget

OUTSTANDING DEBT OBLIGATIONS

As of June 30, 2018

	Debt Outstanding	FY19 Payment Requirement		
	at 6/30/18	Principal	Interest	Total
School 82.5%	734,543,583	78,167,911	34,853,932	113,021,843
County Infrastructure 17.5%	\$ 155,496,629	\$ 17,053,410	\$ 8,327,150	\$ 25,380,560
Total Bonds & Notes Payable	890,040,212	95,221,321	43,181,082	138,402,403
Swap Interest & Issuance Cost	-	-	1,902,030	1,902,030
Capital Leases - Forensic Center	5,036,947	356,070	99,798	455,868
SunTrust Loan Interest & Fees	-	-	1,450,000	1,450,000
Total Debt Service	\$ 895,077,159	\$ 95,577,391	\$ 46,632,910	\$ 142,210,301

Schedule of Outstanding Bonded Debt June 30, 2018				
FY Ended	Bonds	Interest	Fiscal	
June	Payable	Payable	Total	
FY19 Budgeted Debt Payments	2019	95,221,321	43,181,082	138,402,403
	2020	93,441,321	38,961,188	132,402,509
	2021	91,413,821	34,794,183	126,208,004
	2022	88,701,321	30,828,186	119,529,507
	2023	87,656,321	27,213,917	114,870,238
	2024	79,586,321	23,561,414	103,147,735
	2025	78,701,321	20,144,258	98,845,579
	2026	69,141,321	16,662,032	85,803,353
	2027	47,540,604	13,082,686	60,623,290
	2028	25,624,040	7,867,857	33,491,897
	2029	23,752,500	6,549,022	30,301,522
	2030	17,610,000	5,480,331	23,090,331
	2031	31,350,000	4,452,528	35,802,528
	2032	12,627,500	3,161,088	15,788,588
	2033	13,207,500	2,480,325	15,687,825
	2034	13,817,500	1,768,500	15,586,000
	2035	6,997,500	1,024,000	8,021,500
	2036	7,345,000	674,125	8,019,125
	2037	6,305,000	315,250	6,620,250
	TOTAL	890,040,212	282,201,972	1,172,242,184

Annual Debt Service payments for principal and interest will be \$7.6 million less for FY19 than prior year; total outstanding debt will be reduced by \$100 million by 6/30/2019.

Fiscal Year	Annual Debt Service Payments			Outstanding Debt at 6/30
	Principal	Interest	Total	
FY2018	\$ 100,066,842	\$ 49,745,610	\$ 149,812,452	\$ 995,144,001
FY2019*	\$ 95,577,391	\$ 46,632,910	\$ 142,210,301	\$ 895,077,159
Reduction	\$ (4,489,451)	\$ (3,112,700)	\$ (7,602,151)	\$ (100,066,842)

Prime Accounts Summary

Debt Service Fund

Acct	Description	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Amended	FY19 Proposed
40 -	Property Taxes	(135,962,536)	(135,065,977)	(136,445,315)	(130,760,000)	(122,937,000)
41 -	Other Local Taxes	(48,816,906)	(35,506,016)	(13,752,783)	(14,729,000)	(14,060,000)
44 -	Intergovernmental Revenues-Federal &	(1,115,919)	(994,950)	(1,113,771)	(1,109,586)	(1,109,586)
45 -	Charges for Services	(225,750)	(225,750)	(206,938)	(225,750)	0
47 -	Other Revenue	(614,371)	(641,241)	(576,880)	(571,000)	(553,400)
48 -	Investment Income	(1,306,292)	(1,468,280)	(514,672)	(400,000)	(400,000)
	Revenue	(188,041,774)	(173,902,214)	(152,610,359)	(147,795,336)	(139,059,986)
64 -	Services & Other Expenses	267,565	254,300	2,412	0	0
66 -	Professional & Contracted Services	134,579	135,682	117,151	166,300	108,928
	Operating & Maintenance	402,144	389,982	119,563	166,300	108,928
80 -	Debt Service Expenditure	161,410,530	280,852,532	248,940,527	149,812,459	142,101,373
	Debt Services	161,410,530	280,852,532	248,940,527	149,812,459	142,101,373
94 -	Other Sources & Uses	17,827,758	(85,819,811)	(100,648,257)	0	0
	Other Financing Sources	17,827,758	(85,819,811)	(100,648,257)	0	0
	Expenditures	179,640,432	195,422,703	148,411,833	149,978,759	142,210,301
99 -	Planned Use of Fund Balances	0	0	0	(2,183,423)	(3,150,315)
	Planned Fund Balance Change	0	0	0	(2,183,423)	(3,150,315)
	Planned Fund Balance Change	0	0	0	(2,183,423)	(3,150,315)
96 -	Operating Transfers In	(2,248,502)	0	0	0	0
	Operating Transfers In	(2,248,502)	0	0	0	0
98 -	Operating Transfers Out	6,508,000	6,680,000	6,680,000	0	0
	Operating Transfers Out	6,508,000	6,680,000	6,680,000	0	0
	Net Transfers	4,259,498	6,680,000	6,680,000	0	0
	SUMMARY TOTAL	(4,141,844)	28,200,489	2,481,474	0	0

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