DEBT SERVICE FUND OVERVIEW

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, 2011 and 2014. The current Debt Management Policy was updated and adopted by resolution in January 2019.

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. About 82% 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 SERVICE FUND OVERVIEW

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 and Fund Balance when the Fund Balance is above policy guidelines.

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 national rating agencies.

Current bond ratings:	Moody's	Aa1
	S&P/Fitch	AA+

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.

DEBT SERVICE FUND OVERVIEW

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)

		2015	2016	2017	2018	2019	
Appraised Property Valuation		$ 59,884,234	$ 59,897,289	$60,418,966	$ 67,338,527	$ 67,338,527	*
Assessed Valuation		17,966,889	17,939,880	18,102,855	20,247,539	20,247,539	*
Total General Fund Revenue		381,887	387,500	387,470	406,821	427,838	
Total General Obligation Debt		1,143,350	998,061	989,747	890,040	965,474	
Debt Ratio Targets	Goal						
Debt to Appraised Valuation %	under 5%	1.91%	1.67%	1.64%	1.32%	1.43%	
Debt to Assessed Property Valuation %	under 12%	6.36%	5.56%	5.47%	4.40%	4.77%	
Debt Per Capita	under $2,000	1,331	1,204	1,138	1,011	1,011	*
Debt to Per Capita Personal Income %	under 6%	3.08%	2.69%	2.51%	2.19%	2.19%	*
Principal Debt % Retired in 10 Years	over 50%	82.69%	93.74%	92.46%	98.66%	84.07%	
Debt Service as % of Non-Capital Expenditures	under 20%	30.89%	23.94%	21.45%	13.17%	13.17%	*
Fund Balance Targets:							
Debt Service Fund Balance as % of annual revenue (preferred balance > 25%)	20 - 30%	48.61%	36.35%	39.79%	36.55%	45.64%	

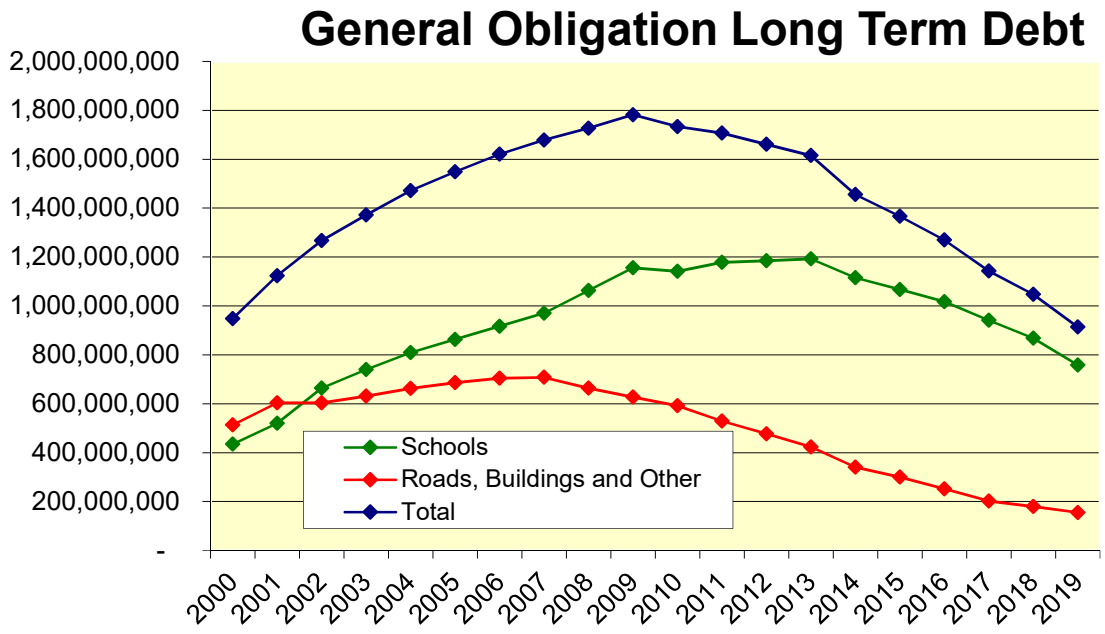
**Based on April 2018 Certified Tax Roll (2019 not available)*

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

DEBT SERVICE FUND OVERVIEW

FY20 Debt Service for Outstanding Debt

Description	Debt Outstanding as of 6/30/2019	FY20 Principal Payments	FY20 Interest Payments	FY20 Total Debt Service
2006B PUBLIC IMP/SCHOOLS	150,145,000	2,705,000	6,621,467	9,326,467
2009A PUBLIC IMP/SCHOOLS	29,170,000	14,595,000	1,416,450	16,011,450
2011A REFUNDING BOND PI/SCH%	52,505,000	8,665,000	2,366,988	11,031,988
2011A REV-PORT COMM	16,192,500	645,000	756,050	1,401,050
2012A REFUNDING PI/SCH	189,475,000	20,450,000	8,942,875	29,392,875
2015A REFUNDING PI/SCH	74,585,000	28,310,000	3,469,188	31,779,188
2016A REFUNDING PI/SCH	61,820,000	3,115,000	2,880,775	5,995,775
2017A PUBLIC IMP/SCHOOLS	77,410,000	2,750,000	3,870,500	6,620,500
2019A PUBLIC IMP/SCHOOLS	181,130,000	4,670,000	8,918,571	13,588,571
2019B PUBLIC IMP/SCHOOLS	74,555,000	3,495,000	3,861,271	7,356,271
2009QCSB	24,451,999	3,439,402	835,068	4,274,470
2010QSCB	34,034,392	4,196,919	3,260,765	7,457,684
Total General Obligation Bonds	**965,473,891**	**97,036,321**	**47,199,967**	**144,236,288**
Issuance Costs			1,297,578	1,297,578
Line of Credit (Int. & Fees)			1,300,000	1,300,000
Capital Lease - Forensic Facility	4,680,878	351,619	88,392	440,011
	970,154,769	**97,387,940**	**49,885,937**	**147,273,877**



DEBT SERVICE FUND OVERVIEW

OUTSTANDING DEBT OBLIGATIONS

As of June 30, 2019

	Debt Outstanding at 6/30/19	FY20 Payment Requirement		
		Principal	Interest	Total
School 82.5%	795,758,020	76,594,514	38,179,418	114,773,932
County Infrastructure 17.5%	$ 169,715,871	$ 20,441,807	$ 9,020,549	$ 29,462,356
Total Bonds & Notes Payable	**965,473,891**	**97,036,321**	**47,199,967**	**144,236,288**
Issuance Cost	-	-	897,578	897,578
Line of Credit (Int. & Fees)			1,700,000	1,700,000
Capital Leases - Forensic Center	4,680,878	351,619	88,392	440,011
Total Debt Service	**$ 970,154,769**	**$ 97,387,940**	**$ 49,885,937**	**$ 147,273,877**

FY20 Budgeted Debt Payments

Schedule of Outstanding Bonded Debt June 30, 2019			
FY Ended June	Bonds Payable	Interest Payable	Fiscal Total
2020	97,036,321	47,199,967	144,236,288
2021	96,703,821	41,331,708	138,035,529
2022	94,261,321	37,101,211	131,362,532
2023	93,491,321	33,208,942	126,700,263
2024	85,736,321	29,238,489	114,974,810
2025	85,216,321	25,459,083	110,675,404
2026	76,046,321	21,682,326	97,728,647
2027	54,730,604	17,914,774	72,645,378
2028	33,234,040	12,374,195	45,608,235
2029	31,812,500	10,709,922	42,522,422
2030	26,150,000	9,274,669	35,424,669
2031	40,385,000	7,865,316	48,250,316
2032	22,182,500	6,169,488	28,351,988
2033	23,067,500	5,310,531	28,378,031
2034	23,987,500	4,415,925	28,403,425
2035	18,217,500	3,389,750	21,607,250
2036	19,015,000	2,591,075	21,606,075
2037	18,445,000	1,765,400	20,210,400
2038	12,625,000	964,550	13,589,550
2039	13,130,000	459,550	13,589,550
TOTAL	**965,473,891**	**318,426,871**	**1,283,900,762**

Total Outstanding Debt will be reduced by $97 million by 6/30/2020.

Prime Accounts
Summary

Debt Service Fund

Acct Description	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Amended	FY20 Proposed
40 - Property Taxes	(135,065,977)	(136,445,315)	(133,844,039)	(122,937,000)	(121,607,985)
41 - Other Local Taxes	(35,506,016)	(13,752,783)	(14,594,741)	(14,060,000)	(11,229,940)
44 - Intergovernmental Revenues-Federal &	(994,950)	(1,113,771)	(1,114,966)	(1,109,586)	0
45 - Charges for Services	(225,750)	(206,938)	(188,125)	0	0
47 - Other Revenue	(641,241)	(576,880)	(551,617)	(553,400)	(418,100)
48 - Investment Income	(1,468,280)	(514,672)	(2,088,513)	(400,000)	(2,393,309)
Revenue	**(173,902,214)**	**(152,610,359)**	**(152,382,002)**	**(139,059,986)**	**(135,649,334)**
64 - Services & Other Expenses	254,300	2,412	0	0	0
66 - Professional & Contracted Services	135,682	117,151	108,928	156,928	156,928
Operating & Maintenance	389,982	119,563	108,928	156,928	156,928
80 - Debt Service Expenditure	280,852,532	248,940,527	147,950,003	263,212,623	147,116,949
Debt Services	280,852,532	248,940,527	147,950,003	263,212,623	147,116,949
94 - Other Sources & Uses	(85,819,811)	(100,648,257)	0	(114,391,812)	0
Other Financing Sources	(85,819,811)	(100,648,257)	0	(114,391,812)	0
Expenditures	**195,422,703**	**148,411,833**	**148,058,931**	**148,977,739**	**147,273,877**
99 - Planned Use of Fund Balances	0	0	0	(9,917,753)	(11,624,543)
Planned Fund Balance Change	0	0	0	(9,917,753)	(11,624,543)
Planned Fund Balance Change	**0**	**0**	**0**	**(9,917,753)**	**(11,624,543)**
98 - Operating Transfers Out	6,680,000	6,680,000	0	0	0
Operating Transfers Out	6,680,000	6,680,000	0	0	0
Net Transfers	**6,680,000**	**6,680,000**	**0**	**0**	**0**
SUMMARY TOTAL	**28,200,489**	**2,481,474**	**(4,323,072)**	**0**	**0**