



Shelby County Government

LEE HARRIS
MAYOR

April 20, 2020

The Honorable Eddie Jones, Budget Chairman
The Honorable Mark Billingsley, Commission Chairman
Members of the Shelby County Board of Commissioners

Dear Commissioners:

I am pleased to present the Fiscal Year (FY) 2021 Proposed Budget for Shelby County Government (the “County”). This budget has been prepared during the beginning of the greatest health and economic crisis our country has faced in nearly 100 years. Considering the economic conditions we are facing, this budget does not contain a property tax increase. It does include both a revenue increase in the Motor Vehicle Registration Fee, which has not been increased since 2001, and a reduction in expenditures. It is our goal to achieve these expenditure reductions without layoffs, but this will take the close collaboration of us all. Meanwhile, this proposed budget also provides additional resources for:

- Services to the newly de-annexed areas of Memphis, including Sheriff’s department patrolmen;
- Investment to support our community and focus on creating a sustainable social safety net for our most vulnerable residents; and
- Our corrections center, which is being significantly underfunded by the State of Tennessee.

Furthermore, this proposed budget fully funds our commitment to the schools. Total uses of funds equal sources of funds in the amount of \$1.4 billion.

PROPERTY TAXES

Property taxes are fundamental to the County budget because this funding source represents 59% of all operating revenue. The Administration has worked closely with the Trustee and the Assessor to forecast property tax revenues for FY 2021. Total property taxes and interest are projected to decrease by \$8.6 million in FY 2021 compared to FY 2020 due to the cyclical reductions in the property tax levy, low growth in assessed values, and lower delinquent tax balances. The budgeted property tax revenue for FY 2021 is also based on recent collection patterns, less a 0.5% reduction in the collection rate for potential underpayments due to the looming economic impact of COVID-19. The resulting proposed property tax revenues of \$788 million (both current and delinquent taxes) are 0.9% below the FY 2020 property tax

budget. This decrease in projected property tax revenues limits the expenditures that can be approved, which is reflected in the proposed budget.

With this budget I am proposing no change in the current \$4.05 tax rate. A change in the tax rate of one penny impacts total property taxes by value of \$1,929,000.

DEBT

County debt continues to be managed at acceptable levels. Outstanding long-term debt is projected to end FY 2020 at \$869 million, which is a net decrease of \$97 million. A line of credit for \$150 million was established in October 2019 to fund approved CIP projects, and we expect to have drawn \$125 million on this line of credit as of June 30, 2020. A new debt issuance is budgeted to occur in FY 2021 to pay off this line of credit and fund future CIP needs. Our existing revenue sources for debt service and our current debt service fund balance that is higher than the fund balance policy's 20% minimum are able to support our debt service costs in FY 2021. However, additional revenue will be needed in FY 2022. Therefore, it is important to maintain adherence to our existing debt policy and limit our annual CIP budgets to \$75 million. With continued vigilance, we can prevent debt burden from growing, which would constrain our financial ability to respond to other pressing needs of the community. Steps that can ensure continued effective control of future debt levels include:

- Planning
School construction and renovations account for 85% of our outstanding debt. It is imperative that a five-year CIP plan for Shelby County Schools (SCS) is evaluated annually for effective debt planning and facility utilization.
- Policy
Adherence to the debt ceiling as established in the current Debt Policy and limiting budgeted expenditures to a maximum annual amount of \$75 million should be guiding principles for incurring debt and approving capital expenditures.
- Pay-As-You-Go
Creation of a dedicated funding source for smaller capital items is needed to avoid the use of expensive long-term bond financing.

The major bond rating agencies have recognized our commitment to “live within our means” by awarding Shelby County the second highest ratings of AA+/AA+/AA1 over the past six years. Maintaining these ratings will ensure that we minimize the future cost of debt financing.

Proposal: Maintain the current tax rate allocation to Debt Service of \$0.62 cents.

EDUCATION

Our public education system in Shelby County is now in its seventh year of operations with seven independent school districts. Shelby County Government has supported the schools throughout the structural transition with increased funding of over \$66 million since 2013 by means of property tax growth and the dedication of 100% of the Motor Vehicle Registration Fee to school operations. Funding on a per pupil basis has increased significantly as total attendance declined during this period; therefore, the proposed budget provides no increase in the required Maintenance of Effort funding levels. Due to the lower property tax collections experienced a year ago in FY 2019, no growth in FY 2020, and a projection for a property tax revenue decrease in FY 2021, additional funding is needed for the Education Fund. In 1987, the Motor Vehicle Registration Fee was introduced to fund school construction, and in recent years, the Motor Vehicle Registration Fee has been fully dedicated to fund education, but it has not increased since 2001. The proposed budget includes a \$16.50 increase in the Motor Vehicle Registration Fee to fund education.

Proposal: Increase the Motor Vehicle Registration Fee by \$16.50 to fund education. Set the tax rate allocation to Education at \$1.92.

PRE-KINDERGARTEN

Providing sufficient funding to maintain and grow Pre-Kindergarten (Pre-K) classrooms in the community continues to be a major focus for the Administration. High quality Pre-K has an amazing return on investment for our entire community. That is why, in the FY 2021 budget, we are continuing our historic level of investment in Pre-K with a dedicated revenue source for Pre-K education. In the FY 2021 budget, we are proposing to invest \$8.5 million in Pre-K education from County sales tax collections. If this proposed \$8.5 million expenditure and dedicated source of funding is approved, we have a chance to increase the likelihood of high school graduation and employability. We have a chance to ignite a boom in community benefit.

Proposal: Provide Pre-K funding of \$8.5 million in Shelby County sales tax collections to a Special Revenue Fund dedicated to support Pre-K.

CAPITAL IMPROVEMENTS

A key focus in developing the five-year Capital Improvement Plan was the need to limit annual budgeted capital expenditures to \$75 million a year to remain in compliance with our debt policy and to minimize the need for a current tax increase to support higher debt levels. The five-year capital investment plans presented for FY 2021-FY 2025 illustrate the significant need for maintenance and renovations to aging county buildings and infrastructure. Investment in information technology is also recognized as a critical component of efficient and secure operations, with all projects reviewed and prioritized by the IT Steering Committee.

SCS has not yet submitted its detailed capital requests. However, as mentioned in the 2020 State of the County address, in FY 2023, we have included \$50 million for a new high school within the SCS network and the equivalent attendance-based funding for the municipal school districts in the amount of \$15 million. I encourage SCS to think about what this new school could offer our community and to rapidly advance their Reimagine 901 initiative. The other amounts allocated to the schools in the proposed CIP budget are primarily based on the \$75 million limit for total CIP less the County infrastructure needs. When SCS does submit its detailed capital request, we encourage the Commission to evaluate the request within the context of a multi-year plan to fully assess the future impact of any facility renovations, closures or new construction.

GENERAL FUND INVESTMENTS

Employees – Equitable compensation and a great benefits package is essential to retaining and recruiting productive employees. In March, the Administration proposed a parental leave policy to the Commission. With resounding support, the Commission approved this policy that will provide six weeks of paid leave to employees who are the birth or adoptive parents of a new child.

We are also pleased to announce that we are in the process of renegotiating the County's multiple benefits insurance plans, and there will be no increase in health insurance premiums for employees. Lastly, our required Pension and OPEB contributions are fully funded which will help ensure that these benefits will be there for both our retirees and current employees.

Additional Sheriff Department Deputies – The City of Memphis plans to de-annex portions of South Cordova, Windyke, and Southwind as of January 1, 2021. The Sheriff's department estimates that at least 30 additional patrolmen will be needed to cover for these areas. This proposed budget includes \$3.9 million of funding for these positions and their vehicles and equipment. Already, the Sheriff's department is planning to commence a training class in July for these new recruits who will ensure public safety.

Investment in Community Services – The COVID-19 crisis is impacting our community and disproportionately affecting our most vulnerable citizens. Specifically, I am proposing we hire permanent county employees in several priority areas, including a social worker to coordinate care for our high acuity cases and support citizens impacted by emergency situations, a community services coordinator who will oversee service programming, and a bi-lingual translator to help serve our community's Latino population. This proposed budget also includes expanded engagement and outreach programs to our community through the Community Services Agency. It is uncertain still what will be reimbursable through Federal and State programs, but regardless of such funding, our COVID Assistance Program will provide direct assistance to individuals and families for essential needs and services, including assistance with rent and mortgage payments, utility bills, emergency food supplies, prescription drug needs, temporary housing, and other essential supplies that are often not covered through government programs. The Emergency Food Assistance Program, which is part of this, includes opportunities to work with locally-owned and minority restaurants to provide meals, which has

added benefit of supporting that sector. All of these services will be provided directly to individuals and families. The funding in this proposed budget will help create efficient systems of working with new vendors, prioritizing needs, and ensuring necessary staffing and infrastructure to implement the care our most vulnerable citizens need. Serving those who are less advantaged improves the economic prosperity of our community as a whole.

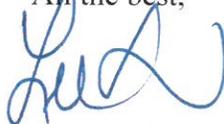
Proposal: Set the tax rate allocation to the General Fund at \$1.51.

I sincerely thank the Elected Officials and Division Directors for their ongoing partnership and support in the development and implementation of the Fiscal Year 2021 Budget. The decrease in projected revenue is requiring a difficult prioritization of our expenditures, and this budget effectively utilizes all available resources in delivering essential services to our taxpayers in the current year.

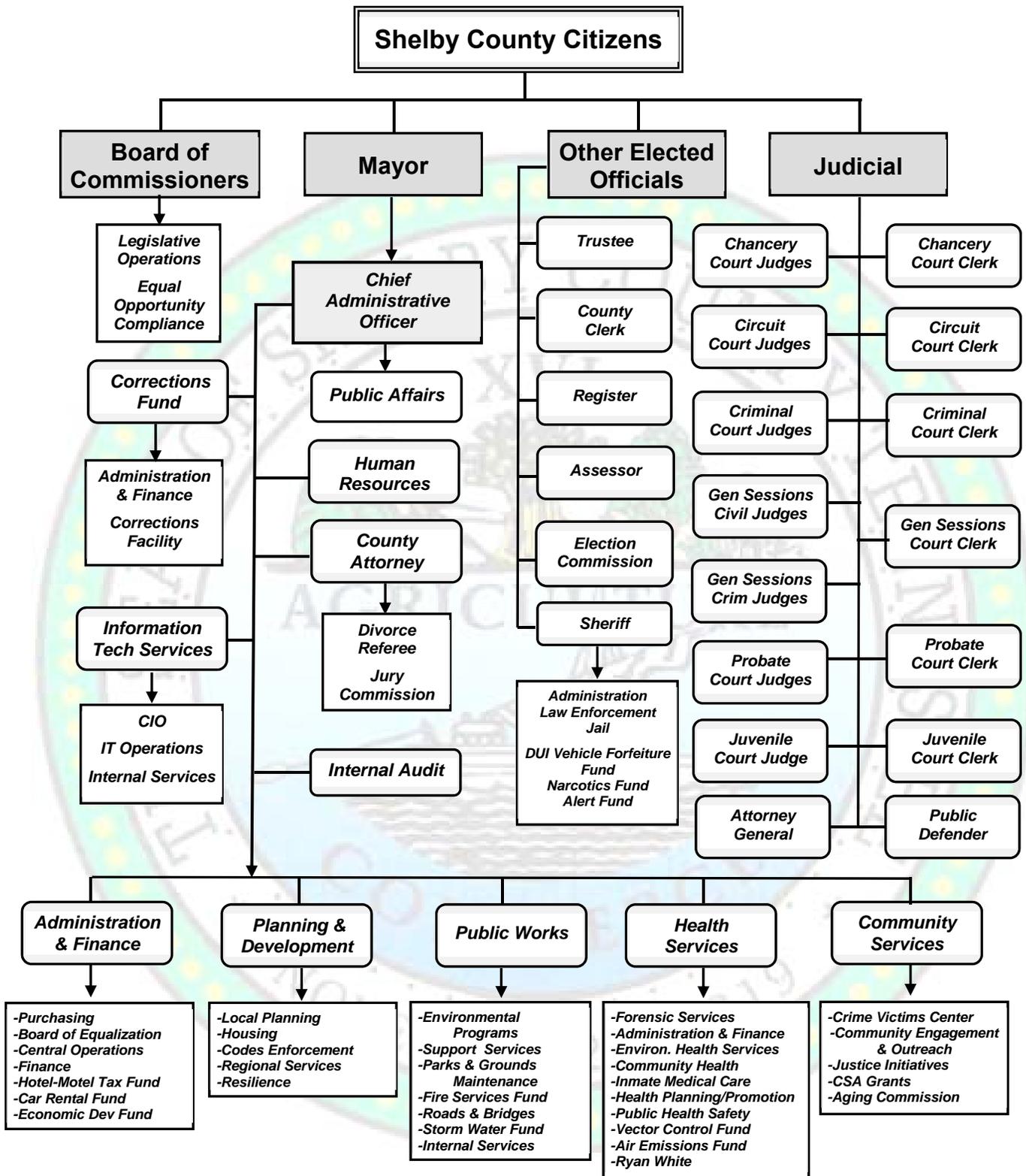
Looking further out to ensure the County's long-term financial sustainability, I have asked the CAO to establish a committee that will include the participation of local financial and business experts. This committee will be focused on considering and proposing long-term solutions to achieve structural balance for our budget.

We look forward to reviewing this proposed budget with the Board of County Commissioners with a shared sense of fiscal integrity and commitment to making Shelby County a great place to live, work, play, and invest. I am certain that Shelby County remains in an excellent position to meet the challenges of the future.

All the best,



Lee Harris
Mayor





Budget Development Guidelines

Although each fiscal year presents different circumstances and challenges, adherence to several underlying financial policies has successfully guided the Administration and County Commission in budget development.

What are the basic goals that guide the budget development process?

- To maintain structural budget balance by limiting recurring expenditures to reasonable projections of recurring revenues
- To maintain an appropriate fund balance to ensure a continued strong financial position for optimal credit ratings, sufficient cash flow, and resources for emergencies
- To maintain a stable property tax rate to allow adaptability to cyclical economic conditions or fiscal circumstances
- To adhere to the Debt Policy by limiting the Capital Improvement Plan to a maximum annual County expenditure of \$75 million
- To provide a compensation package of salary and benefits that will attract and retain a productive workforce
- To fully fund Pension and OPEB (other post-employment benefits) actuarial required contribution
- To actively seek to reduce or minimize expenditures through efficiency, technology, innovation, or identification of alternate funding sources
- To treat all public dollars as sacred and carefully scrutinize all expenditures to ensure they are being spent on either key strategic initiatives or the required core services of public safety, education, and health

What indicators measure our success in meeting those goals?

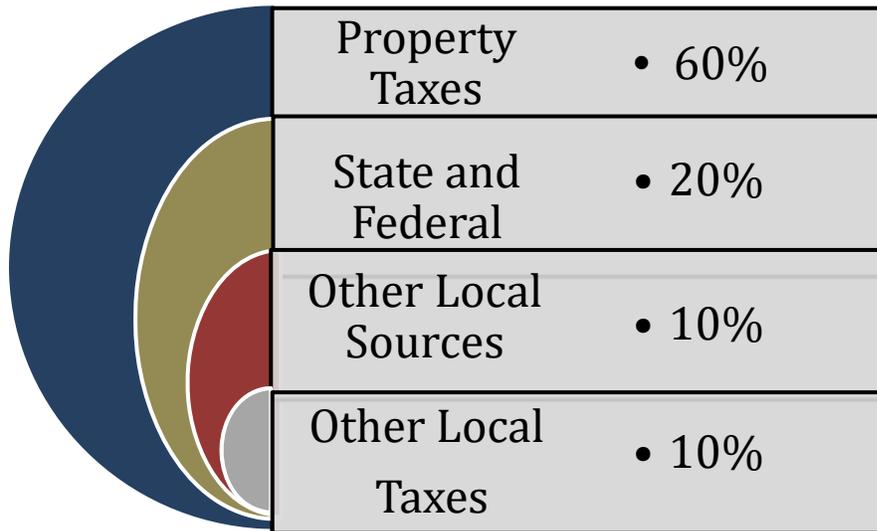
- Agency bond ratings maintained at AA+/AA1
- General Obligation Debt maintained within our debt policy
- No property tax increase since 2014 with tax reductions in Fiscal Year 2018 and Fiscal Year 2019
- Limited average Annual Expenditure growth, including compensation, benefits and operational cost increases
- General salary increases provided for FY 2015 through FY 2020
- No use of short-term borrowing for recurring expenditures
- Pension and OPEB obligations funded at 100% of annual required contribution (ARC)
- Capital expenditures maintained within levels required to be in compliance with the Debt Policy

Revenue Overview – All Funds

The Proposed Budget for Fiscal Year (FY) 2021 is based on a total revenue projection of \$1,319,106,657. This amount is \$19.0 million more than the FY 2020 amended budget for total revenue, primarily due to increases in the Intergovernmental Revenues from the Federal Government for grants (\$36.6 million), Other Local Taxes (\$10.4 million), and Fines, Fees, and Permits (\$2.6 million). These increases are partially offset by decreases in property tax revenue (\$6.1M), Intergovernmental Revenues from the State for grants and Corrections (\$19.9M), Interest and Investment Income (\$4.2 million), and Charges for Services (\$0.5 million). The property tax revenue is based on the proposed tax rate of \$4.05 with a penny value of \$1.9 million. Other sources of funds, such as planned use of fund balance, gain on sale of fixed assets, and transfers from other funds, are not included in this revenue analysis.

Major revenue source categories are shown below with a comparison of the relative contribution of each category to the prior year amended budget:

Revenue Category	FY21 Amount	FY21	FY20
Property Taxes	\$ 789,096,725	59.8%	61.2%
Intergovernmental-State	169,825,446	12.8%	14.6%
Other Local Taxes	133,869,406	10.2%	9.5%
Fines, Fees & Permits	109,802,011	8.3%	8.2%
Intergovernmental-Federal	90,386,623	6.9%	4.1%
Charges for Services	18,393,191	1.4%	1.5%
Other Revenue/Interest	7,395,753	0.6%	0.9%
Total Revenue	\$ 1,318,769,154	100.0%	100.0%



A more detailed analysis of revenue sources is provided in the “All Funds Summary” and the “General Fund Summary” sections of this document.

INTRODUCTION

Budget Overview

Revenue is also recorded by fund type on the basis of property tax allocations or the specific nature of the revenue source, as shown below. The most significant changes in the proposed FY 2021 budget by fund type are increases in the Grants Fund (\$20.1 million) and the Enterprise Funds (\$4.3 million) and a decrease in the General Fund (\$7.2 million).

<u>Revenue Fund Type</u>	<u>FY21 Amount</u>	<u>FY21</u>	<u>FY20</u>
General Fund	\$ 427,725,391	32.4%	33.5%
Education Fund	427,562,135	32.4%	32.9%
Grants Fund	179,680,886	13.6%	12.2%
Debt Service Fund	132,044,206	10.0%	10.2%
Enterprise Funds	83,627,411	6.3%	6.1%
Special Revenue Funds	59,438,433	4.5%	4.4%
Internal Service Funds	8,690,692	0.7%	0.7%
Total Revenue	\$ 1,318,769,154	100.0%	100.0%

Major funds are those that constitute more than 10% of total revenue. For Shelby County, the General Fund, Education Fund, Grants Fund, and Debt Service Fund qualify as major funds. Although our focus is often placed on the General Fund and its impact on our residents and businesses, it is important to recognize that significant services are also provided to the community through Grants, Special Revenue Funds such as Roads and Bridges and Mosquito Control, and Enterprise Funds such as Fire Services, Codes Enforcement, and Corrections. In FY 2021, a new Special Revenue Fund will be established to provide solid waste services to the Northaven community.

Property Tax Revenue

Property taxes are the primary source of operating revenue for Shelby County, providing 60% of total revenues. Assessed values of properties are determined by the Shelby County Assessor to serve as the basis for taxation. The property tax rate is set by the County Commission as a part of the annual budget review process at a level determined appropriate to maintain a balanced budget while providing necessary services to residents. The County has attempted to maintain stable property tax rates and avoid the need for increases to adapt to cyclical economic and fiscal conditions, without the use of reserve funds for recurring expenditures.

Reallocation of the Tax Rate

A four-cent reallocation of the tax rate is proposed in the FY 2021 budget. As described in the Education section below, there is a proposed increase in Motor Vehicle Registration Fee of \$16.50; this level of increase will fully fund education, while keeping the fee less than its inflation-adjusted amount, and allow for pennies to be reallocated to the General Fund. The revenues derived from property taxes are allocated as follows.

<u>Fund</u>	<u>FY21 Proposed</u>			<u>FY20 Adopted</u>		
	<u>\$</u>	<u>Rate</u>	<u>%</u>	<u>\$</u>	<u>Rate</u>	<u>%</u>
Education	\$ 374.7	\$ 1.92	47.4%	\$ 384.8	\$ 1.96	48.4%
General Fund	294.1	1.51	37.3%	288.7	1.47	36.3%
Debt Service*	120.3	0.62	15.3%	121.6	0.62	15.3%
	<u>\$ 789.1</u>	<u>\$ 4.05</u>	<u>100.0%</u>	<u>\$ 795.2</u>	<u>\$ 4.05</u>	<u>100.0%</u>
*Debt Service						
Schools	\$ 93.7	\$ 0.48	11.9%	\$ 100.1	\$ 0.51	12.6%
Other	26.6	0.14	3.4%	21.5	0.11	2.7%
	<u>\$ 120.3</u>	<u>\$ 0.62</u>	<u>15.2%</u>	<u>\$ 121.6</u>	<u>\$ 0.62</u>	<u>15.3%</u>
Total Schools	\$ 2.40	59.3%		\$ 2.47	61.0%	

This does not include the use of fund balance to pay debt service, which is worth 6 cents for schools.

One penny on the property tax rate generates \$1,929,000 in FY 2021 revenue



Functional Expenditures – All Funds

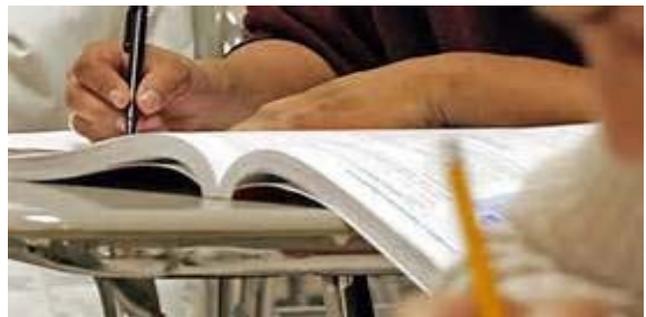
Fiscal Year 2021 countywide net expenditures by functional categories for all funding sources, excluding use of fund balance, consist of the following:

<u>Functional Category</u>	<u>FY21 Amount</u>	<u>FY21</u>	<u>FY20</u>
Education	\$ 436,062,135	33.1%	33.5%
Criminal Justice	356,614,219	27.0%	27.4%
Debt Service	132,044,206	10.0%	10.2%
General Government	85,335,144	6.5%	8.4%
Public Works	83,653,834	6.3%	6.9%
Health	96,876,105	7.3%	6.8%
Planning & Development	81,750,580	6.2%	3.7%
Community Services	46,432,931	3.5%	3.1%
Total	\$ 1,318,769,154	100.0%	100.0%

Including debt service for schools, Education represents 45.0% of total expenditures from all funding sources.

Education

Education is our highest priority and largest single investment. Shelby County Government has remained committed to fully supporting the success of all public school students throughout a period of significant organizational change. The County includes seven separate school districts that share funding on the basis of attendance, with the Shelby County School (SCS) district receiving about 77% of total funds.



State law requires that the County provide at least the same level of funding as the prior year on a total funding or per pupil basis, known as “Maintenance of Effort” (MOE). The funding approved for FY 2020 set the MOE level for the subsequent year. The proposed budget of \$427.3 million is equal to the FY 2020 budget. Due to lower property tax revenues, an increase in the Motor Vehicle Registration Fee is proposed in the FY 2021 budget to fund the budgeted expenditures

to the school systems. The fee was last increased to \$50 in 2001. To fully fund education, an increase of \$16.50 is proposed in FY 2021. This is 10% less than the inflation-adjusted fee would be.

Proposed funding includes the following resources:

- Education will receive 47.4% of all property taxes in FY 2021, excluding school debt.
- Including debt service costs on school debt, education will receive 59.3% of all property taxes.
- 100% of the Motor Vehicle Registration Fee. As proposed, this would provide approximately \$45.4 million for education operations.
- \$33.0 million has been allocated for school capital improvements for renovations and new construction.

Pre-K Fund

Providing sufficient funding to maintain and grow Pre-K classrooms in the community continues to be a major focus for the Administration. High quality Pre-K has an amazing return on investment for the entire community. That is why the FY 2021 Budget makes one of the largest investments in Pre-K in county history. In addition, the Pre-K framework preserves existing classrooms and sets the stage to add classrooms.

The proposed budget includes \$8.5 million for Pre-K. Historically all Pre-Kindergarten (Pre-K) support was included in the General Fund. In FY 2020, a new special revenue fund for Pre-K was established that was funded by both sales taxes and a transfer from the General Fund. In FY 2021, the Pre-K fund will be fully funded by general sales taxes directed straight to the Pre-K fund. Accordingly, the share of sales taxes allocated to the General Fund will be reduced, and the sales taxes allocated to the Roads and Bridges fund will be eliminated. This change in the Roads and Bridges fund is possible due to an increase in the State of Tennessee's gasoline tax.

With this dedicated, recurring funding for Pre-K, we have a chance to increase the likelihood of high school graduation and employability.

General Fund Summary

The General Fund accounts for all functions of County Government that are not specifically funded by other sources. Total appropriations in the General Fund for FY 2021 are budgeted at \$436.4 million – a decrease of \$8.5 million or a negative 1.9% compared to the FY 2020 amended budget. Listed below are the primary adjustments to the FY 2021 General Fund budget:

- **Transfer of all Pre-K Expenses to New Fund** – Historically all Pre-K funding occurred in the General Fund, and in FY 2020, the General Fund continued to subsidize such funding with a transfer of \$2.5 million to Pre-K. As outlined above, in FY 2021, the Pre-K Special Revenue Fund will be funded directly by an allocation of the County's general sales tax receipts.
- **Employee Compensation/Benefits** – Equitable compensation and a great benefits package is essential to retaining and recruiting productive employees. In March, the Administration proposed a parental leave policy to the Commission. With resounding support, the Commission approved this policy that will provide six weeks of paid leave to employees who are the birth or adoptive parents of a new child. The estimated cost of this program is \$830,000.

We are also pleased to announce that we are in the process of renegotiating the County's multiple benefits insurance plans, and there will be no increase in health insurance premiums for employees. The County will also continue to fully fund its pension and OPEB obligations at 100% of the annual required contribution based on actuarial data.

- **Election Cycles** – The timing of the election cycles for which the County is reimbursed is unfavorable in FY 2021. As a result, approximately \$4.1 million of additional revenue will not be received in FY

2021. Meanwhile, expenditures related to the 2020 Presidential election will occur, so there will not be a commensurate reduction in costs.

- **Deannexation – Sheriff Department Deputies** – The City of Memphis plans to deannex portions of South Cordova, Windyke, and Southwind as of January 1, 2021. The Sheriff’s department estimates that at least 30 additional patrolmen will be needed to cover for these areas. This proposed budget includes approximately \$3.9 million of funding for these positions and their vehicles and equipment. Already, the Sheriff’s department is planning to commence a training class in July for these new recruits who will ensure public safety.
- **Investment in Community Services** – The COVID-19 crisis is impacting our community and disproportionately affecting our most vulnerable citizens. Specifically, I am proposing we hire permanent county employees in several priority areas, including a social worker to coordinate care for our high acuity cases and support citizens impacted by emergency situations, a community services coordinator who will oversee service programming, and a bi-lingual translator to help serve our community’s Latino population. This proposed budget also includes expanded engagement and outreach programs to our community through the Community Services Agency. It is uncertain still what will be reimbursable through Federal and State programs, but regardless of such funding, our COVID Assistance Program will provide direct assistance to individuals and families for essential needs and services, including assistance with rent and mortgage payments, utility bills, emergency food supplies, prescription drug needs, temporary housing, and other essential supplies that are often not covered through government programs. The Emergency Food Assistance Program, which is part of this, includes opportunities to work with locally-owned and minority restaurants to provide meals, which has added benefit of supporting that sector. All of these services will be provided directly to individuals and families. The funding in this proposed budget will help create efficient systems of working with new vendors, prioritizing needs, and ensuring necessary staffing and infrastructure to implement the care our most vulnerable citizens need. Serving those who are less advantaged improves the economic prosperity of our community as a whole.

In the General Fund, about 53% of the expenditure allocations are for Criminal Justice, 16% for Judicial Services, 11% for Health Services, and 20% for all other functions - including Public Works, Community Services and administrative services.

General Fund dollars are distributed on a functional basis as shown below:



Criminal Justice and Judicial operations account for 69% of General Fund expenditures.

Compensation & Benefits



Fringe Benefits account for just under 39% of all personnel costs

**Excludes Social Security benefits of \$428,450 that are paid only for temporary employees*

Personnel costs account for 71% of total General Fund expenditures. That factor makes employees the County’s primary asset and most important investment in delivering high quality services to its residents. It is important that we protect that investment by offering equitable compensation and benefits to recruit and retain a highly qualified and professional staff.

The average cost of benefits at FY 2021 rates is just under 39% of salaries for permanent full-time employees, as shown below. This cost is below last year due to an actuarial decrease for the OPEB contribution. The Annual Required Contributions for pensions and OPEB continue to be fully funded for this fiscal year.

Benefit Type	FY21 Budget	% of Salaries
Pension	\$ 49,030,388	22.10%
Health Insurance	27,212,641	12.26%
Other Post-employment Benefits	2,592,206	1.16%
Medicare	3,318,485	1.50%
Group Life Insurance	1,864,385	0.84%
OJI Expense	915,444	0.41%
Long-term Disability	843,412	0.38%
Unemployment Compensation	228,823	0.10%
Total Benefits*	\$ 86,005,784	38.75%

As we continue to explore innovative methods to contain these costs in the future, we are investing today in our current workforce through training programs and wellness initiatives.

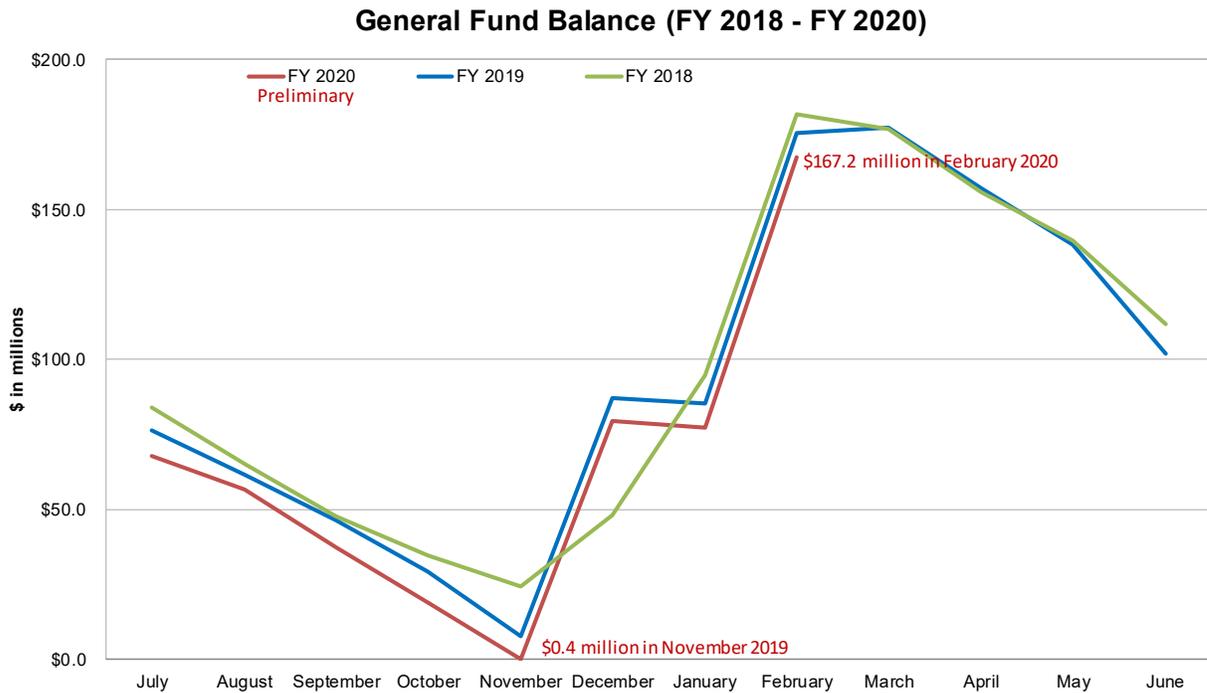
General Fund Balance

Maintaining an appropriate General Fund Balance is an essential element of a strong financial plan. Fund Balance is important for several reasons:

- To provide funds for contingencies/emergencies
- To absorb the impact of federal/state funding reductions
- To demonstrate financial stability for higher bond ratings and lower debt cost
- To provide sufficient cash flow during the property tax collection cycle

Shelby County Fund Balance policy requires that the General Fund balance is maintained at 20% to 30% of annual revenue, with 25% preferred. This percentage is based on the values at the end of each fiscal year. The policy also stipulates that action must be taken to increase or reduce the fund balance as necessary to maintain the recommended level.

As the following chart illustrates, our annual tax collection cycle causes our fund balance to fluctuate throughout the year. Property taxes are due at the end of February, and sizable payments do not begin until December. As a result, expenditures exceed revenues in the first five months of each fiscal year. This creates the need for large cash reserves during several months of the fiscal year. A fund balance within our policy levels is advised to allow for negative cash flow until December when significant property taxes payments commence.



In addition to the General Fund balance, the County maintains reserves within other funds that are dedicated for the specific uses or operating stabilization of those funds as listed in the All Funds section of this book.

Capital Improvement Plan

The Capital Improvement Plan presents the County’s funding level commitment over the next five years. However, only the first year of the CIP plan is actually budgeted. For FY 2021, the total CIP budget is \$88.2 million of which \$75 million is funded by County debt issuance, \$6.4 million is funded by County Pay-as-You-Go funds, and \$6.9 million is funded by Federal and other reimbursements. Projects funded with County resources include \$43.4 million for county infrastructure needs and \$33.0 million allocated for Shelby County Schools.

The County’s long-term goal is to limit allocations to approximately \$75 million per year in the County-funded CIP budget. Budgets in FY 2018 of \$120 million and FY 2019 of \$171 million exceeded the cap, which has led to additional debt levels. Holding to the \$75 million cap is a necessity to avoid an increase in the tax rate. Due to aging county and school facilities and the need for continued investment in technology, staying within the limits of the policy may present future challenges.

Shown below are the totals for each CIP project category budgeted for FY 2021, with the projects noted within each group. This prioritized list of projects are those considered to be most critical to the long term needs of the community.



Buildings & Property - \$23.8 million (27% of total CIP)

\$6.2M – Health Department Existing Building Demolition, Furniture and Equipment, and Parking

\$4.5M – Youth Justice and Education Center Design and Construction Initiation. 3420 Old Getwell Road facility was acquired as the site in FY 2020, and this project is expected to be completed in FY 2022.

\$4.0M – Criminal Justice Center Chiller Replacement

\$1.0M – Criminal Justice Center Renovation (*year 1*)

\$0.9M – Corrections W Building Roof Replacement

\$0.8M – Corrections Training Academy Renovation

\$0.4M – Corrections Kitchen Storage Expansion

\$3.3M – County Clerk & Public Defender Renovations

\$2.0M – Renovations at East Data Center (*multi-year project, completion in FY 2021*)

\$0.7M – Weather Proofing Renovation of 1060 Madison (Community Services)

Community Projects - \$6.5 million (7% of total CIP)

\$3.0M – Big Creek Resiliency (expanded floodway) (*two-year project, completion in FY 2021*)

\$1.1M – Transit Investment (*year one of multi-year commitment*)

\$0.6M – Bolton Estates Sewer Connection

\$0.3M – Agricenter Decking and Roof Renovation

\$0.3M – Binghampton Sports Complex

Information Technology - \$11.9 million (14% of total CIP)

\$8.2M – Land/Mobile radio project (*multi-year; will be completed in FY 2022*)

\$1.2M – Core Infrastructure Refresh (Servers and Network Hardware and Software)

\$1.2M – General Session Civil Case Management System (*two-year project; will be complete in FY 2022*)

\$0.8M – Register's Office Microfilm Equipment Replacement

\$0.5M – Courtroom Technology Update (*multi-year process*)

Roads & Bridges - \$6.6 million (8% of total CIP)

Initial costs for roadway widening and enhancements projects for Hacks Cross, Holmes, Houston Levee, Macon, and Walnut Grove Roads. These projects are funded with \$1.6M from the Roads and Bridges Special Revenue Fund and \$5.0M from Federal funds.

Schools - \$33.0 million (37% of total CIP)

Detailed listings from the school have not been submitted. We expect difficult choices will need to be made to hold all of the school systems within this proposed level.

Detailed project descriptions are provided in the CIP section of this document.

Long Term Debt

County debt continues to be managed at acceptable levels. The County issued \$58.6 million of debt in FY 2020 to refinance its 2009A and 2011A bonds for interest cost savings. Total outstanding long-term debt is projected to end FY 2019 at \$869 million which is a net decrease of \$97 million.

The County also entered into a new \$150 million line of credit in October 2020 to fund CIP projects. The balance on this line of credit is expected to be \$125 million as of June 30, 2020. In FY 2021, the County expects to issue new long-term debt to pay off this line of credit and fund future CIP needs.

Our current revenue sources for debt and existing fund balance can support our debt service in FY 2021. However, additional revenue may be needed in FY 2022. It is critical that the County maintain adherence to our existing debt policy and limit our annual CIP budgets to \$75 million. With continued vigilance, we can prevent debt burden from growing, which would limit our financial ability to respond to other pressing needs of the community

Challenges Ahead

Planning for the future is a critical element to the current year budget process. A five-year financial projection is included in the General Fund Summary that illustrates the need to continue our efforts to contain costs and maximize revenue sources. There are a number of significant issues that could impact our budget in the next several years:

- **Funding for Education** presents a continuing challenge for both the operating and capital budgets. The schools face several issues, including an immediate need to fund their annual requirements for OPEB, declining enrollments with underutilized schools, and insufficient State BEP funding. It will become necessary to find a sustainable balance between meeting the educational needs of the community while staying within a realistic level of available resources.
- **Reductions to State or Federal grant funding** may have a significant impact on the amount of funds available to the County in the future. Grant funds provide financial leverage to the County in providing important services to our community, especially for public health and community service programs. Some programs will need to be evaluated to determine whether county funding should be used to continue essential services if the grant funding is discontinued.
- **Aging infrastructure** of County roads and buildings has created additional maintenance needs that must be funded from the annual operating budget. While major structural renovations may qualify for CIP funding, the ongoing cost of repairs for roofing, paint, concrete and asphalt, carpets, HVAC, and plumbing generally do not qualify. Major building renovations or replacements, including the Regional One Medical Center and schools, could require an increased level of CIP investment and long-term debt service cost.
- **Maintaining affordable debt levels** will require long-term planning, project prioritization, allocation of funds for Pay-as-You-Go financing, and adherence to debt policy limitations on capital spending. Capital planning for Shelby County Schools is critical for effective debt planning. Proposed CIP expenditures need to be evaluated realistically to ensure that future funding levels can be sustained.
- **Providing equitable compensation** and benefits for employees is an important element in maintaining our ability to recruit and retain a highly productive staff. The economic dislocation associated with COVID-19 is likely to improve the County's employment position versus what had been an increasingly competitive employment market; however, higher minimum wages and market adjustments for some job classifications could require additional funding for implementation.
- **Health care** will continue to play a major role in the cost of current and post-employment personnel expenditures. The levels of benefits that can be realistically and responsibly provided to employees on a long-term basis require ongoing evaluation and possibly some plan modifications or cost sharing proposals. Changes to the Affordable Care Act could have an impact on Regional One Health services and County healthcare plans. Currently, our health care systems are also facing significant, multi-faceted challenges of COVID-19. The full impact of COVID-19 is yet to be known.
- **De-annexation** from the City of Memphis will begin to have impacts on the County in FY 2021. Assuming responsibility for public safety, fire, ambulance, and other basic services in the areas being de-annexed will require additional resources. Additional patrolmen for the Sheriff are included in this budget. An expansion in fire services will also need to occur in FY 2021.
- **State Reimbursement for Corrections** has not kept pace with the increasing operating costs for this facility. The County has continued to increase the supplemental funding, but service reductions may become necessary at some point.

Current Status and Outlook

Prior to COVID-19, employment was at record low levels in the County. However, nationally, unemployment filings have totaled more than 22 million new claims in the last month. This level of claims exceeds any previous period.

Across the country and in the County, “safer at home” policies have been implemented, and non-essential businesses have been closed. The financial markets have been extremely volatile, with a significant drop in equities and illiquidity in the bond markets. The economic uncertainties and financial market dislocation have reduced business investment.

Currently, there is talk of reopening the economy, but it is uncertain when this will occur. There are also significant Federal stimulus dollars, some of which will be directed to the County for us to respond to the COVID crisis.

Due to the novelty of COVID-19, all of the uncertainties it brings are not reflected in this FY 2021 budget. We will come out of the COVID-19 crisis, and we will rebuild our economy. There will be opportunities ahead. Enhanced workforce development activities along with collaborative economic development efforts by the Administration, Commission, and EDGE (Economic Development Growth Engine) can help bring new employers to Shelby County or help grow existing businesses in the community.

Five-year projections are developed annually in conjunction with budget preparation and updated throughout the year for short term planning purposes. Projections for the General Fund with discussion of the underlying assumptions are included in the “General Fund Summary” section of this document. Projections for other funds are also considered in budget development to ensure that dedicated revenues and fund balances will continue to be sufficient to maintain operations. All of these projections are likely to change as a result of the current economic situation.

Proactive financial management strategies that focus on operating efficiencies and effective debt management have been instrumental in maintaining the stability of Shelby County’s financial status. Continuing efforts to promote revenue diversification and economic development and to address the fragmentation of services created by multiple elected officials will be instrumental in meeting the challenges of future growth.



MISSION:

Shelby County Government strives to enhance public safety and support criminal justice system reforms, improve community health, support Pre-K to 12 public education, and promote workforce development. This mission is achieved through a dedicated workforce in an open, efficient and ethical government that is fiscally responsible and responsive to Shelby County's diverse needs.

STRATEGIC PLAN:

Strategic planning promotes the County's commitment to high performance by providing a focus for the efficient use of resources and services. The Administration has identified strategic goals and objectives as a roadmap to fulfilling the stated mission of Shelby County and to provide an objective foundation for decision-making and measurement of results. These planning initiatives are intended to assign appropriate levels of County resources toward achievement of the identified priorities with both a long and short term perspective.

These Strategic Goals are linked throughout the budget document to the divisions and departments that execute the strategies. Icons to represent each strategy are also used as a visual reference.



Strategy 1: Support Quality Public Education Pre-K to 12

- a) Provide sufficient operating and capital funding for all public schools in the County in a manner that is fiscally responsible.
- b) Enhance programs available in the community that provide pre-kindergarten (Pre-K) services to ensure that children (0-5 years of age) receive care and training that prepares them to enter school ready to learn.



Strategy 2: Enhance Public Safety and Support Criminal Justice Reform

- a) Support effective jail diversion programs for adult non-violent offenders with substance abuse or mental health issues to reduce detention costs and promote rehabilitation.
- b) Reduce the jail population by reforming the bail system to reduce or eliminate bail for individuals who don't pose a public safety risk and can be expected to show up for trial.
- c) Provide programs that promote adult re-entry strategies to reduce recidivism after arrest or incarceration.
- d) Reduce the number of youth that interact with the criminal justice system by implementing new diversion programs that focus on providing assistance and help to youth involved in minor crimes.
- e) Reduce the recidivism rate of kids who are detained and in county custody.
- f) Administer equitable civil and criminal justice court systems.
- g) Provide programs that advocate for victims of crime and prevent abuse in vulnerable populations.
- h) Provide effective law enforcement and improve the detention facilities for youths and adults.
- i) Provide effective disaster preparedness and 911 emergency response systems.
- j) Ensure public safety through enforcement of fire, environmental, construction and zoning codes and regulations.



Strategy 3: Protect and Promote Community Health

- a) Provide and support integrated healthcare services that focus on wellness, early intervention, and prevention.
- b) Provide programs that reduce the risk of chronic and infectious diseases with containment and treatment options.
- c) Coordinate agencies designed to strengthen the health and welfare of children, seniors and families.
- d) Provide a safety net of healthcare services for the disadvantaged.



Strategy 4: Promote Workforce Development and a Healthy Economy

- a) Provide programs that help individuals develop the skills needed by employers in the County.
- b) Support the work of WIN and the American Job Center to provide assistance to our citizens who are seeking employment and assistance to our local companies trying to fill open positions.
- c) Coordinate agency programs that address issues of poverty and economic/housing insecurity within the county.
- d) Promote the growth of local, minority, and women owned businesses in the community.
- e) Provide a business-friendly environment in County operations and regulations to encourage local development and diversity.
- f) Create new strategies that encourage small business development particularly in the area of start-up technology.



Strategy 5: Provide Effective Governance and Sound Stewardship for County Resources

- a) Ensure financial stability through sound oversight of fiscal operations, taxation, debt management, and revenue collections. Maintain all records of public transactions as required by the State.
- b) Preserve and maintain county infrastructure of roads, bridges, buildings, and technical systems for current and future operations.
- c) Maximize efficiency and minimize cost of operations through centralization, utilization of technology, outsourcing, or other methods.
- d) Build trust and confidence in government through transparent, accessible, and responsive interactions with all internal and external customers.
- e) Enhance the capabilities and foster the professionalism of the employee workforce through equitable compensation, training programs, and succession planning.
- f) Actively seek alternative funding sources through fees, grants, or community partners to provide county services.