



Shelby County Government

LEE HARRIS
MAYOR

September 1, 2020

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

Dear Commissioners:

Herein, please find the Fiscal Year (FY) 2021 Adopted Budget for Shelby County Government (the "County"). The Commissioners and County staff invested significant time in the budget and the budget process.

Considering the economic conditions, the Adopted Budget contains no revenue increases. It is balanced utilizing significant expenditure reductions that are as high as 12% for some departments.

The Adopted Budget also includes a \$9.6 million use of fund balance from the General Fund and a \$14.1 million use of fund balance from the Debt Service Fund. Once spent, these funds will not be available in future years, and new revenue sources must be found. Additionally, this budgeted use of fund balance and its use in recent years will likely mean that the County will need to borrow to pay for annual operating expenditures in the coming months. Going forward, my goals are to: (1) administer operations without significant layoffs or jobs eliminated and (2) continue to provide the services on which our residents depend.

Thankfully, the County received \$49.9 million in funding from the federal government to help in the midst of the COVID-19 pandemic. This funding is being used in health and community service programs, as well as in grants to our municipalities and struggling non-profits and businesses. Additionally, the State of Tennessee provides \$5.0 million in funding, which is included in the Adopted Budget as a one-time revenue source to help balance the budget.

There will be a property tax reappraisal in the spring of 2021. I am hopeful that, despite the economic uncertainty associated with COVID-19, our property valuations will remain strong and support our revenues in the coming year.

PROPERTY TAXES

Property taxes are fundamental to the County budget because this funding source represents 60% of all operating revenue. The Administration worked closely with the Trustee and the Assessor to forecast property tax revenues for FY 2020. The budgeted revenue that all parties have agreed to includes the property values of the Assessor's certified roll and the impact of expiring PILOT projects. The revenue is also based on recent collection rates less a 0.52% allowance that approximates the annual collection rate reduction during the 2008-2009 recession. The result is an adopted budget of \$788.2 million in property tax revenue (both current and delinquent) that is 0.9% below the FY 2020 budgeted

property taxes. The declining property taxes limited the expenditures that could be approved, which is reflected in the Adopted Budget. The adopted property tax rate of \$4.05 is equal to the FY 2020 tax rate.

DEBT

County debt continues to be managed at acceptable levels. Total outstanding long-term debt was \$868.6 million at the end of FY 2020, which is a net decrease of \$97.8 million during the year. The County issued \$58.6 million of debt in FY 2020 to refinance outstanding bonds for savings with a net present value of approximately 5.8% or \$3.4 million. Additionally, the County entered into a \$150.0 million line of credit during FY 2020, and \$123.2 million of this was drawn as of June 30, 2020. Accordingly, a debt issuance is budgeted to occur in FY 2021 that will refinance this line of credit and fund existing and new CIP projects.

The Adopted Budget maintains the current tax reallocation to Debt Service of \$0.62 cents.

EDUCATION

The Adopted Budget continues to fund education, including pre-kindergarten (Pre-K), at the levels established in FY 2020. 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 \$66.0 million since 2013 by means of property tax growth and dedication of 100% of the motor vehicle privilege tax to school operations. Over the same period, funding on a per pupil basis has increased by nearly 25% as total attendance declined by 5%. Due to the lower property tax collections experienced in FY 2020 and projected in FY 2021, a transfer from the General Fund was and will be needed to fully fund the schools.

Providing sufficient funding to maintain and grow Pre-K classrooms in the community continues to be a major focus of the Administration and the Commission. High quality Pre-K has an amazing return on investment for the entire community. That is why the FY 2021 Adopted Budget sets aside the majority of the County's sales tax revenue to continue supporting Pre-K with \$8.5 million in its own Special Revenue Fund. With this \$8.5 million commitment, we have made a significant stride to increase the likelihood of high school graduation and employability.

The Adopted Budget maintains the current tax rate allocation to Education of \$1.96 and allocates the majority of the County's sales tax revenue to pay for Pre-K.

CAPITAL IMPROVEMENTS

The total approved capital budget for FY 2021 is \$88.2 million with \$75.0 million provided by County bond issuance, \$6.4 million provided by County Pay-as-You-Go funds, and \$6.8 million from Federal and State sources. The five-year capital improvement plan presented for FY 2021-FY 2025 illustrates 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.

The capital budget for FY 2021 includes \$33.0 million for schools. Shelby County Schools is allocated \$25.5 million of this funding, and \$7.5 million is allocated to the municipal school districts per the State's Weighted Full-Time Equivalent Average Daily Attendance requirement.

PROGRAM INVESTMENTS

Employees – In such a difficult budget year, a general salary increase was not possible for the County’s employees. However, as equitable compensation and benefits are essential to retaining and recruiting productive employees, the County implemented a paid parental leave policy in FY 2021 that will provide six weeks of paid leave to a parent on the birth or adoption of a child. Additionally, the County will use a portion of federal funding to provide hazard pay to Shelby County employees who have dedicated their services to mitigating the spread of COVID-19. The County will also continue to fully fund the required contribution for our Pension and OPEB plans to help ensure that these benefits will be there for both our retirees and current employees.

Investment in Criminal Justice Reform for Youth – In the Adopted Budget, we invest in programs to provide alternatives to youth detention. This spring, we also acquired the Core Civic Shelby Training Center to convert it into a youth justice and education center to provide better accommodation for 80 to 120 youth. We have committed \$15.5 million in FY 2021 and 2022 to renovate this facility with housing, classroom space, and indoor and outdoor recreation areas. Breaking the cycle of youth in the justice system will improve each individual’s opportunities and forge a positive foundation for life.

Investment in Community and Health Services – Thanks to the federal government’s provision of \$49.9 million in Coronavirus Aid, Relief, and Economic Security (CARES) funding, this budget includes strategic investments in public health, community services, and emergency resources to respond to the COVID-19 pandemic. With the CARES funding, we gave more than \$6.0 million to our local municipalities to help them respond to the crisis and ensure all Shelby County residents are positively impacted by CARES funds. We are hiring 141 employees to assist with testing and contact tracing. We also hired social workers and are offering programs such as rent and utility assistance to our most vulnerable citizens. Additionally, in collaboration with the City of Memphis and other local organizations, we created an Eviction Settlement Fund and committed \$650,000 of CARES funding and another \$650,000 of Tennessee Community Service Block Grant funds to help those who are currently facing eviction and at the risk of becoming homeless. We procured personal protective equipment (PPE) that had been shared with local organizations, and we are collaborating to provide grants to non-profits and small businesses in our community through the Commission Consensus Committee Grant Program and Our Beautiful Comeback. Together, CARES and state funding enables us to help our working families, businesses, and residents get on the path of recovery.

I want to thank the County Commission, Elected Officials, Division Directors, and our employees for their participation in the development of the FY 2021 Budget. The decrease in revenue and recurring structure imbalance in the budget required a difficult prioritization of our expenditures. The Adopted Budget utilizes all available resources in delivering essential services to our taxpayers. We look forward to continuing to work with a collaborative effort to ensure Shelby County is a great place to live, work, play, and invest in the future.

All the best

Lee Harris
Mayor