

**Shelby County Board of Commissioners**

**July 1, 2019 – June 30, 2020**

***Mark Billingsley, Chairman, District 4***

***Eddie Jones, Chair Pro Tempore, District 11***

Amber Mills	<b>District 1</b>	Mickell Lowery	<b>District 8</b>
David Bradford	<b>District 2</b>	Edmund Ford, Jr.	<b>District 9</b>
Mick Wright	<b>District 3</b>	Reginald Milton	<b>District 10</b>
Michael Whaley	<b>District 5</b>	Van Turner	<b>District 12</b>
Willie Brooks	<b>District 6</b>	Brandon Morrison	<b>District 13</b>
Tami Sawyer	<b>District 7</b>		

**Elected Officials**

Assessor of Property	Melvin Burgess
Attorney General	Amy P. Weirich
County Clerk	Wanda Halbert
County Mayor	Lee Harris
County Register	Shelandra Y. Ford
County Trustee	Regina Morrison Newman
Juvenile Court Clerk	Janis Fullilove
Chancery Court Clerk & Master	Aaron Hall (Appointed)
Circuit Court Clerk	Temiiika D. Gipson
Criminal Court Clerk	Heidi Kuhn
General Sessions Court Clerk	Edward L. Stanton, Jr.
Probate Court Clerk	Bill Morrison
Sheriff	Floyd Bonner, Jr.

**Shelby County Administrative Officials**

Mayor	Lee Harris
Chief Administrative Officer	Dwan Gilliom
Chief Information Officer	John Halbert
Director of Administration and Finance	Mathilde Crosby
County Attorney	Marlinee Clark Iverson
Director of Planning and Development	John Zeanah
Director of Public Works	Cliff Norville
Director of Corrections	Anthony Alexander
Director of Health Services	Alisa Haushalter
Director of Community Services	Dorcas Young

**Vasco A. Smith Administration Building**

160 North Main Street

Memphis, Tennessee 38103

<http://www.shelbycountyttn.gov>



## **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?***

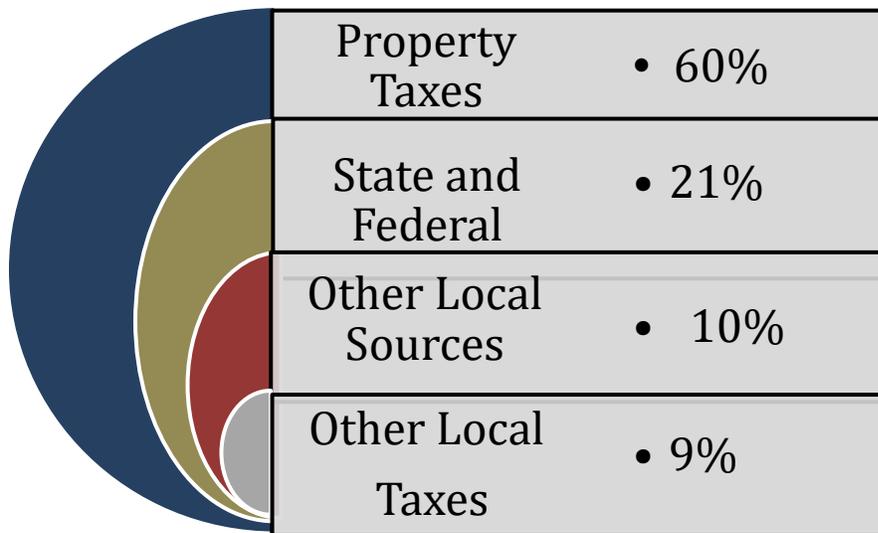
- Agency bond ratings maintained at AA+/AA1
- General Obligation Debt maintained within our debt policy
- No property tax increase since 2014 with tax reductions in Fiscal Year 2018 and Fiscal Year 2019
- Limited average Annual Expenditure growth, including compensation, benefits and operational cost 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 Adopted Budget for Fiscal Year (FY) 2021 is based on a total revenue projection of \$1,317,794,607. This amount is \$35.0 million less than the FY 2020 Amended Budget for total revenue, primarily due to projected decreases in current and delinquent property tax collections (\$7.0 million). Projected decreases in Intergovernmental Revenues-State include reductions in grant activity for programs offered through the Health Department and Community Services (\$5.5 million). Changes in Intergovernmental-Federal include additional support for the Ryan White program. Other Local Taxes show a projected decrease related to less interest and penalty income from delinquent tax collections (\$0.1 million). Charges for Services show a projected decrease related primarily to internal service charges (\$0.8 million). Revenues with projected increases include Fines, Fees, and Permits (\$2.9 million) and Other Revenue which includes interest earnings (\$3.7 million). The property tax revenue is based on the adopted 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:

<b>Revenue Category</b>	<b>FY21 Amount</b>	<b>FY21</b>	<b>FY20</b>
Property Taxes	\$ 788,178,722	59.8%	58.8%
Intergovernmental-State	179,673,155	13.6%	14.1%
Other Local Taxes	123,326,517	9.4%	9.1%
Fines, Fees & Permits	110,116,557	8.4%	7.9%
Intergovernmental-Federal	90,750,028	6.9%	7.7%
Charges for Services	18,270,256	1.4%	1.4%
Other Revenue/Interest	7,479,372	0.6%	0.9%
<b>Total Revenue</b>	<b>\$ 1,317,794,607</b>	<b>100.0%</b>	<b>100.0%</b>



*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 adopted FY 2021 budget by fund type are decreases in the General Fund (\$11.0 million) and in the Grants Fund (\$25.7 million), with increases in the Enterprise Funds (\$4.3 million), and Special Revenue Funds (\$2.4 million).

<u>Revenue Fund Type</u>	<u>FY21 Amount</u>	<u>FY21%</u>	<u>FY20%</u>
General Fund	\$ 424,681,755	32.2%	32.2%
Education Fund	423,742,757	32.2%	31.6%
Grants Fund	184,975,620	14.0%	15.6%
Debt Service Fund	132,407,499	10.0%	9.8%
Enterprise Funds	83,627,411	6.4%	5.9%
Special Revenue Funds	59,822,607	4.5%	4.2%
Internal Service Funds	8,536,958	0.6%	0.7%
<b>Total Revenue</b>	<b>\$ 1,317,794,607</b>	<b>100.0%</b>	<b>100.0%</b>

Major funds are those that constitute more than 10% of total revenue. For the 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 was established to provide solid waste services to the Northaven community.

## Property Tax Revenue

Property taxes are the primary source of operating revenue for the 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.

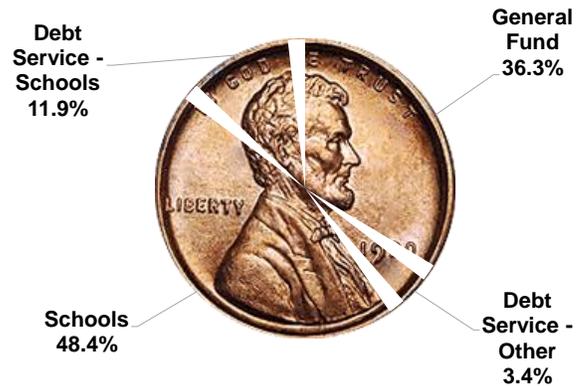
## Allocation of the Tax Rate

The allocation of the FY 2021 property tax rate remains unchanged. Due to lower budgeted property tax revenues, a transfer will be needed from the General Fund to the Education fund to fund the County's commitment to education. The revenues derived from property taxes are allocated as follows.

<u>Fund</u>	<u>FY21 Adopted</u>			<u>FY20 Adopted</u>		
	<u>\$</u>	<u>Rate</u>	<u>%</u>	<u>\$</u>	<u>Rate</u>	<u>%</u>
Education	\$ 381.4	\$ 1.96	48.4%	\$ 384.8	\$ 1.96	48.4%
General Fund	286.1	1.47	36.3%	288.7	1.47	36.3%
Debt Service*	120.7	0.62	15.3%	121.6	0.62	15.3%
	<u>\$ 788.2</u>	<u>\$ 4.05</u>	<u>100.0%</u>	<u>\$ 795.2</u>	<u>\$ 4.05</u>	<u>100.0%</u>
*Debt Service						
Schools	\$ 94.0	\$ 0.48	11.9%	\$ 100.1	\$ 0.51	12.6%
Other	26.7	0.14	3.4%	21.5	0.11	2.7%
	<u>\$ 120.7</u>	<u>\$ 0.62</u>	<u>15.3%</u>	<u>\$ 121.6</u>	<u>\$ 0.62</u>	<u>15.3%</u>
<b>Total Schools</b>		<b>\$ 2.44</b>	<b>60.3%</b>		<b>\$ 2.47</b>	<b>61.0%</b>

*This does not include the use of fund balance to pay debt service, which is worth 7 cents for schools.*

**One penny on the property tax rate generates \$1,929,000 for the FY 2021 tax levy, or \$1,901,676 in net collection income**



**Functional Expenditures – All Funds**

FY 2021 County-wide net expenditures by functional categories for all funding sources, excluding use of fund balance, consist of the following:

<u>Functional Category</u>		<u>FY21</u>	<u>FY21 %</u>	<u>FY20 %</u>
Education	\$	435,759,000	33.1%	32.4%
Criminal Justice		354,823,924	26.9%	26.2%
Debt Service		132,407,499	10.0%	9.9%
General Government		81,435,163	6.2%	10.4%
Public Works		85,285,851	6.5%	6.6%
Health		97,437,709	7.4%	7.1%
Planning & Development		81,767,110	6.2%	3.6%
Community Services		48,878,350	3.7%	3.9%
<b>Total</b>	<b>\$</b>	<b>1,317,794,607</b>	<b>100.0%</b>	<b>100.0%</b>

***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 is committed to fully supporting the success of all public school students. 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 adopted budget of \$427.3 million is equal to the FY 2020 budget. Due to lower property tax revenues, the FY 2021 budget includes a General Fund transfer to fully fund the budgeted expenditures to the school systems.

Proposed funding includes the following resources:

- Education will receive 48.4% of all property taxes in FY 2021, excluding school debt.
- Including debt service costs on school debt, education will receive 60.3% of all property taxes.
- 100% of the Motor Vehicle Registration Fee (\$34.9) million is dedicated to education operations.
- \$33.0 million has been allocated for school capital improvements for renovations and new construction.

## **Pre-Kindergarten (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 adopted budget includes \$8.5 million for Pre-K. Historically all 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 give children a better educational foundation and 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 \$424.7 million – a decrease of \$11.0 million or a negative 2.5% 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 FY 2021 Adopted Budget includes initial funding of \$350,000 for this benefit.

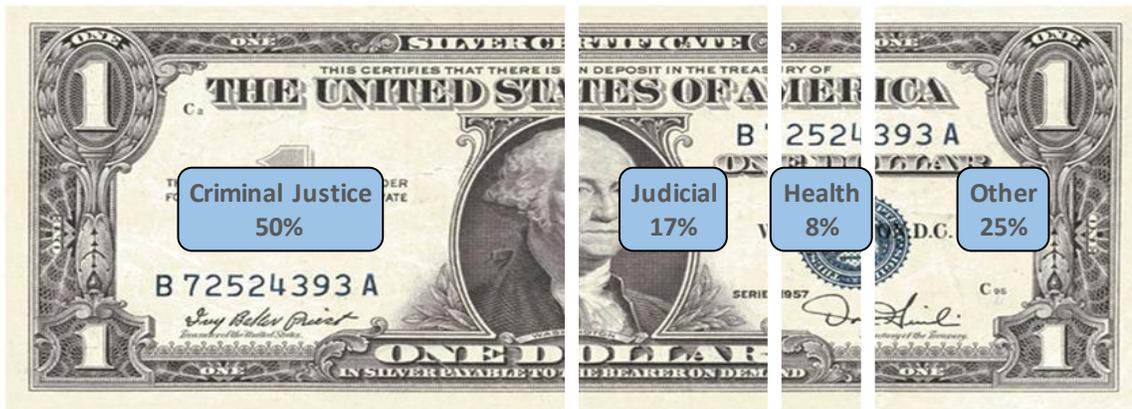
We are also pleased to announce that we are in the process of renegotiating the County's multiple benefits insurance plans, and it is anticipated that there will be no increase in health insurance premiums for employees. The County will also continue to fully fund its pension and OPEB obligations at 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.

- **De-annexation – Sheriff Department Deputies** – The City of Memphis has finalized plans to de-annex portions of South Cordova, Windyke, and Southwind as of January 1, 2021. The Sheriff’s department embarked on an extensive recruiting effort for additional patrolmen to cover for these areas. The adopted budget includes a relatively small increase to fund these positions, their vehicles, and equipment. The Sheriff’s department commenced 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. The FY 2021 budget includes the addition of full-time equivalent (FTE) 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. The adopted budget also includes expanded engagement and outreach programs to our community through the Community Services Agency. In addition to the County’s investment, a grant received through the Federal CARES Act, further advances our COVID Assistance Program which provides 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 are provided directly to individuals and families. The funding included in the adopted budget helps 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 50% of the expenditure allocations are for Criminal Justice, 17% for Judicial Services, 8% for Health Services, and 25% 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 67% 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 70% 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.

<b>Benefit Type</b>	<b>FY21 Budget</b>	<b>% of Salaries</b>
Pension	\$ 48,611,056	22.05%
Health Insurance	27,230,482	12.35%
Other Post-employment Benefits	2,558,451	1.15%
Medicare	3,303,314	1.50%
Group Life Insurance	1,852,672	0.84%
OJI Expense	911,259	0.41%
Long-term Disability	838,113	0.38%
Unemployment Compensation	227,776	0.10%
<b>Total Benefits*</b>	<b>\$ 85,533,123</b>	<b>38.78%</b>

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.

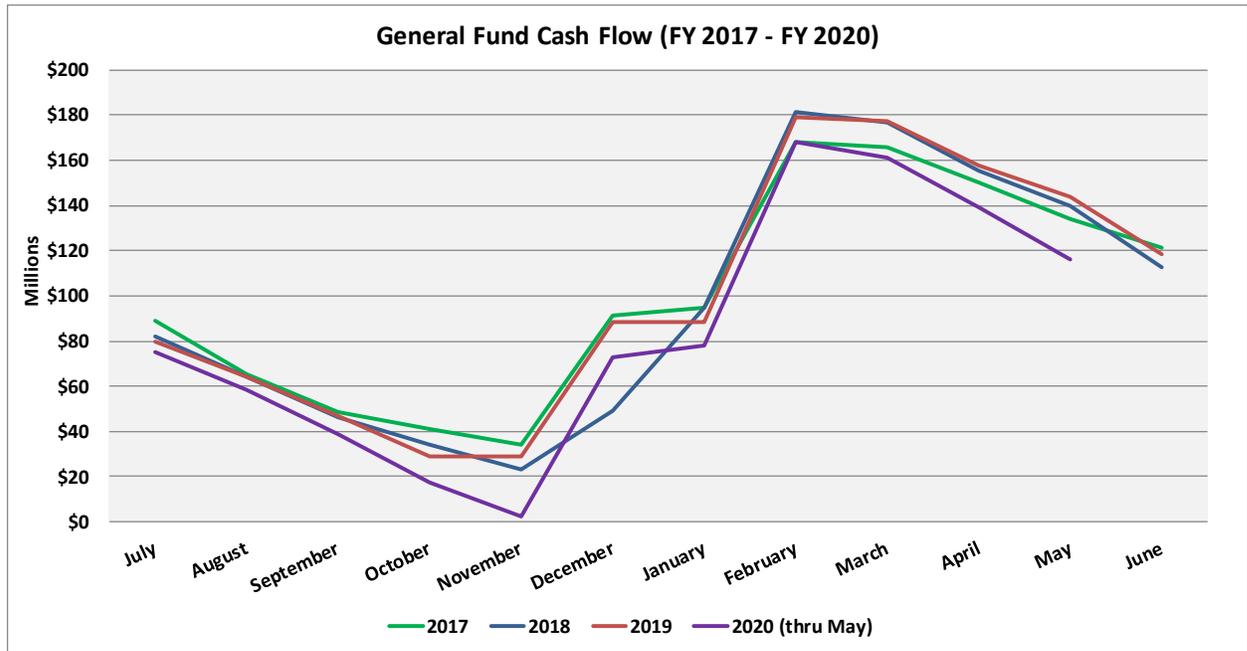
**General Fund Balance**

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

The 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 balances 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 (CIP) 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 \$6.8 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 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
- \$3.3M – County Clerk & Public Defender Renovations
- \$2.0M – Renovations at East Data Center (*multi-year project, completion in FY 2021*)
- \$1.0M – Criminal Justice Center Renovation (*year 1*)
- \$0.9M – Corrections W Building Roof Replacement
- \$0.8M – Corrections Training Academy Renovation
- \$0.7M – Weather Proofing Renovation of 1060 Madison (Community Services)
- \$0.4M – Corrections Kitchen Storage Expansion

### **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.

### **County Pay As You Go Projects: - \$6.4 million (7% of total CIP)**

Pay As You Go projects include a \$5.0M investment in Voting Machines and \$1.4M for an upgraded property tax payment and collection system for the County Trustee's office.

***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 2020 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 was \$123.2 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 annual budget adoption 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 Basic Education Program (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 the 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 level of benefits that can be realistically and responsibly provided to employees on a long-term basis requires 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** of areas of the County from the City of Memphis will impact 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 is also included 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, unemployment 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 were implemented, and non-essential businesses were closed with many still operating at less than full capacity. 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.

Even with Federal stimulus dollars directed to individual taxpayers, as well as local governments, a full reopening and recovery of the economy is difficult to project.

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 the 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 the 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 the 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 the County and to provide an objective foundation for decision-making and measurement of results. Developed in close cooperation with the County Commission, Elected Officials, and Division Directors, 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) Coordinate agency programs that address issues of poverty and economic/housing insecurity within the County.
- c) Promote the growth of local, minority, and women owned businesses in the community.
- d) Provide a business-friendly environment in County operations and regulations to encourage local development and diversity.
- e) 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.

A **Strategy Matrix** shown on the following page provides a summary of how the County strategies are achieved by functional division and are represented in the budget. Further detail is presented in the “Division Overview” of each section in this document.

# INTRODUCTION

# Division Strategy Matrix

County-wide Strategies Implemented at Division Level		Education	Sheriff	Public Works	Admin & Finance	Judicial	Corrections	Health Services	Community Services	Other Elected Officials	Planning & Development	Information Technology
	<b>Strategy 1: Support Quality Public Education</b>											
1-a	Provide sufficient operating and capital funding for all public schools in a manner that is fiscally responsible.	✓										
1-b	Enhance programs that provide Pre-K services to ensure children (0-5 years) receive care and training that prepares them to be school-ready.	✓										
	<b>Strategy 2: Enhance Public Safety and Support Criminal Justice Reform</b>											
2-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.			✓		✓		✓	✓			
2-b	Reduce jail population by reforming the bail system to reduce/eliminate bail for those who don't pose a public safety or failure to show risk.			✓		✓						
2-c	Provide programs that promote adult re-entry strategies to reduce recidivism after arrest or incarceration.			✓			✓		✓			
2-d	Reduce youth criminal justice system interaction by implementing new diversion programs that provide assistance to youth involved in minor crimes.			✓		✓			✓			
2-e	Reduce the recidivism rate of kids who are detained and in county custody.			✓		✓			✓			
2-f	Administer equitable civil and criminal justice court systems.			✓		✓						
2-g	Provide programs that advocate for victims of crime and prevent abuse in vulnerable populations.			✓				✓	✓		✓	
2-h	Provide effective law enforcement and improve the detention facilities for youths and adults.		✓	✓			✓					
2-i	Provide effective disaster preparedness and 911 emergency response systems.		✓	✓	✓			✓				
2-j	Ensure public safety through enforcement of fire, environmental, construction and zoning codes and regulations.			✓		✓						
	<b>Strategy 3: Protect and Promote Community Health</b>											
3-a	Provide and support integrated healthcare services that focus on wellness, early intervention, and prevention.							✓				
3-b	Provide programs that reduce the risk of chronic and infectious diseases with containment and treatment options.							✓				
3-c	Coordinate agencies designed to strengthen the health and welfare of children, seniors, and families.							✓	✓			
3-d	Provide a safety net of healthcare services for the disadvantaged.							✓				
	<b>Strategy 4: Promote Workforce Development and a Healthy Economy</b>											
4-a	Provide programs that help individuals develop the skills that are currently being demanded by employers in the County.				✓				✓			
4-b	Coordinate agency programs that address issues of poverty and economic/housing insecurity within the county.				✓				✓		✓	
4-c	Promote the growth of local, minority, and women owned businesses in the community.				✓							
4-d	Provide a business-friendly environment in county operations and regulations to encourage local development and diversity.				✓						✓	
4-e	Create new strategies that encourage small business development particularly in the area of start-up technology.				✓							
	<b>Strategy 5: Provide Effective Governance and Sound Stewardship for County Resources</b>											
5-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.			✓	✓	✓				✓	✓	
5-b	Preserve and maintain county infrastructure of roads, bridges, buildings and technical systems for current and future operations.			✓	✓						✓	✓
5-c	Maximize efficiency and minimize cost of operations through centralization, utilization of technology, outsourcing or other methods.			✓	✓						✓	✓
5-d	Build trust and confidence in government through transparent, accessible, and responsive interactions with all internal and external customers.		✓	✓	✓	✓				✓	✓	✓
5-e	Enhance the capabilities and foster the professionalism of the employee workforce through equitable compensation, training programs, and succession planning.		✓	✓	✓						✓	
5-f	Actively seek alternative funding sources through fees, grants, or community partners to provide county services.			✓	✓				✓		✓	

**Budget Linkage** – Strategic goals are linked to resource allocation at several levels in the budget document to align strategy and performance throughout the County at division and department levels.

- The **Mission, Goals and Strategies** of the County are briefly presented in summary format in the Introduction with a matrix that relates those goals/strategies to each division.
- The **Division Overviews** identify the County goals and strategies that each division serves and the departmental structure within that division for achieving those goals.
- The **Budget Highlights** summary for each division outlines the budgetary issues, trends and changes in major revenue and expenditure categories that influence the division’s ability to achieve their goals.
- **Key County Indicators** are a tool for measurement and communication of performance in areas where strategies and objectives have been identified for the County as a whole. Key indicators may be stated in terms of comparable rankings or benchmarks with established national or state standards to measure progress of County performance against comparable agencies and expectations.

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

Funding for education represents the largest functional expenditure of Shelby County Government, reflecting our commitment to providing excellent educational opportunities for every child. Significant changes to the structure of the school systems within the County in the past decade have required funding adjustments to both the operating and capital budgets.

Shelby County Government has taxing authority for funding local education and responsibility for approving the total amount of County funds provided for all public schools in the County. The school boards for each of the seven districts in the County determine how those funds will be used to best accomplish their mission of educating students. Funding for capital improvement projects is also provided for qualified projects to ensure that school facilities provide a sound environment for learning.



Pre-K programs have also received County funding in recognition of the important foundation these programs provide for future educational attainment. In fact, the current budget provides a historic level of financial support to Pre-K education. Additionally, the County’s efforts include a collaboratively integrated strategy and oversight program with the City of Memphis and First 8 Memphis, LLC. First 8 Memphis is a non-profit organization devoted to developing and delivering high-quality, needs-based, early childhood programs and whose success in delivering programs that measure kindergarten readiness and reading skills based on formative assessment data collected through the school year. This data is then independently verified to determine if pre-established metrics are achieved.

The County’s multi-faceted support of education is aimed at achieving its goals to improve kindergarten readiness, improve high school and college graduation rates, and increase adult career certifications in an effort to build and retain a quality 21st century workforce within the County.

**Key County Indicators -Education**

	FY14 <sup>(1)</sup>	FY15 <sup>(2)</sup>	FY16 <sup>(2)</sup>	FY17 <sup>(2)</sup>	FY18 <sup>(2)</sup>	FY19 <sup>(2)</sup>
Average Cost per pupil - SCS County Schools	\$10,333	\$11,222	\$11,015	\$11,995	\$12,086	\$11,799
Average Cost per pupil - State of Tennessee	\$9,346	\$9,375	\$9,499	\$9,958	\$10,340	\$9,696
Average graduation rate - SCS County Schools	74.6%	75.0%	78.7%	79.6%	79.6%	79.2%
Average graduation rate - State of Tennessee	87.2%	87.8%	88.5%	89.1%	89.1%	89.1%
Average ACT Score - SCS County Schools <sup>(3)</sup>	17.7	16.9	17.5	17.8	16.1	16.5
Average ACT Score - State of Tennessee <sup>(4)</sup>	19.8	19.4	19.5	20.1	19.6	19.4

<sup>(1)</sup> FY14 Data represents the consolidated City-county school district

<sup>(2)</sup> FY15-FY19 County School data represents only the Shelby County Schools District

<sup>(3)</sup> TVAAS Report by School District: <http://tn.gov/education/topic/report-card>

<sup>(4)</sup> Annual ACT Average Scores by State Report: <http://www.act.org>

Source (unless otherwise indicated): TVAAS Report by School District. <http://tn.gov/education/topic/report-card>

**Strategy 2: Enhance Public Safety and Support Criminal Justice Reform**

Public Safety is a fundamental concern and responsibility for the County – second only to Education in total functional expenditures. Our commitment to public safety is evidenced by the wide variety of programs funded or supported throughout the County’s government structure.



The **Sheriff’s Office** has primary responsibility for crime prevention/detection/patrol in the County, keeping all courthouses and courtrooms safe, and operating the jails and youth detention center. Grants and increased programming are used to educate, train, and rehabilitate inmates for a productive and safe return to the community. Property crimes are down as detectives work with Memphis, Bartlett, Collierville, Germantown and Millington Police Departments to capture serial thieves. Such partnerships also serve to reduce gun crime, drug trafficking, and assaults against women. Effective use of new technology is invaluable to crime prevention and solution. Violent crimes by youth is on the rise and the Sheriff is working with all sectors of the community to reach

youth before they fall prey to gangs and other bad influences. In keeping with the goals of the Department of Justice and the Juvenile Detention Alternatives Initiative, the Sheriff’s top priority is a new facility to educate, train, and rehabilitate youth.

**Operation: Safe Community (OSC)** was established in 2007 as a strategic initiative to reduce crime in Memphis and Shelby County. The group uses coordinated strategies within the Mayor’s offices of Shelby County and the City of Memphis, the Shelby County Sheriff’s Office, the Memphis Police Department, and faith-based, social service and neighborhood organizations to combat the area crime problem. The County has played a key role in implementing OSC strategies by supporting funding for additional prosecutors and data driven officer deployment, advocating the OSC agenda in state legislation, and assisting with code enforcement and family safety programs.



The **Division of Corrections** manages the incarceration of convicted criminals in a cost-effective manner that ensures the safety of citizens. Rehabilitative programs, such as the **3R Project**, have been emphasized as a means to prepare inmates for successful re-entry into society. The 3R Project assists ex-offenders with housing, mental and physical health services, family unification, life skills and employment. To reduce recidivism, other adult offender re-entry programs have been expanded through the Office of Re-Entry as described below.

**Jail Diversion programs** have been expanded to reduce the cost of incarceration. The Shelby County Drug Court program offers services intended to reduce the jail population by offering an alternative to incarceration for adult, non-violent drug offenders and to reduce the number of repeat drug offenses. Special programs have also been created to handle court cases involving veterans and recurring mental health offenders. The **Public Defender's Office** provides a link to treatment-based alternatives to incarceration for clients with substance use and mental health disorders. The Community Services Division also coordinates **Pretrial Services** and several diversionary alternative programs, most notably the **Jericho Project** that links criminal detainees with serious mental illnesses to supervised release options and treatment resources. Victims of crime are also served through the Community Services division with the **Crime Victims/Rape Crisis Center**.



The Shelby County **Office of Re-Entry** is a community response to the needs of returning citizens with the support of the State of Tennessee's Department of Corrections (TDOC) Commissioner and Shelby County Government. The Office of Re-entry provides essential re-entry resources in one place. Its ultimate goals are 1) to create connections between the County's re-entry resources and specific employers ready to hire people with a criminal history, and 2) realign our focus from a traditional soft skills training, to hands-on technical and vocational programs in an effort to assist our clients in gaining self-sufficient employment, and/or entrepreneurship.

The Office of Re-entry staff offers the following services to support education, workforce preparation and personal development: life coaching, vocational training, case management and family counseling, health education and primary care services, work skills training, employment referrals, a monthly mobile health bus, a computer lab, access to medical assistance and health screenings, and assistance with expungement eligibility.

Additional programs include FOCUSED. This 14 to 16 week training program that combines job readiness with the opportunity for selection into one of our vocational training programs in the following areas: Commercial /Residential Janitorial Certification, Commercial/Residential Construction, Small Engine Repair, and Low Voltage Electrician Apprenticeship. Upon completion, utilizing the hard skills obtained, clients are prepared to earn livable wages through employment or entrepreneurship. In addition to job readiness, clients will receive vital information related to: family reconnection, financial literacy, healthy living, expungement, and voting rights restoration. Eligibility to participate in the Office of Re-entry's services includes the following: must have a criminal conviction – no exclusions/ limits; may be recommended as condition of probation /parole; and can be referred as judicial diversion by a judge.



The County also provides leadership through the **Office of Preparedness** and participation in the **Urban Area Security Initiative (UASI)** to ensure that appropriate resources and organizational structure are available to respond to major disasters that threaten public safety. This response ability was favorably tested by the flooding conditions experienced during the spring of 2011. A new facility has been provided to bring together emergency operations to facilitate effective coordination and timely responses.

**Fire prevention and suppression** is provided for about 46,000 structures in the unincorporated areas of the County, along with emergency medical treatment, and hazardous materials mitigation. Emergency medical services have been expanded throughout the County by equipping all fire stations with Advanced Life Support (ALS) personnel and equipment.

**Key County Indicators - Public Safety**

	FY16	FY17	FY18	FY19	FY20
Felony Offenses - Part I Crimes <sup>(1)</sup>	3,040	3,202	3,100	3,150	3,178
Average Sheriff Response Time - unincorporated area (minutes)	12:08	10:03	11:03	10:05	9:08
Average Daily Population - Jail	2,562	2,647	2,810	2,860	2,491
Average Daily Population - Corrections	1,895	1,903	2,113	1,965	1,836
% of Fire/EMS Calls made within standard time (10min 30sec) <sup>(2)</sup>	90.0%	94.8%	94.5%	95.1%	94.1%
Fire/EMS Call Average Response Time - County-wide <sup>(3)</sup>	5:30	5:44	6:11	6:18	5:58
% of Fire/EMS Calls made within standard time (9min 00sec)	94.4%	96.4%	97.2%	96.6%	95.7%

<sup>(1)</sup> Part I Crimes include: Murder, Forcible Rape, Aggravated Assault, Robbery, and Theft Statistics are reported on a calendar rather than fiscal year basis.

<sup>(2)</sup> FY2017 percentage of calls based on EMS only

<sup>(3)</sup> Reported in minutes:seconds. Fire/EMS response time goal is 6 minutes 15 seconds.

**Strategy 3: Protect and Promote Community Health**



Public Health is a designated responsibility of all county governments in Tennessee. The County fulfills this important role through programs in several divisions that are designed to promote, protect and improve the health of its residents.

**Regional One Health** plays a critical role as the provider of vital health-care services in the County and the surrounding multi-state region and provides hospitalization for inmates in County custody. The County has worked closely with state and local governments, Regional One administration, and the community to develop alternate funding sources to provide for long-term sustainability of

the hospital and to work collaboratively with stakeholders as advocates.

The **Health Services Division** works closely with other agencies and community partners to reduce the risk of **chronic and infectious diseases** within Shelby County. Educational programs and services address the widespread behavioral and social risk factors associated with diseases that are prevalent in this area. Current epidemiologic methods are used to define infectious public health concerns and to detect measure and track risk so that containment and treatment options can be maximized. Health Services Division also develops initiatives and partner with the University of Tennessee Health Science Center to combat public health concern of opioid overuse in the County. A **Prescription Drug Discount** program is available to County residents through a partnership with a private benefits provider to ease the burden of obtaining prescriptions and to encourage health screenings. A **dental health program** for children targets prevention through the provision of sealants in grades K-8.



**Health Promotion and Wellness efforts** are strategies designed to motivate residents of the County to take ownership of their personal health and health care. Shelby County Government was recently recognized as a recipient of the **Healthier Tennessee Workplace Award** for its Total Health Wellness initiative, a comprehensive program that focuses on employee lifestyles and health habits. Key to success is active engagement with partners including the **Let's Change Coalition** and the Mayor's **HealthyShelby Initiative**. This initiative is a multi-sector partnership that focuses on achieving better health behaviors, better care options, and lower health care costs. In producing system changes that improve public health,

this alliance works to increase the appeal of the County for potential business growth, reduce the health care burden on employers and individuals, and promote quality of life for citizens.

**Key County Indicators - Health**

	2017	2018	2019	2020
% of low Birth Rate Babies <sup>(1)(2)</sup>	11.7%	11.0%	12.0%	12.0%
Infant Mortality Rates (per 1000 live births) <sup>(1)(2)</sup>	10.0	10.0	10.0	Not Available
Access to Clinical Care Ranking <sup>(3)</sup>	21st	21st	21st	25th
Health Outcomes Ranking <sup>(3)</sup>	49th	49th	54th	61st
Health Behaviors Ranking <sup>(3)</sup>	35th	35th	48th	40th

<sup>(1)</sup> 2017 data from TN Department of Health, Office of Policy, Planning and Assessment, Division of Health Statistics.

<sup>(2)</sup> 2018-2020 data from University of Wisconsin Population Health Institute - County Health Ranking

<sup>(3)</sup> 2015-2020 data from University of Wisconsin Population Health Institute - County Health Ranking

**Access to Clinical Care** - measures factors of Access to care and Quality care.

**Health Outcomes Ranking** - measures Mortality (length of life) and Morbidity (quality of life).

**Health Behavior Ranking** - measures use of tobacco and alcohol, diet & exercise, and unsafe sexual practices.

**Environmental Health programs** coordinated by the Health Services Division have contributed to the successful control of mosquito and rodent populations for the prevention of vector-borne diseases (most recently the Zika and West Nile virus). Regular inspections of restaurants and grocery stores serve to minimize bacterial or viral infections spread through improper food storage or handling.

The **Division of Community Services** also works to ensure the health and welfare of our most vulnerable populations through a variety of programs. Programs include utilities, rent and mortgage assistance through the Community Services Agency, assisting justice involved individuals with mental illness and substance abuse services via the Office of Justice Initiatives, the Aging Commission of the Mid-South which improves the quality of life for seniors and individuals living with disabilities, the Crime Victims and Rape Crisis Center counseling and trauma reduction assistance, and Collaborative Response to Elder and Vulnerable Adult (CREVAA) which is committed to protecting the elderly and vulnerable adults from neglect and abusive situations.

**Strategy 4: Promote Workforce Development and a Healthy Economy**

The County is committed to providing programs and policies that ensure aggressive growth and promote high quality long-term job opportunities. This includes promoting the mastery of in-demand job-related knowledge and skills and access to employment opportunities within Shelby County.

Having a highly skilled and employment-ready workforce is a crucial element in bolstering the County’s existing economic development advantages. In FY 2019, the County assumed the operational responsibility for the region’s workforce development program called the Workforce Investment Network (WIN). This federally funded program supports workforce development efforts for four counties in West Tennessee: Shelby, Fayette, Lauderdale and Tipton. In the spring of 2020, it was re-named Workforce Mid-South, Inc. and established as a separate not-for-profit to strengthen its ability to prepare job seekers for jobs and connect them with employment opportunities.

One of the County’s primary advantages for economic development is the combination of its central location in the United States and its excellent transportation facilities - including air, rail and water. Another advantage is the relatively low cost of living compared with other urban areas, particularly in terms of real estate values. Partnerships with other agencies and with state and local community leaders have been effective in forging alliances that promote economic development and fiscal sustainability in Shelby County.

## INTRODUCTION

## Strategic Goals and Objectives

The County supports the five major initiatives of **Memphis Fast Forward**, a collaborative organization of 50+ public and private leaders dedicated to forming specific strategies related to job expansion, public safety, education, government efficiency, quality of life and economic growth.

**The Memphis Shelby Growth Alliance** represents the economic development branch of Memphis Fast Forward, with **EDGE (Economic Development Growth Engine)** as the economic growth organization created to combine the efforts of several independent agencies with similar goals.



One method used to recruit and retain desirable business relationships is the use of **PILOTS (Payments in Lieu of Taxes)** and other funding incentives or agreements. These agreements have been beneficial to

commercial development in this area; however, their structure will be periodically reviewed to assess the need for revisions to terms, coordination, or oversight. Evidence of successful efforts to attract business and manufacturing include decisions by Mitsubishi, the Great American Steamboat Company, and Bass Pro to locate in the County and by FedEx, International Paper and Auto Zone to expand their existing facilities and operations here.

The County has also adopted and implemented a **Unified Development Code (UDC)** through the **Office of Planning & Development** to address redundant County and City of Memphis zoning and land use regulations that impede business development. Efforts by the County to support the strength of **Locally Owned Small Business (LOSBS)** have resulted in increased purchases from these vendors to at least 20% of expenditures.

### Key County Indicators - Economics

	FY16	FY17	FY18	FY19	FY20
Construction Permits <sup>(1)</sup>	6,458	6,968	6,903	6,633	6,274
Commercial Property as % of REAL Assessment Base	29.0%	29.2%	30.3%	30.3%	29.7%
Median Household Income <sup>(2)</sup>	\$ 47,083	\$ 47,690	\$ 49,647	\$ 47,500	NA
Families Below Poverty Level <sup>(2)</sup>	15.2%	16.0%	14.1%	16.2%	NA
Unemployment Rate <sup>(3)</sup>	6.4%	5.3%	4.4%	4.2%	11.6%

<sup>(1)</sup> Shelby County Division of Planning and Development

<sup>(2)</sup> US Census Bureau American FactFinder: <https://factfinder.census.gov>

<sup>(3)</sup> US Bureau of Labor Statistics: <https://data.bls.gov>

NA - Not Available

Efforts to create a healthy economy must also address the issues of transportation, affordable housing and community redevelopment to ensure the economic security of low income residents. The Office of Planning & Development coordinates programs and grants designed to provide housing rehabilitation assistance, employment opportunities, neighborhood revitalization and accessible transportation.

### **Strategy 6: Provide Effective Governance and Sound Stewardship for County Resources**

Shelby County Government strives to be accessible, responsible, and accountable in the management of County resources and assets. A tradition of strong financial management and reporting is evidenced by high bond ratings, favorable audit results and recognition for financial reporting and budgeting by the Government Finance Officers Association (GFOA). Since the implementation of a **Debt Reduction Plan** in 2002, the County's outstanding bonded debt and commercial paper peaked at \$1.85 billion in December 2006 and has declined annually since then to \$868.6 million at June 30, 2020. To maintain this debt level, the County must follow its Debt Management Policy and keep its annual capital budget to \$75 million.

## INTRODUCTION

## Strategic Goals and Objectives

The County has been successful at maintaining core service levels, despite increasing costs, through ongoing efforts to streamline operations by means of efficiency, centralization, use of technology, and outsourcing. **Training and wellness programs** have been implemented to enhance the productivity and professionalism of the County's greatest resource – its employees.

Another area of significant resource management is the maintenance of **County infrastructure and facilities**. The Public Works Division is responsible for providing cost-effective maintenance for approximately 120 County-owned and/or leased properties totaling three million square feet of space. The **Roads and Bridges Department** maintains local infrastructure including 800 miles of County roads, 192 roadway bridges and 350 miles of underground storm system piping. **Information Technology Services** provides centralized support for all areas of operations to ensure efficient and secure data systems.



Trust and confidence throughout the County's government are promoted through transparent, accessible and responsive interactions with all internal and external customers. The County seeks to create a culture of **citizen engagement and trust** by promoting public-private partnerships, civic group policy involvement, and volunteerism. The Administration has designed several outreach programs to educate citizens about local government, including the **Citizens Academy** that provides in-depth information about County operations. The County website has been redesigned to provide a more user-friendly portal to information of interest to businesses and citizens.

### Key County Indicators - Stewardship

	FY16	FY17	FY18	FY19	FY20
Taxes collected within first year of the levy	96.12%	96.27%	95.86%	96.70%	96.69%
Bond Ratings (Moody's/ S&P/Fitch)	Aa1/AA+/AA+	Aa1/AA+/AA+	Aa1/AA+/AA+	Aa1/AA+/AA+	Aa1/AA+/AA+
% of General Obligation Debt to Taxable Assessed Value	5.56%	5.47%	4.40%	4.74%	4.89%
Total Government Debt Per Capita <sup>(1)</sup>	\$1,204	\$1,138	\$1,012	\$1,032	\$927
GFOA Certificate of Achievement for excellence in Financial Reporting (CAFR) – consecutive years	31	32	33	34	35
GFOA Distinguished Budget Presentation award – consecutive years	8	9	10	11	12
Number of General Fund Positions (FTE)	3,918	3,931	3,968	4,010	4,025

<sup>(1)</sup> Population based on US Census estimates as reported in July 2019.

## **Operating Budget Process**

The budget process establishes the priorities of Shelby County Government. A Commission resolution requires the County Mayor to submit a consolidated budget document to the Board of Commissioners, and State law requires that the County adopt a budget before July 1. This date drives the budget calendar.

The formal budgetary process usually begins with a goal-setting workshop for senior members of the Administration. After identifying and prioritizing general goals and objectives, specific strategies and action plans for implementation are prepared at the division management level. This planning process serves as the basis for formulation of departmental budgets. These budgets are reviewed by the respective division directors, and a combined division budget is prepared incorporating administrative review changes at that level.

Division budgets are submitted to the Chief Administrative Officer for a final level of administrative review. After any revisions and a final executive review by the Mayor, a consolidated budget for the County Administration is prepared. Elected Officials submit their respective budgets to the budget office to be included in a consolidated budget document that is presented to the Budget and Finance Committee of the Board of County Commissioners.

State law requires the County to publish the annual proposed operating budget in a newspaper of general circulation. This statute specifies that the budget must be published no later than five days after it is presented to the County's legislative body if the newspaper is published daily. However, the budget cannot be adopted until at least ten days after it is published.

The Budget and Finance Committee conducts public review meetings and recommends revisions to the consolidated budget. The revised consolidated budget is presented for approval to the Board of County Commissioners. The legislative body is responsible for final approval and appropriation of the consolidated budget and sets the property tax rate. The budget is adopted by resolution. The tax rate is set by ordinance which requires three readings.

The financial plans of the County are included in the annual capital and operating budgets to project all receipts and disbursements, and present the level of governmental services and the method of distributing costs to the various segments through the collection of taxes and fees. By the terms of its Home Rule Charter, Shelby County Government is not permitted to make any expenditure of funds unless funds sufficient for that expenditure have been appropriated by the Board of Commissioners.

The Operating Budget as adopted by the Commission specifies only the departments, major funds, and accounts to which monies are allocated. To ensure compliance with contractual and other spending restrictions and to facilitate internal and external reporting, some of these major funds, notably the Grant funds, are subdivided into multiple funds within the financial accounting system. Also, to control expenditures and monitor performance at a level of greater detail, many departmental operating budgets are subdivided by sections in the financial accounting system.

The Home Rule Charter prescribes that expenditures may not exceed budget by major account at the department level. Moreover, Generally Accepted Accounting Principles prescribe that the County's financial statements include a presentation indicating budgetary compliance for all funds for which annual budgets are adopted. The State of Tennessee Comptroller of the Treasury reviews the County's adopted budget because the County has outstanding debt. The County's budget is submitted to the State Director of the Division of Local Finance after adoption.

## **Capital Improvements Budget Process**

The County annually prepares a five-year Capital Improvement Plan (CIP) for capital expenditures, as defined below. Each elected official and division director is asked to evaluate their capital needs for the next five years and to submit their requests for inclusion in the CIP. Projects are prioritized based on the urgency of the need as described in the request, with consideration also given to whether the project was included in the prior year CIP. A major factor in determining priorities is whether the project improves the efficiency and effectiveness of County government. Priority is also given to projects that will provide cost savings to the County.

Although the five-year CIP is approved in total, only the budget for the first year is actually adopted as the Capital Improvement Budget. This budget is an allocation or indication of intent by the County Commission.

The remaining four years are approved as the plan for the subsequent years. All projects in the approved Capital Improvement Budget are subject to subsequent appropriation by the Board of Commissioners. Each project must be approved by a resolution to appropriate the amount for the project and to approve the contract or purchase of the project.

## **Mid-Year Changes to the Adopted Budget**

When unforeseen circumstances necessitate adjustments to the budget during the fiscal year, changes can be accomplished in two ways. The County Mayor or his designee is authorized to transfer budget amounts between line items of the same category (personnel related versus all other types of expenditures) of the same division (group of departments) and same fund type. A line item transfer shall be deemed effective when the Mayor or his designee has indicated his approval by signature. All other adjustments require a resolution. A resolution shall be deemed effective when signed by the Mayor to indicate his approval and by the Clerk of the County Commission or her deputy to attest its passage by the Commission.

## **Carry Forward Encumbrances**

At any given time, there are certain agreements in place, evidenced by contracts or purchase orders, by which the County is obligated to make various payments to vendors on condition of future performance of services or future deliveries of goods by the vendors. These obligations are known as encumbrances. The County's Accounting Policies Resolution prescribes that at every fiscal year end the old year's budget is reduced by the amounts of all such encumbrances then outstanding (known as carry forward encumbrances), and the new year's budget is increased by the same amount. Any amount by which a new year's budget is increased for carry forward encumbrances may only be expended as follows:

- 1) In the case of the Operating Budget, for the contract or purchase order for which the budget increase was made.
- 2) As prescribed by resolution, General Fund carry forward encumbrances are restricted to Professional and Contracted Services, Rent Utilities & Maintenance and Asset Acquisitions in excess of \$5,000. All other encumbrances remain open and reduce budget availability in the new fiscal year; unless the department requests that the encumbrance be closed.
- 3) In the case of the Capital Improvement Budget, for the specific purpose for which the monies were appropriated.

## **Position Control Budget**

An integral part of the annual Adopted Operating Budget for the County is the Position Control Budget (PCB) that defines the approved salary for each position. The purpose of the PCB is to ensure that total salary costs will not exceed the amount of the annual cost of living raise from one fiscal year to the next. This budget is maintained by the Finance Department throughout the year.

Any salary increase that is requested for an employee by a department for purposes of reclassification, equity, or other circumstances must first be approved by the Human Resources Compensation group. The department must then identify funding for the increase through availability from another position, a salary contingency account, or an approved resolution appropriating funds from another source. Savings realized through vacancies or attrition (lapse) cannot be used to fund salary increase requests. Funds budgeted for variable salaries (overtime, etc.) or temporary salaries cannot be used to fund permanent salary obligations if other options exist.

A significant factor within the PCB at the divisional level is the salary restriction (also known as the lapse restriction). This reduction to available salary funds is made to allow for expected savings associated with vacancies or other types of naturally occurring attrition. Allowances are made to consider the variable attrition rates within different types of functions when salary restrictions are calculated.

The Shelby County Chart of Accounts is available on the County intranet site for department users with detailed descriptions of funds and accounts. The accounts are updated on a monthly basis to maintain complete and accurate information. Department budgets are adopted at the prime account level; those groupings are summarized below.

### **How to Read the Financial Data:**

Each department's financial page presents a summary of all revenues, expenditures and transfers categorized by **Prime Account** groupings. The accounts are defined by the County's **Chart of Accounts** – the financial coding structure used for budgeting and accounting purposes which was revised for FY 2010.

The County uses **section numbers** to identify departments or activities for purposes of accumulating revenues and expenses and for budgetary control purposes. Each financial transaction includes a full account coding in the format of 123-123456-1234; the first set of 3 numbers is the fund number, the middle set of 6 numbers is the section number and the last set of 4 numbers is the account number.

### **Structure of Section Numbers:**

The complete section number contains 6 digits. The number is subdivided into the following parts:

- a. First 2 digits: division number
- b. Middle 2 digits: the department number, when combined with the division number
- c. Last 2 digits: the section number, when combined with the department number.

Section number (6-digit) financial data is the lowest form of detail in the budget document in the form of program budgets.

### **Structure of Department Numbers:**

This 4-digit number includes the division number and two additional numbers. For example, department number 3016 is Public Works: Parks and Neighborhoods.

Compliance with the legally adopted budget of the County requires that expenses be charged to the correct section number at least to the department level, since the budget is adopted at the department level.

The following **Division Numbers** are assigned:

- 20 - Administration & Finance
- 25 - Information Technology Services
- 27 - Planning & Development
- 30 - Public Works
- 35 - Corrections Center
- 40 - Health Services
- 48 - Community Services
- 61 - Sheriff-Administration
- 62 - Sheriff-Law Enforcement
- 63 - Sheriff-Jail Division
- 70 - Judicial
- 80 - Other Elected Officials
- 91 - Education
- 92 - Debt Service
- 93 - Internal Service Funds, non-operating
- 94 - Pre-K

### **Revenue and Expense Account Structure:**

As noted above, the County uses a 4-digit "account number" to classify revenues by the source of the revenue and expenses by the nature of the related goods or services. In the budget document, the prime accounts provide detail by "pools" or a summary of all 4-digit accounts based on the first two digits of an account category. For example, a 60XX supplies pool is the total of all 4-digit accounts beginning with the account number "60."

The **Revenue** category includes the following prime account groupings:

- **Property Taxes** – Current and delinquent realty and personalty taxes collected by the Trustee.
- **Other Local Taxes** – Business taxes, interest and penalties on tax payments, Memphis Light, Gas & Water (MLG&W) in Lieu of Taxes, wholesale beer tax.

- **Intergovernmental Revenue – State** – County share of state sales tax, state grants and reimbursements, TVA Replacement tax, jail revenue from state.
- **Intergovernmental Revenue – Federal & Local** – Grants, revenues and reimbursements that the County receives directly from the Federal Government. Cost reimbursements from the City of Memphis for shared services and other payments.
- **Charges for Services** – Various fees collected for services or property use such as rental income, inmate telephone system revenue, TennCare revenue for health services provided to patients covered by this insurance system.
- **Fines, Fees & Permits** – Fees collected by the Courts and Elected Officials such as drug treatment fees, title search fees, permits, and various court fines and fees.
- **Other Revenues** – Miscellaneous revenues not appropriately assigned to other categories such as private donor grants and interfund interest income.
- **Investment Income** – All income from investments, including interest earned, dividends, gains or losses on disposition of an investment and any other investment income.

The **Expense** category includes the following account groupings:

### Salary-related expense accounts:

- **Salaries** – includes basic salaries and wages.
- **Other Compensation** – other forms of compensation and overtime.
- **Fringe Benefits** – includes benefits such as health, life, pension, and unemployment.
- **Salary Restriction** – used only for budget purposes as an offsetting salary budget to estimate savings from vacant positions.

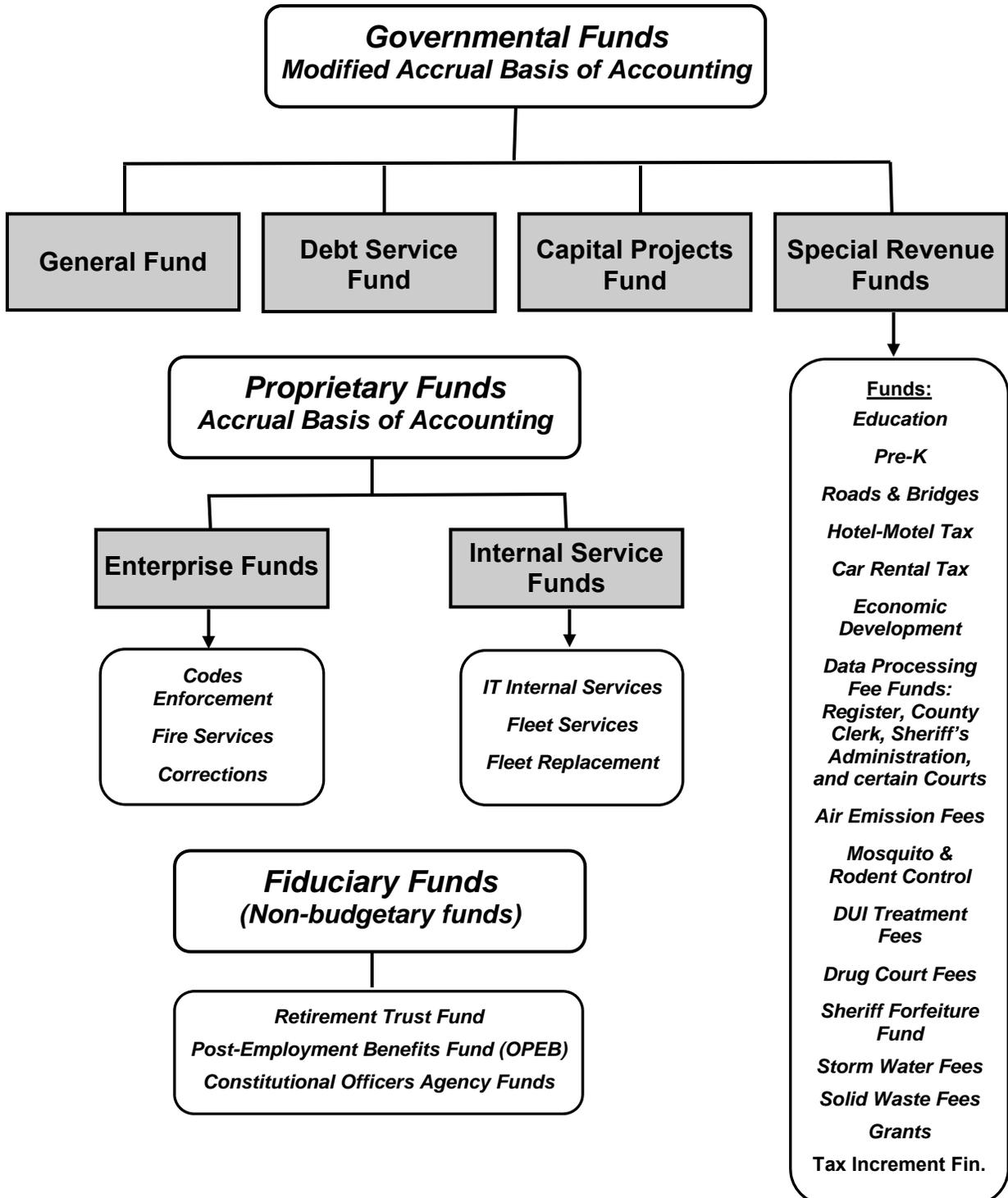
### Operating Expense Accounts:

- **Supplies & Materials** – consists of materials and supplies, employee apparel, medical supplies, membership dues & publications.
- **Services & Other Expenses** – includes inside & outside printing, copy expense, education & training, travel, freight & storage.
- **Professional & Contracted Services** – includes contracts with consultants, sub-recipient of grant awards, and the jail medical contract.
- **Rent, Utilities & Maintenance** – includes communication expenses, utilities, maintenance of equipment and maintenance of County buildings.
- **Interfund Services** – charges or fees by one fund or department to another fund or department for the use of printing, copying, postage, fleet services, and repair of County vehicles.
- **Capital Asset Acquisitions** – used for the procurement of capital expenditures, land, buildings, equipment, infrastructure and vehicles.
- **Depreciation Expense** – used to record the periodic depreciation of capital assets based on estimated useful lives; depreciation expense is charged directly to internal service funds but used only for government-wide reporting for assets of the governmental funds.
- **Debt Service Expenditure** – expenditures related to debt from borrowing or capital lease financing, including principal repayment, interest payments and debt issuance costs.
- **Affiliated Organizations** – used to report payments to component units, joint ventures and other related organizations with which the County has an established affiliation.
- **Grants** – reports grants and subsidies to various not-for-profit organizations, other than those considered to be “Affiliated Organizations.”
- **Contingencies and Restrictions** – this category has budget amounts only since no actual expenses are charged to these accounts; used only by the central budget staff for budgeting for contingency and other unallocated budget purposes.
- **Other (Financing) Sources and Uses** – receipts and disbursements that are classified as “Other Sources and Uses” on financial statements such as the gain or loss on the disposition of a capital asset recognized in a proprietary fund.
- **Planned Use of Fund Balances** – used only for budget purposes to reflect budget adjustments when expenditures are effectively using fund balance from the end of the previous year.
- **Transfers** – Transfers are transfers between funds; purposes of transfers include local match for grants, operating subsidies and indirect cost allocations.

# INTRODUCTION

# Fund Accounting Structure

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise the assets, liabilities, equity, revenues, and expenditures of each fund. Resources are allocated to each fund and accounted for based on the purpose for which they are designated and the means of controlling the spending activities. The individual funds are grouped into three basic types: Governmental, Proprietary or Fiduciary. Within the first two groups, the funds are further subdivided into six generic classifications: General, Debt Service, Capital Projects, Special Revenue, Enterprise, or Internal Service Funds. Only the governmental and proprietary funds are subject to appropriation as approved in the annual operating budget. Fiduciary funds are not generally subject to appropriation.



## **Major Funds:**

The County defines its major funds as those that equal more than either 10% of total appropriated revenues or 10% of total appropriated expenditures. The major funds of the County include the General Fund, the Education Fund (a Special Revenue Fund), the Grant Funds, and the Debt Service Fund.

## **Fund Numbers:**

A summary of the budgeted fund types by number are as follows:

Funds 001-049	General Funds
Funds 050-099	Special Revenue Funds
Funds 100-899	Grant Funds
Funds 901-904	Debt Service Funds
Funds 905-939	Capital Improvement Funds
Funds 950-958	Enterprise Funds
Funds 959-969	Internal Service Funds
Funds 980-989	Fiduciary Funds

## **GOVERNMENTAL FUNDS:**

Governmental Funds are those through which most governmental functions are financed with the objective of having sufficient resources available to provide services to the public. A governmental fund's measurement focus is on the determination of financial position and changes in financial position. The modified accrual basis of accounting is used for governmental funds to recognize:

- 1) Revenues in the accounting period in which they are both measurable and available to finance expenditures made during the current fiscal period.
- 2) Expenditures in the accounting period in which the liabilities are both measured and incurred.

All funds that use the modified accrual basis of accounting are expendable and do not, therefore, have a capital maintenance objective. Four types of governmental funds are employed by the County: the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

## **General Fund**

The General Fund is the most significant Governmental Fund. Transactions related to resources obtained and used for delivery of those services traditionally provided by a county government, which are not accounted for in other funds, are accounted for in the General Fund. These services include, among other things, general government, health, public works and community services. The operations of all fee operating elected offices are accounted for as sub-funds of the General Fund. General Fund revenues come from many different sources.

## **Special Revenue Funds**

Transactions related to resources obtained and used for certain Federal and State programs and from other resources upon which legal restrictions are imposed are accounted for in the Special Revenue Funds. The following funds comprise the Special Revenue Funds:

The ***Education Fund*** accounts for revenues collected and allocated for public education.

The ***Pre-K Fund*** accounts for local sales tax revenues designated for Pre-K education.

The ***Tax Increment Financing Fund*** accounts for funds collected from the Tax Increment Financing program to be used for community improvement projects.

The ***Economic Development Fund*** provides a comprehensive accounting for resources received that can be used only for economic development activities supported by the County.

The **Roads and Bridges Fund** accounts for the receipt and expenditures of the County's share of the proceeds from the state gasoline tax and additional allocations from the State of Tennessee for road repairs and maintenance.

The **Hotel/Motel Tax Fund** accounts for the 5% tax collected on hotel and motel room rentals in the County for the purpose of funding debt service repayment for the Sports Authority, funding for the Convention and Visitor's Bureau, and funding for capital expenditures for the FedEx Forum.

The **Sheriff Forfeiture Fund** accounts for the proceeds of goods seized and forfeited under the provisions of T. C. A. Section 53-11-451; includes the **Narcotic Fund, Alert Fund** and **DUI Vehicle Seizures Fund**.

The **Register's Data Processing Fees Fund** accounts for the \$2.00 fee collected on every document recorded by the Register to fund computer acquisition and enhancements for the Register's office.

The **Data Processing Fees Miscellaneous Fund** accounts for fees collected by the Chancery Court Clerk, the Circuit Court Clerk, the Probate Court Clerk, and the Sheriff's Administration department to provide funds for computer acquisition and enhancements for the respective offices.

The **General Sessions Data Processing Fees Fund** accounts for fees collected by the General Sessions Civil and Criminal Court Clerk to provide funds for computer acquisition and enhancements for the General Sessions Court Clerk's office.

The **Criminal Court Data Processing Fees Fund** accounts for fees collected by the Criminal Court Clerk to provide funds for computer acquisition and enhancements for the Criminal Court Clerk's office.

The **DUI Treatment Fines Fund** accounts for fines collected by General Sessions, Criminal and GS Drug Courts for use in alcohol & drug treatment programs through services offered by certain qualified organizations. DUI funds will be used in conjunction with services provided by Drug Court program.

The **Drug Court Program Fees Fund** accounts for fines collected by General Sessions and Criminal Courts and the GS Drug Court to be used exclusively for the creation and maintenance of state drug court treatment programs.

The **Car Rental Tax Fund** accounts for the car rental tax restricted for payment to the Public Building Authority for the funding of the NBA arena.

The **Air Emission Fees Fund** accounts for the proceeds of emission fees to be used in the Environmental Protection Agency (EPA) Title V program regulating all major and minor air emission sources in the County.

The **Vector Control Fund** accounts for the collection of the Vector Control fee of \$0.75 charged to all MLG&W customers on a monthly basis for the control of mosquito and rat populations.

The **Storm Water Fund** accounts for fees collected from customers in unincorporated Shelby County to provide a dedicated source of funds to implement the provisions of the County's Storm Water Ordinance.

The **Solid Waste Fund** accounts for Solid waste collection provided to the citizens of Northaven Service District funded by a monthly \$27 fee collected from residents by MLG&W.

The **Grants Fund** accounts for the receipts and expenditures of federal, state and other grants received by various County departments.

### **Debt Service Fund**

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs (except for bonds issued for Proprietary Funds, which are reported as liabilities of the respective Proprietary Fund).

### **Capital Projects Fund**

The Capital Improvements Fund accounts for the acquisition and use of resources for the construction or purchase of major, long-lived fixed assets, except for those which are financed by Enterprise or Internal

Service Funds. Resources for construction or purchase normally come from the issuance of general long-term debt and from governmental grants. A five-year CIP is approved by the Board of Commissioners, while only the first year of the plan is included in the annual adopted budget. In order for a project to be appropriated, a Commission-approved resolution is still necessary.

## **PROPRIETARY FUNDS:**

Proprietary Funds are used to account for the organizations and activities of the County which are similar to those often found in private enterprises. The measurement focus is on determination of net income, financial position, and changes in financial position. The accrual basis of accounting is used for Proprietary Funds to recognize:

- 1) Revenues in the accounting period that the revenues are earned
- 2) Expenses in the accounting period that the expenses are incurred

Both the revenues and expenditures must be measurable in order to be reported in the accrual basis. Two types of Proprietary Funds are employed by the County: Enterprise Funds and Internal Service Funds.

### **Enterprise Funds**

Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Enterprise Funds used by the County are as follows:

The ***Consolidated Codes Enforcement Fund*** accounts for operations of the Memphis and Shelby County Office of Construction Codes Enforcement. Revenues are generated through fees charged by the office.

The ***Fire Services Fund*** accounts for the operations of the Fire Department. Revenues are received from fees charged for fire services.

The ***Corrections Center Fund*** accounts for the operations of the Corrections facilities. Revenues are received from the State of Tennessee based on the number and sentenced term of state prisoners housed.

### **Internal Service Funds**

Internal Service Funds account for the financing of goods or services provided by one department to other departments or agencies of the County on a cost reimbursement basis. The County uses Internal Service Funds to account for the accumulation and allocation of costs associated with:

**Fleet Services** – Vehicle repairs, fuel and fleet replacement

**Information Technology Services** – Telecommunications, PC replacement, and managed print

## **FIDUCIARY FUNDS (Non-budgetary funds)**

Fiduciary funds (non-expendable trust funds) account for resources that are held by the County as a trustee or agent for parties outside the County and that cannot be used to support the government's own programs. Fiduciary funds are not appropriated in the operating budget. The following funds comprise the Fiduciary Funds:

The ***Pension Trust Fund*** accounts for the activities of the County's retirement plan, which accumulates resources for pension payments to employees.

The ***Other Post-employment Benefits (OPEB) Trust*** accounts for the fund used to accumulate and provide health and life insurance to retirees. Revenues for the OPEB Fund are provided by employer (County) contributions, and premiums are paid by retirees.

The **Constitutional Officers Agency Fund** accounts for assets held by the County's constitutional officers and other elected officials in an agency capacity for governments, litigants, heirs and others. Agency funds are custodial in nature and do not involve measurement of results of operations.

### **OTHER INTERNAL SERVICE FUNDS (Non-budgetary)**

The following non-budgetary internal services funds exist to accumulate funds necessary for these self-insurance programs:

The **On-the-Job Injury (OJI) Fund** accounts for the employee OJI program operated by the County. This self-insured fund is the County's equivalent of workers' compensation insurance.

The **Unemployment Compensation Fund** accounts for the unemployment compensation program operated by the County.

The **Group Health Insurance Fund** accounts for employer contributions and employee health insurance premiums collected for payment of all health claims and related administrative costs.

The **Tort Liability Fund** accounts for claims paid based on wrongful act, damage, or injury for which the County is responsible.

# INTRODUCTION

# Fund-Division Matrix

## Relationship Between Functional Units and Financial Structure

DIVISION-FUND	General Fund	Special Revenue Funds	Enterprise Funds	Internal Service Funds	Grant Funds	Debt Service Fund	CIP Funds
<b>ADMINISTRATION &amp; FINANCE:</b>							
Various Programs*	X				X		
Hotel-Motel Tax Fund		X					
Car Rental Tax Fund		X					
Economic Development Fund		X					
Tax Increment Financing Fund		X					
<b>INFORMATION TECHNOLOGY SERVICES:</b>							
Various Programs*	X						X
IT Internal Services				X			
<b>PLANNING &amp; DEVELOPMENT:</b>							
Various Programs*	X				X		
Codes Enforcement Fund			X				
<b>CORRECTIONS*</b>			X		X		
<b>PUBLIC WORKS:</b>							
Various Programs*	X				X		X
Roads and Bridges Fund		X					X
Storm Water Fund		X					
Fire Services Fund			X				
Fleet Services				X			
Fleet Replacement Fund				X			
<b>HEALTH SERVICES:</b>							
Various Programs*	X				X		X
Air Emissions Fund		X					
Mosquito & Rodent Control Fund		X					
<b>COMMUNITY SERVICES*</b>	X				X		
<b>SHERIFF:</b>							
Various Programs*	X	X			X		X
Sheriff Forfeiture Funds		X					
<b>JUDICIAL:</b>							
Various Programs*	X				X		X
Court DP Fees		X					
Drug Court/DUI Fees		X					
<b>OTHER ELECTED OFFICIALS</b>							
Various Programs*	X						X
Specific Officials DP Fees		X					
<b>EDUCATION</b>		X					X
<b>PRE-K</b>		X					
<b>DEBT SERVICE</b>						X	

\* Various Programs indicates multiple departments within the category.

## **LONG TERM FINANCIAL PLANNING**

Long-term financial planning, with a focus on a sound, stable decision making, is a critical component of maintaining the County's strong financial position and AA+/Aa1 bond ratings. The long term planning process includes both operations and capital needs. In conjunction with preparing the annual operating budget, the County projects revenues and expenditures over at least the next five years to assess the impact of current decisions and capital projects on future operations and to identify potential issues in future years. This provides a basis to consider the longer term implications of decisions regarding new programs, program level changes, raises, benefits, and the property tax rate. Close cooperation exists between the Administration and the Commission in an open, thorough, and timely budgeting process that focuses on a clear understanding of funding for both operations and debt.

Strategies designed to strengthen the County's long-term financial position are addressed in more detail in the "Strategic Goals" section of this Introduction. Key policies intended to maintain the County's long term financial stability are presented in the following pages.

## **OPERATING BUDGET POLICIES**

### **Balanced Budget**

Preparing a balanced budget with conservative revenue estimates is a primary foundation for maintaining a strong financial position. Should a planned use of fund balance be used to balance the budget, there should be clear documentation of the availability of fund balance for this purpose, the reasons for using fund balance and the expected impact on the following year's budget.

According to Tennessee General Statute, local governments are required to operate under an annual balanced budget ordinance. Deficit financing is prohibited by both Tennessee Law and the County Charter. Current expenditures must be matched by equal dollars of revenue and appropriated fund balances to provide a balanced budget.

Any adjustments or amendments to the operating budget will be done in accordance with County regulations by transfer or resolution to maintain a balanced budget at all times. The Operating Budget will include all programs not specifically eligible for inclusion in the Capital Improvement Plan.

### **Overall Budget Growth**

The County will seek expenditure reductions whenever possible through efficiencies and the reduction or elimination of programs, policies, and practices that are no longer necessary or not

mandated to be performed by the County. The County will not commit to programs with significant future costs without first identifying those costs and the ongoing sources of funds available to finance those programs.

### **Position Control and Compensation Policies**

Because salaries represent the largest operating expense for the County, specified policies are maintained to control this significant expense.

Staffing levels will be limited to final position counts and FTEs noted in the budget document. Temporary positions are excluded from the FTE count. Increases to the position count must be approved by resolution.

To assist in controlling personnel expenses, the Position Control Budget (PCB) defines the approved salary for each budgeted position. The purpose of the Position Control Budget is to ensure that total salary costs will not exceed the amount of the annual cost of living raise from one fiscal year to the next. This budget is maintained by the Finance Department throughout the year.

The County seeks to provide equitable pay among comparable jobs and to contain the growth of compensation costs through organizational efficiencies and productivity within the workforce. A Compensation Policy is prepared annually by the Human Resources department, with approval by the Board of Commissioners, to define those policies and the salary ranges for all job classifications.

Any salary increase that is requested for an employee by a department must first be approved by Compensation. The department then identifies funding for the increase through availability from another position, a salary contingency account, or an approved resolution appropriating funds from another source.

The salary restriction (also known as the lapse restriction), is a reduction to available salary funds made to allow for expected savings associated with vacancies or other types of naturally occurring attrition. Allowances are made to consider the variable attrition rates within different types of functions when salary restrictions are calculated. Savings realized through vacancies or attrition (lapse) cannot be used to fund salary increase requests. A Hiring Review Committee was established several years ago to review the necessity for positions requested for hire by departments and to regulate hiring patterns in relation to funding restrictions.

### **Fund Balance Reserve Policies**

To ensure that sufficient resources are available to adapt to variable economic conditions and unforeseen emergencies, the County will maintain

unassigned fund balance as a percent of revenue in the General Fund of 20% to 30%. To provide for debt service requirements, the County will maintain an unassigned fund balance of revenue in the Debt Service Fund of 20% to 30%.

## **Revenue Policies**

**Non-recurring revenue** - The County will minimize the use of non-recurring revenue to fund ongoing operations. Current operating costs will be financed by current operating revenues.

**Revenue Projections** - Revenue estimates will be realistic and accurate without being overly optimistic. Estimates will be based on objective judgment. Conservative projections will minimize the adverse impact of a revenue shortfall.

**Setting Fees and Service Charges** - Stable property tax rates will be maintained to avoid wide annual fluctuations as economic and fiscal conditions change. The County will seek to balance the financial burden of programs and facilities as fairly as possible between the general taxpayers and the direct recipients of those programs, recognizing the shared value of many public expenditures and the inability of some citizens to pay the full cost of certain benefits.

## **Grant Funding Policies**

The County will competitively seek a fair share of available State and Federal financial support unless conditions attached to that assistance conflict with the County interest. The County will not generally use local funding to compensate for lost state and federal grant funds. Grant matching funds must be included in the approved operating funds of the sponsoring division or department. Indirect costs for administrative overhead incurred by the County must be allocated to the full extent allowed by the grantor.

## **Debt Policies**

The County has adopted and follows a formal Debt Management Policy as an essential component to the County's long term financial stability. Detailed information about Debt Management practices and target ratios is provided in the Debt section of this document.

The County will limit the amount of new general obligation debt to that which can be supported by the community under conservative fiscal and economic projections and that which will maximize the probability of sustaining the County's favorable bond ratings.

The County will minimize debt service costs through the judicious use of available debt instruments, consistent with the desirability of maintaining stable current tax rates and the equitable distribution of costs among present and future users.

Only capital projects will be financed by long-term debt. The County will limit long-term debt for capital projects funded locally to \$75 million.

## **Capital Budgeting Policies**

Capital expenditures are authorized through the Capital Improvement Plan (CIP). Major capital expenditures for General Fund departments are funded through issuance of bonds or notes. Smaller capital expenditures for General Fund departments are made from the pay-as-you-go fund. Pay-as-you-go financing will be used when possible to conserve debt capacity for future bond issues.

Capital expenditures for grants are made through the grant's operating budget. Capital expenditures for enterprise and internal service fund operations are made from those funds.

The CIP will be reviewed and updated annually in order to maintain a current and viable program of ongoing capital projects. More information about planning and budgeting for capital improvements is provided in the CIP section of the document. The five-year CIP provides an identification and prioritization of capital projects. The County takes an annual inventory of capital assets, part of which is to assess the condition of major capital assets. This allows the County to plan future improvement and replacement requirements.

## **Basis for Accounting Policy (and Budgeting)**

The Shelby County Home Rule Charter requires that the Mayor maintains the accounting systems of Shelby County Government in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governmental entities, including all Governmental Accounting Standards Board (GASB) pronouncements. The County Commission established these countywide accounting policies with the adoption of Resolution No. 21 on April 25, 1988. The policies were then amended by Resolution No. 19 on June 26, 1989, Resolution No. 17 on April 26, 1993 and Resolution No. 51 on April 12, 2004.

In conjunction with the implementation of a new financial system, modifications were made to the Chart of Accounts effective July 1, 2009, to be more consistent with current recommended practices. A resolution was adopted by the Commission on June 1, 2009, to amend County accounting policies to provide for this modification of line item accounts for Revenue/Expenditure/Transfers. It also made minor changes to ensure consistency with recent accounting pronouncements by the Governmental Accounting Standards Board (GASB).

## **Fund Accounting Management**

The accrual basis of accounting is used in the Countywide Financial Statements, business type funds and fiduciary funds. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded as incurred.

The modified accrual basis of accounting is followed by governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. To be considered available, collection must occur within 60 days after year end, unless a different time period can be clearly documented as more appropriate to be available to pay liabilities incurred as of year-end. Expenditures generally are recorded when the liability is incurred, but general long-term debt service (maturing principal, interest, and fiscal charges) are recorded when due.

The basis for budgeting is the same as the basis for accounting.

In applying the "susceptible to accrual" concept to inter-governmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of these revenues. In one case, monies must be expended on the specific purpose or project before any amounts will be paid to the County; therefore, revenues are recognized based upon expenditures. In the other case, monies are virtually unrestricted as to the purpose of the expenditure and are revocable only for failure to comply with prescribed compliance requirements, such as equal opportunity employment. These resources are reflected as revenues at the time of receipt or earlier if they are "susceptible to accrual."

## **Fund Balances**

The fund balance for governmental funds will consist of the following five components: Nonspendable, Restricted, Committed, Assigned and/or Unassigned fund balances. Fund balance reserve levels are further defined in the Financial Policies section.

- **Nonspendable fund balance** consists of amounts not in spendable form or amounts that legally or contractually must be maintained intact.
- **Restricted fund balance** consists of amounts subject to external enforceable legal restrictions that are either: 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

- **Committed fund balance** consists of amounts whose use is constrained by limitations that the County imposes upon itself by the Shelby County Commission through resolution.
- **Assigned fund balance** consists of the County's intended use of resources. It allows decision-making authority to be delegated to some other body or official.
- **Unassigned fund balance** is the residual net resources.

## **Internal Accounting Controls**

The County will develop and manage its accounting system to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. "Reasonable assurance" recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of costs and benefits requires estimates and judgments by management.

## **Audits**

The County will ensure the conduction of timely, effective, and periodic audit coverage of all financial records. An annual "single audit" of operating and grant funds accomplishes this function.

## **Components of Net Assets and Fund Balance**

County policy has been to maintain the General Fund balance at a level between 15% and 25% of expenditures. The Projected Fund Balances for June 30, 2014 and June 30, 2015 are adjusted for budgeted or known changes and are well within this targeted range. Restrictions, reserves, designation and other components of net assets and fund balance are determined in accordance with generally accepted governmental accounting principles. Generally, restrictions and reserves are legal limitations regarding the use of the balances.

## **Capital Assets**

Capital assets purchased for general governmental purposes are recorded as expenditures in the governmental funds and recorded at cost in the Countywide Statement of Net Assets. Contributed assets are recorded at fair market value at the time of receipt. Infrastructure assets, principally, roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems have been recorded retroactive to July 1, 1980.

Property and equipment of the proprietary funds (Enterprise and Internal Service Funds) are reported as assets of the funds rather than as expenses and are stated at cost or estimated cost. Depreciation expense on the capital assets is reported in the proprietary funds.

Depreciation for all applicable capital assets is charged as an expense to operations in the Countywide Statement of Activities. Accumulated depreciation is reported as a reduction of capital assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method of computing depreciation as shown below:

Land Improvements	10 - 30 years
Buildings	30 - 40 years
Equipment Infrastructure	10 - 50 years

### **Claims and Judgments**

Claims and judgments, which can be reasonably estimated and could result in probable material losses to the County, should be given proper recognition under generally accepted accounting principles. For governmental type funds, the liability is recognized within the applicable fund if expected to be liquidated with expendable, available financial resources. All other material unpaid claims and judgments not to be liquidated with expendable, available financial resources are inventoried and recorded as a liability and expense in the Countywide Financial Statements. In business type funds, probable and measurable loss contingencies are recorded as incurred within the applicable fund.

### **Inventories**

Expendable supplies held by governmental funds are recorded as expenditures at the time such items are purchased and are not reflected as inventories because the amount of these supplies is insignificant. Inventories of business type funds are stated at cost generally on a first-in first-out basis - or market, whichever is lower, and are charged to operations when consumed.

### **Interfund Activities**

Reciprocal interfund activity (exchange or exchange-like transactions), except interfund loans, is accounted for as fund revenues and expenditures or expenses (as appropriate). Interfund loans are accounted for as assets and liabilities and this activity is not reported in the statement of revenues and expenditures/expenses. Transactions which constitute reimbursements of a fund for expenditures, or expenses initially made from the fund which are properly applicable to another fund are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. All interfund transactions except loan/advances, reciprocal transactions, and reimbursements are accounted for as transfers.

### **Compensated Absences**

County employees are granted sick and annual leave in varying amounts in accordance with administrative policies and union memorandums of

understanding. Accumulated vacation days are required to be used within eighteen months. In the event of termination or retirement, the employees are reimbursed for accumulated vacation days. Generally, employees not on the Executive Salary Schedule are compensated for accumulated sick leave, not to exceed 75 days, upon retirement. The amount of such payment is calculated on a maximum base salary of \$20,000 per year. Certain exceptions to this policy occur in accordance with the terms of various union contracts.

Amounts paid for sick and annual leave are recorded in current salary expenditures or the Governmental Funds. In the Countywide Financial Statements and the business activities type funds, sick and annual leave obligations are recorded as expenses when such obligations accrue to the benefit of the employees.

### **Cash, Cash Equivalents and Investments**

Investments and equity in pooled investments are stated at their related fair market values. The County pools substantially all of its cash, cash equivalents, investments and accrued interest receivable. Each fund participating in the investment pool owns a pro rata share in the pool. Investment income of the pool is allocated to the various funds based upon average investment balances.

### **Risk Management**

The County maintains a self-insured Group Health Insurance Fund for active employees and their dependents, funded by participation of both the County and its employees. A self-insured Tort Liability Fund is funded by premiums paid by departments using County vehicles and by transfers from the General Fund. Claim liabilities of the Tort Liability Fund are estimated based on prior years' claims expense, current year actual claims and a review of pending litigation through the County Attorney. The County also maintains a self-insured Employer Insurance Fund for on-the-job injuries and unemployment compensation, funded by premiums paid by County departments based on a percentage of salary costs. Claims liabilities are estimated based on prior year claims expense and current year actual claims incurred.

### **Retirement and Post-Employment Benefits**

The Shelby County Retirement System is a single employer defined benefit public employee retirement system (PERS). All full-time and permanent employees of the County are required to participate in the system. The system is administered by a board. The Shelby County Board of Commissioners establishes the benefits and contribution provisions. Retired employees may participate in post-employment health and life insurance benefits through the OPEB Trust – a single-employer defined benefit plan.

### **Charitable Contributions**

The only charitable contributions made by the County are approved in the annual budget process or by resolution of the County Commission.

### **Outsourcing and Privatization Policies**

The County does not have a formal policy regarding the provision of services through outsourcing or privatization. Potential savings or other benefits to the County that may result from privatization may be

evaluated on a cost-benefit basis for specific services.

### **Purchasing Policies**

The County maintains a detailed manual of purchasing procedures and policies, as approved by the County Commission. The policies are intended to ensure the procurement of supplies and services of the right quality, in the proper quantities, at the right time, and from the right source.