

# **DEBT SERVICE FUND OVERVIEW**

---

## **DEBT MANAGEMENT POLICY**

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

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

The Debt Management Policy for Shelby County was first established by resolution in 2002 and updated in 2005, 2011, 2014, and 2019. It can be found on the County's [website](#).

## **USE AND PURPOSE OF DEBT**

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

The debt-financed portion of the County's FY 2021 Capital Improvement Budget is approximately \$75 million. See the CIP section of the proposed budget for more detail. About 82.8% of the County's existing debt is related to schools.

## **CAPITAL FINANCING**

Decisions regarding the use of capital financing are based in part on the long-term needs of the County versus the amount of other funding resources dedicated in a given fiscal year to capital outlay on a "Pay-as-You-Go" basis, as defined below. It is the County's preference to provide capital outlay on a Pay-as-You-Go basis, except for Education capital funding and for projects in excess of \$5 million. The County historically also included Pay-as-You-Go funding in the Operating Budget for smaller asset acquisitions and improvements each year. This year, such capital expenditures are detailed in the CIP section of this budget.

The CIP identifies the projects intended to be financed by the two types of funding: the issuance of debt and Pay-as-You-Go funds.

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

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

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

## **DEBT SERVICE FUND OVERVIEW**

---

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

### **REVENUE SOURCES FOR DEBT SERVICE**

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

Prior to FY 2017, the Motor Vehicle Registration Fee revenue collected on license renewals was divided between the Education Fund and the Debt Service Fund for repayment of debt incurred for school construction. Since then, the County Commission has allocated 100% of the Motor Vehicle Registration Fee to Education to increase overall funding for school operations. This change was a significant restructuring that was possible as a result of the County's concerted efforts to reduce its debt obligations.

Current debt service obligations are paid with current funding sources and Fund Balance when the Fund Balance is above policy guidelines.

### **BOND RATINGS**

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

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

### **DEBT LIMIT**

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

# DEBT SERVICE FUND OVERVIEW

## DEBT AFFORDABILITY TARGETS

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

Category	2016	2017	2018	2019	2020*	
Estimated Population	934,603	936,961	935,764	937,166	937,166	
Per Capita Personal Income**	\$46,234	\$47,655	\$49,465	\$49,465	\$49,465	
<i>(in thousands)</i>						
Appraised Property Valuation	\$ 59,897,289	\$ 60,418,966	\$ 67,338,527	\$ 67,794,202	\$ 66,137,402	
Assessed Valuation	17,939,880	18,102,855	20,247,539	20,371,062	19,294,271	
Total General Fund Revenue	387,500	387,470	406,822	430,897	434,911	
G.O. Long-term Debt	998,061	989,747	890,040	965,474	868,633	
Total Government Debt	1,129,258	1,063,268	947,234	1,038,633	1,066,792	
<b>Debt Ratio Targets</b>						
	<b>Goal</b>					
Debt to Appraised Valuation %	under 5%	1.9%	1.8%	1.4%	1.5%	1.6%
Debt to Assessed Property Valuation %	under 12%	6.3%	5.9%	4.7%	5.1%	5.5%
Debt Per Capita	under \$2,000	\$1,208	\$1,135	\$1,012	\$1,108	\$1,138
Debt to Per Capita Personal Income %	under 6%	2.6%	2.4%	2.0%	2.2%	2.3%
Principal Debt % Retired in 10 Years	over 50%	91.7%	88.7%	91.2%	77.5%	78.0%
Debt Service as % of Non-Capital Expenditures	under 20%	23.9%	21.5%	21.5%	21.5%	19.9%
<b>Fund Balance Percentages (preferred balance &gt; 25%)</b>						
General Fund-Unassigned as % of Annual Revenue	20 - 30%	27.3%	28.4%	24.7%	21.5%	20.0%
Debt Service Fund-Committed as % of Annual Revenue	20 - 30%	32.9%	37.7%	42.4%	45.0%	36.2%

\* Projected

\*\* Personal Income data from www.bea.gov; data not yet available for 2019 or 2020

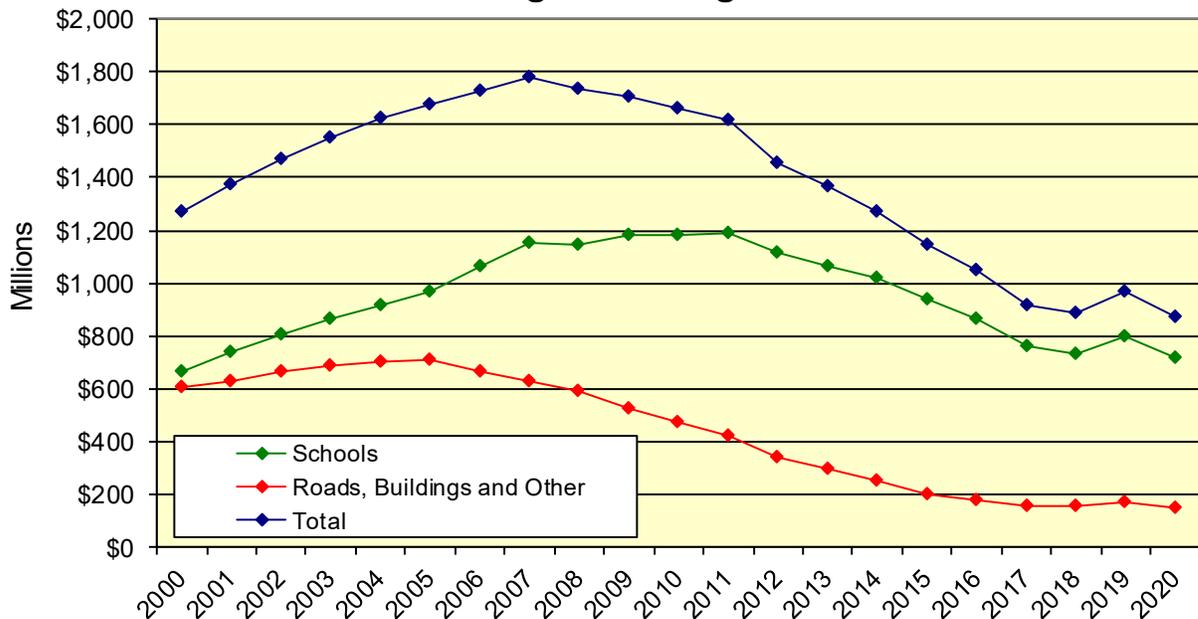
Shelby County's debt obligations are within the stated affordability targets.

## DEBT SERVICE FUND OVERVIEW

### FY 2021 DEBT SERVICE FOR OUTSTANDING DEBT

Description	Outstanding Debt as of 6/30/2020	FY 2021 Principal Payments	FY 2021 Interest Payments	FY 2021 Total Debt Service
2006B Public Imp/Schools	\$ 147,440,000	\$ 8,505,000	\$ 6,437,399	\$ 14,942,399
2009 Qualified School Construction Loan	21,012,597	3,439,402	835,068	4,274,470
2010 Qualified School Construction Loan	29,837,472	4,196,919	3,260,765	7,457,684
2011A Port Commission	15,547,500	677,500	723,800	1,401,300
2012A Refunding Public Imp/Schools	169,025,000	35,995,000	8,025,075	44,020,075
2015A Refunding Public Imp/Schools	46,275,000	7,745,000	2,053,688	9,798,688
2016A Refunding Public Imp/Schools	58,705,000	3,270,000	2,725,025	5,995,025
2017A Public Imp/Schools	74,660,000	2,890,000	3,733,000	6,623,000
2019A Public Imp/Schools	176,460,000	5,930,000	7,655,163	13,585,163
2019B Public Imp/Schools	71,060,000	4,115,000	3,240,625	7,355,625
2020A Refunding Public Imp/Schools	58,610,000	20,745,000	971,624	21,716,624
<b>Total Bonds &amp; Loans Payable</b>	<b>\$ 868,632,569</b>	<b>\$ 97,508,821</b>	<b>\$ 39,661,231</b>	<b>\$ 137,170,052</b>
Line of Credit (Int. & Fees)	\$ 123,200,000	\$ -	\$ 1,560,835	\$ 1,560,835
FY 2021 LOC Refunding	-	-	7,253,359	7,253,359
Capital Lease - Forensic Facility	4,329,258	347,168	76,987	424,155
	<b>\$ 996,161,827</b>	<b>\$ 97,855,989</b>	<b>\$ 48,552,412</b>	<b>\$ 146,408,401</b>

### General Obligation Long-term Debt



## DEBT SERVICE FUND OVERVIEW

### OUTSTANDING DEBT OBLIGATIONS

As of June 30, 2020

	Debt Outstanding at 6/30/20	FY 2021 Payment Requirement		
		Principal	Interest	Total
Schools 82.8%	\$ 719,272,019	\$ 73,339,381	\$ 33,476,217	\$ 106,815,598
County Infrastructure 17.2%	149,360,550	24,169,440	6,185,014	30,354,454
<b>Total Bonds &amp; Loans Payable</b>	<b>\$ 868,632,569</b>	<b>\$ 97,508,821</b>	<b>\$ 39,661,231</b>	<b>\$ 137,170,052</b>
Line of Credit (Int. & Fees)	123,200,000	-	1,560,835	1,560,835
FY 2021 LOC Refunding	-	-	7,253,359	7,253,359
Capital Leases - Forensic Center	4,329,258	347,168	76,987	424,155
<b>Total</b>	<b>\$ 996,161,827</b>	<b>\$ 97,855,989</b>	<b>\$ 48,552,412</b>	<b>\$ 146,408,401</b>

Schedule of Outstanding Bonded Debt June 30, 2020			
FY Ended June	Bonds Payable	Interest Payable	Fiscal Total
<b>FY 2021 Long-term Debt Payment</b>			
2021	\$ 97,508,821	\$ 39,661,231	\$ 137,170,052
2022	94,431,321	36,061,951	130,493,272
2023	93,466,321	32,628,622	126,094,943
2024	85,431,321	28,940,929	114,372,250
2025	84,766,321	25,302,243	110,068,564
2026	76,046,321	21,682,326	97,728,647
2027	54,730,603	17,914,774	72,645,377
2028	33,234,040	12,374,195	45,608,235
2029	31,812,500	10,709,922	42,522,422
2030	26,150,000	9,274,669	35,424,669
2031	40,385,000	7,865,316	48,250,316
2032	22,182,500	6,169,488	28,351,988
2033	23,067,500	5,310,531	28,378,031
2034	23,987,500	4,415,925	28,403,425
2035	18,217,500	3,389,750	21,607,250
2036	19,015,000	2,591,075	21,606,075
2037	18,445,000	1,765,400	20,210,400
2038	12,625,000	964,550	13,589,550
2039	13,130,000	459,550	13,589,550
<b>TOTAL</b>	<b>\$ 868,632,569</b>	<b>\$ 267,482,447</b>	<b>\$ 1,136,115,016</b>

The principal payment on the County's existing long-term debt will be \$97.5 million in FY 2021. However, the County will need to issue new long-term debt to refinance its existing line of credit in FY 2021, which will result in a net increase to the outstanding principal balance of the long-term debt.

# Prime Accounts Countywide Summary

## Debt Service Fund

Account - Description	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Amended	FY21 Adopted
40 - Property Taxes	136,445,315	133,844,039	122,075,935	121,607,985	120,659,459
41 - Other Local Taxes	13,752,783	14,594,741	11,156,729	11,229,940	11,229,940
44 - Intergov Revenues-Federal & Local	1,113,771	1,114,966	1,119,151	-	-
45 - Charges for Services	206,938	188,125	-	-	-
47 - Other Revenue	576,880	551,617	437,962	418,100	418,100
48 - Investment Income	514,672	2,088,513	3,491,353	-	100,000
<b>TOTAL REVENUE</b>	<b>152,610,359</b>	<b>152,382,002</b>	<b>138,281,130</b>	<b>133,256,025</b>	<b>132,407,499</b>
94 - Other Financial Sources & Uses	100,648,257	-	116,459,732	-	-
9999 - Planned Fund Balance Decrease	-	-	-	14,017,852	14,157,830
<b>TOTAL OTHER SOURCES</b>	<b>100,648,257</b>	<b>-</b>	<b>116,459,732</b>	<b>14,017,852</b>	<b>14,157,830</b>
<b>TOTAL SOURCES</b>	<b>253,258,616</b>	<b>152,382,002</b>	<b>254,740,862</b>	<b>147,273,877</b>	<b>146,565,329</b>
64 - Services & Other Expenses	2,412	-	-	-	-
66 - Professional & Contracted Services	117,151	108,928	120,928	156,928	156,928
<b>TOTAL OPERATING</b>	<b>119,563</b>	<b>108,928</b>	<b>120,928</b>	<b>156,928</b>	<b>156,928</b>
80 - Debt Service Expenditure	248,940,527	147,950,003	257,435,678	147,116,949	146,408,401
98 - Operating Transfers Out	6,680,000	-	-	-	-
<b>TOTAL OTHER USES</b>	<b>255,620,527</b>	<b>147,950,003</b>	<b>257,435,678</b>	<b>147,116,949</b>	<b>146,408,401</b>
<b>TOTAL USES</b>	<b>255,740,090</b>	<b>148,058,931</b>	<b>257,556,606</b>	<b>147,273,877</b>	<b>146,565,329</b>
<b>ACTUAL FUND BALANCE CHANGE</b>	<b>(2,481,474)</b>	<b>4,323,072</b>	<b>(2,815,744)</b>	<b>-</b>	<b>-</b>