

DEBT SERVICE FUND OVERVIEW

Shelby County has and continues to issue debt for capital projects. 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 service on this debt is paid from the Debt Service Fund.

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.

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. About 80.4% of the County's outstanding debt is related to schools.

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 capital projects.

During the annual budgeting process, the proposed CIP projects for the current year are reviewed and prioritized to ensure consistency with the County's goals and objectives, and the current year's projects are adopted as that year's Capital Improvement Budget. The debt-financed portion of the County's FY22 Capital Improvement Budget is approximately \$75 million. See the CIP section of this budget for more detail.

CAPITAL FINANCING

The majority of the County's capital funding is from debt issuance; however, it is the County's preference to provide capital outlay on a "Pay-as-You-Go" basis for smaller capital projects that are not related to the schools. 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. The County historically has also included Pay-as-You-Go funding in the Operating Budget for smaller asset acquisitions and improvements each year; these are detailed at the end of 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.

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.

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Pay-as-You-Go financing is defined as all sources of capital 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

REVENUE SOURCES FOR DEBT SERVICE

Property taxes are the primary funding source for the payment of annual debt service, with about 16.6% 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 FY17, 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 the Education Fund 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.

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DEBT AFFORDABILITY TARGETS

Debt to Appraised Property Valuation	Under 5%
Debt to Assessed Property Valuation	Under 12%
Debt to Per Capita Personal Income	Under 6%
Principal Debt Percent Retired in Ten Years	Over 50%
Debt per Capita	Under \$2,000
Debt Service as Percentage of Non-Capital Expenditures	Under 20%
Fund Balance Percentages	20-30% of Revenue

Category	2017	2018	2019	2020	2021*
Estimated Population	936,961	935,764	937,166	929,744	929,744
Per Capita Personal Income**	\$47,718	\$49,417	\$50,744	\$50,744	\$50,744
<i>(in thousands)</i>					
Appraised Property Valuation	\$ 60,418,966	\$ 67,338,527	\$ 67,794,202	\$ 68,050,683	\$ 82,758,224
Assessed Valuation	18,102,855	20,247,539	20,371,062	20,405,327	25,238,040
Total General Fund Revenue	387,470	406,822	430,897	425,014	438,377
Direct G.O. Long-term Debt	898,580	807,110	890,795	802,235	913,705
Total County Debt	1,063,268	947,234	970,154	1,006,161	975,801
<u>Debt Ratio Targets</u>					
Debt to Appraised Valuation %	1.8%	1.4%	1.4%	1.5%	1.2%
Debt to Assessed Property Valuation %	5.9%	4.7%	4.8%	4.9%	3.9%
Debt Per Capita	\$1,135	\$1,012	\$1,035	\$1,082	\$1,050
Debt to Per Capita Personal Income %	2.4%	2.0%	2.0%	2.1%	2.1%
Debt Principal % Retired in 10 Years	93.4%	97.4%	84.2%	86.6%	72.6%
Debt Service as % of Non-Capital Expenditures	14.0%	13.6%	12.7%	12.0%	N/A
<u>Fund Balance Percentages (preferred balance > 25%)</u>					
General Fund-Unassigned as % of Annual Revenue	28.4%	24.7%	21.5%	18.3%	24.5%
Debt Service Fund-Committed as % of Annual Revenue	37.7%	42.4%	45.0%	37.8%	30.7%

* Projected

** Population from www.census.gov and Personal Income data from www.bea.gov; Personal Income data not yet available for 2020 or 2021

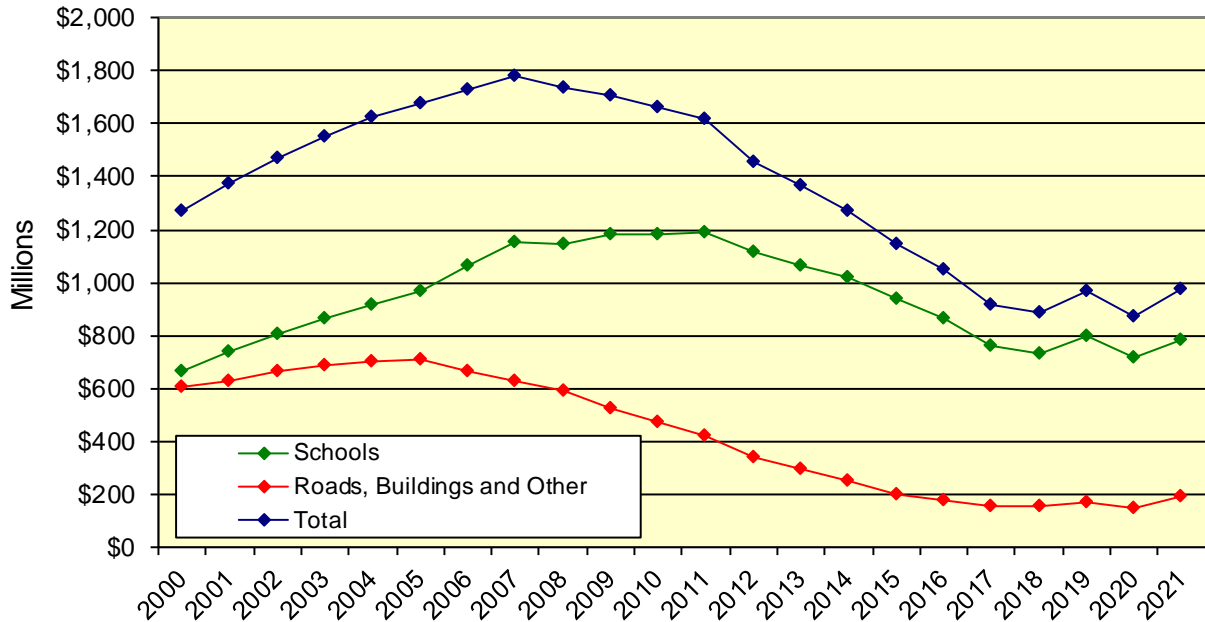
Shelby County's debt obligations are within the stated affordability targets.

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FY22 DEBT SERVICE FOR OUTSTANDING DEBT

Description	Outstanding Debt as of 6/30/2021	FY22 Principal Payments	FY22 Interest Payments	FY22 Total Debt Service
2006B Public Imp/Schools	\$ 138,935,000	\$ 9,575,000	\$ 6,048,777	\$ 15,623,777
2009 Qualified School Construction Loan	17,573,195	3,439,402	835,068	4,274,470
2010 Qualified School Construction Loan	25,640,553	4,196,919	3,260,765	7,457,684
2011A Port Commission	14,870,000	705,000	694,175	1,399,175
2012A Refunding Public Imp/Schools	133,030,000	38,765,000	6,407,325	45,172,325
2015A Refunding Public Imp/Schools	38,530,000	5,745,000	1,666,438	7,411,438
2016A Refunding Public Imp/Schools	55,435,000	3,435,000	2,561,525	5,996,525
2017A Public Imp/Schools	71,770,000	3,035,000	3,588,500	6,623,500
2019A Public Imp/Schools	170,530,000	6,230,000	7,358,663	13,588,663
2019B Public Imp/Schools	66,945,000	4,320,000	3,034,875	7,354,875
2020A Refunding Public Imp/Schools	37,865,000	14,985,000	605,840	15,590,840
2020B Public Imp/Schools	200,665,000	6,730,000	8,873,100	15,603,100
Total Bonds & Loans Payable	\$ 971,788,748	\$ 101,161,321	\$ 44,935,051	\$ 146,096,372
Expenses & Line of Credit Int.	\$ -	\$ -	\$ 1,870,000	\$ 1,870,000
Capital Lease - Forensic Facility	4,012,133	317,125	94,345	411,470
	\$ 975,800,881	\$ 101,478,446	\$ 46,899,396	\$ 148,377,842

Long-term Debt: General Obligation & Other Debt



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OUTSTANDING DEBT OBLIGATIONS

As of June 30, 2021

	Debt Outstanding at 6/30/21	FY22 Payment Requirement		
		Principal	Interest	Total
Schools 80.4%	\$ 781,560,104	\$ 72,481,575	\$ 36,759,475	\$ 109,241,050
County Infrastructure 19.6%	190,228,644	28,679,746	8,175,576	36,855,322
Total Bonds & Loans Payable	\$ 971,788,748	\$ 101,161,321	\$ 44,935,051	\$ 146,096,372
Expenses & Line of Credit Int.	-	-	1,870,000	1,870,000
Capital Leases - Forensic Center	4,012,133	317,125	94,345	411,470
Total	\$ 975,800,881	\$ 101,478,446	\$ 46,899,396	\$ 148,377,842

Schedule of Outstanding Bonded Debt June 30, 2021			
FY Ended June	Bonds Payable	Interest Payable	Fiscal Total
FY22 Long-term Debt Payment			
2022	\$ 101,161,321	\$ 44,935,051	\$ 146,096,372
2023	100,531,321	41,165,222	141,696,543
2024	92,851,321	37,124,279	129,975,600
2025	92,556,321	33,114,593	125,670,914
2026	84,226,321	29,105,175	113,331,496
2027	63,320,603	24,928,623	88,249,226
2028	42,254,040	18,958,544	61,212,584
2029	41,282,500	16,843,271	58,125,771
2030	36,095,000	14,934,518	51,029,518
2031	50,825,000	13,027,915	63,852,915
2032	33,142,500	10,810,088	43,952,588
2033	34,467,500	9,512,732	43,980,232
2034	35,847,500	8,162,125	44,009,625
2035	30,547,500	6,661,550	37,209,050
2036	31,840,000	5,369,675	37,209,675
2037	31,785,000	4,031,000	35,816,000
2038	26,495,000	2,696,550	29,191,550
2039	27,555,000	1,636,750	29,191,750
2040	15,005,000	600,200	15,605,200
TOTAL	\$ 971,788,748	\$ 323,617,861	\$ 1,295,406,609

The principal payment on the County's existing long-term debt will be \$101.2 million in FY22.

Prime Accounts Countywide Summary

Debt Service Fund

Account - Description	FY18 Actual	FY19 Actual	FY20 Actual	FY21 Amended	FY22 Adopted
40 - Property Taxes	133,844,039	122,075,935	120,678,531	120,659,459	133,456,484
41 - Other Local Taxes	14,594,741	11,156,729	11,639,450	11,229,940	11,404,228
44 - Intergov Revenues-Federal & Local	1,114,966	1,119,151	-	-	-
45 - Charges for Services	188,125	-	-	-	-
47 - Other Revenue	551,617	437,962	287,455	418,100	144,500
48 - Investment Income	2,088,513	3,491,353	2,149,932	100,000	100,000
TOTAL REVENUE	152,382,002	138,281,130	134,755,368	132,407,499	145,105,212
94 - Other Financial Sources & Uses	-	116,459,732	195,000	-	-
96 - Operating Transfers In	-	-	-	-	682,716
9999 - Planned Fund Balance Decrease	-	-	-	14,157,830	2,589,914
TOTAL OTHER SOURCES	-	116,459,732	195,000	14,157,830	3,272,630
TOTAL SOURCES	152,382,002	254,740,862	134,950,368	146,565,329	148,377,842
66 - Professional & Contracted Services	108,928	120,928	108,928	156,928	158,000
TOTAL OPERATING	108,928	120,928	108,928	156,928	158,000
80 - Debt Service Expenditure	147,950,003	257,435,678	146,232,160	146,408,401	148,219,842
TOTAL OTHER USES	147,950,003	257,435,678	146,232,160	146,408,401	148,219,842
TOTAL USES	148,058,931	257,556,606	146,341,088	146,565,329	148,377,842
ACTUAL FUND BALANCE CHANGE	4,323,072	(2,815,744)	(11,390,719)	-	-