

# DEBT SERVICE FUND



# FY17 ADOPTED BUDGET

**DEBT MANAGEMENT POLICY**

Shelby County has adopted and maintains an updated debt management policy to provide written guidance related to the purpose and use of debt to fund the County's capital needs and the process of issuance of 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 and 2011. The current Debt Management Policy was updated and adopted by resolution in 2014.

**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 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 capital improvement projects are reviewed and prioritized to ensure consistency with the County's goals and objectives.

The County's share of allocations in the Capital Improvement Plan is limited to approximately \$75 million each year. To the extent practical, no more than \$55 million will be funded by debt each year. About 77% of the County's total expenditure for 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 also includes Pay-As-You-Go funding in the Operating Budget for smaller asset acquisitions and improvements each year rather than in the Capital Improvement Budget. These capital expenditures are detailed in the CIP section of this book. The Capital Improvement Plan identifies the projects intended to be financed by the issuance of debt.

Capital financing typically includes two types of funding: Pay-As-You-Go and Debt financing:

Pay-As-You-Go financing is defined as all sources of funding other than debt issuance, i.e. fund balance, contributions, investment earnings and grants. 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 Financing is generally obtained 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 years after the initial sale.

### **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. Determination of a credit rating by a rating agency is based on the rating agency's assessment of the credit worthiness of an 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 nation 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 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 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.

Shelby County's tax-supported debt level peaked in fiscal year 2007 at \$1.85 billion and has been declining since then. It is the County's intent to consistently reduce its outstanding debt over time until debt reaches a level of approximately \$700 million.

## Debt Service Fund Overview

## FY17 Adopted Budget

### 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

<b>BONDED DEBT RATIO ANALYSIS</b>						
(in thousands)						
		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Appraised Property Valuation		\$64,287,974	\$ 63,834,912	\$ 60,586,935	\$ 59,884,234	\$ 59,898,197
Assessed Valuation		18,999,484	18,847,861	18,165,887	17,966,889	17,940,379
Total General Fund Revenue		362,350	368,929	380,460	381,887	386,367
Total General Obligation Debt		1,455,753	1,374,036	1,269,191	1,143,350	998,061
<u>Debt Ratio Targets</u>	<u>Goal</u>					
Debt to Appraised Valuation %	< 5%	2.26%	2.15%	2.09%	1.91%	1.67%
Debt to Assessed Property Valuation %	< 12%	7.66%	7.29%	6.99%	6.36%	5.56%
Debt Per Capita	< \$2,000	1,598	1,483	1,375	1,331	1,204
Debt to Per Capita Personal Income %	< 6%	3.92%	3.50%	3.24%	3.08%	2.69%
Principal Debt % Retired in 10 Years	> 50%	63.29%	65.93%	70.78%	76.84%	87.97%
Debt Service as % of Non-Capital Expenditures	< 20%	15.65%	16.29%	16.07%	15.93%	14.68%
<u>Fund Balance Targets:</u>						
General Fund - Unassigned as % of annual revenue (preferred balance > 25%)	20 - 30%	25.28%	25.73%	26.93%	28.22%	0.00%
Debt Service Fund -Committed as % of annual revenue (preferred balance > 25%)	20 - 30%	54.05%	47.55%	45.14%	44.17%	0.00%

*Shelby County's debt obligations are within the stated affordability targets, with favorable trends achieved over the past four years.*

**OUTSTANDING DEBT OBLIGATIONS**

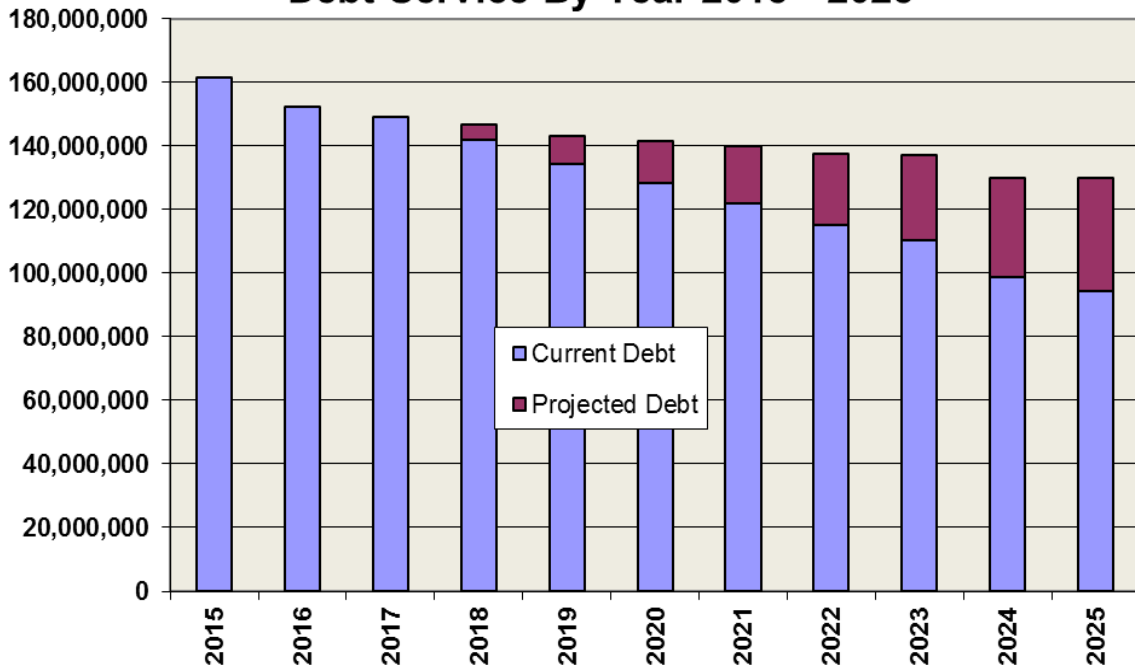
As of June 30, 2016

	<b>Debt Outstanding</b>	<b>FY17 Payment Requirement</b>		
	<b>at 6/30/16</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Schools	824,106,880	73,163,181	42,918,841	116,082,022
County Infrastructure	173,953,731	18,555,897	12,119,645	30,675,542
<b>Total Bonds and Notes Payable</b>	<b>998,060,611</b>	<b>91,719,078</b>	<b>55,038,486</b>	<b>146,757,564</b>
Capital Leases - Forensic Center	5,762,440	364,972	122,621	487,593
<b>Total Debt Service Fund</b>	<b>1,003,823,051</b>	<b>92,084,050</b>	<b>55,161,107</b>	<b>147,245,157</b>
Projected Commercial Paper <i>(reported in CIP Fund)</i>	50,000,000	0	2,000,000	2,000,000 <sup>1</sup>
<b>TOTAL DEBT OUTSTANDING</b>	<b>1,053,823,051</b>	<b>92,084,050</b>	<b>57,161,107</b>	<b>149,245,157</b>

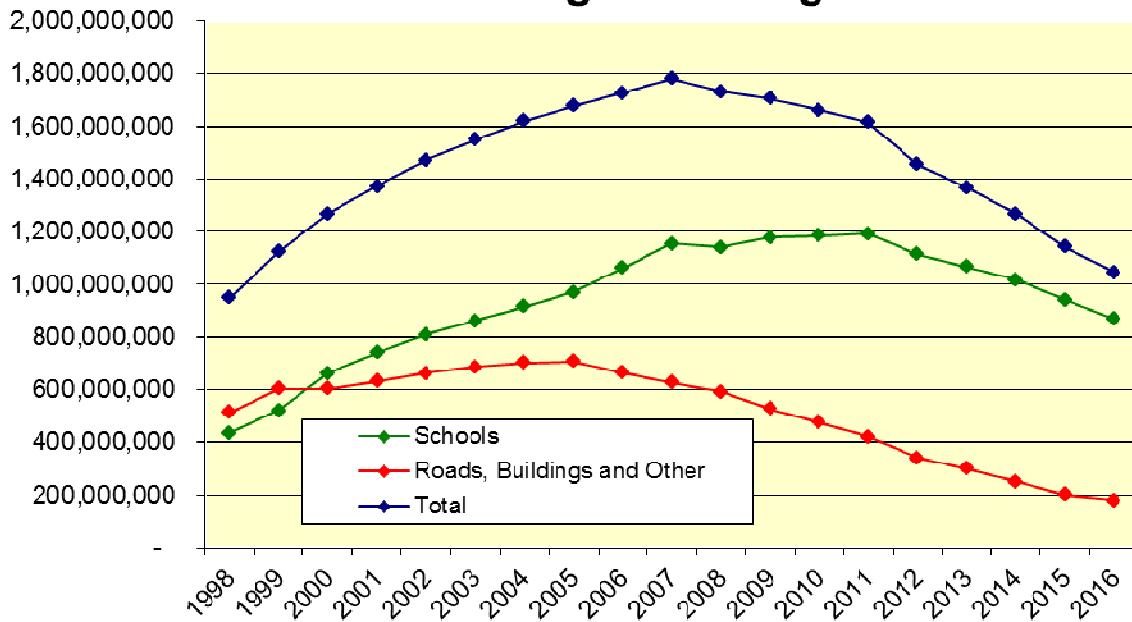
<b>Schedule of Outstanding Bonded Debt at 6/30/16</b>			
<b>FY Ended</b>	<b>Bonds</b>	<b>Interest</b>	<b>Fiscal</b>
<b>June</b>	<b>Payable</b>	<b>Payable</b>	<b>Total</b>
<b>FY17 Budgeted Debt Payments</b>	<b>2017</b>	<b>91,719,078</b>	<b>55,038,486</b>
	2018	96,331,321	43,344,823
	2019	92,601,321	39,179,584
	2020	90,691,321	35,090,688
	2021	88,523,821	31,061,183
	2022	85,666,321	27,239,686
	2023	84,471,321	23,777,167
	2024	76,241,321	20,283,914
	2025	75,191,321	17,034,008
	2026	65,451,321	13,727,282
	2027	43,670,604	10,332,436
	2028	21,559,040	5,311,107
	2029	19,482,500	4,195,522
	2030	13,125,000	3,340,331
	2031	26,645,000	2,536,778
	2032	7,687,500	1,480,588
	2033	8,017,500	1,046,825
	2034	8,367,500	594,500
	2035	1,277,500	122,500
	2036	1,340,000	58,625
	<b>TOTAL</b>	<b>998,060,611</b>	<b>334,796,033</b>
			<b>1,332,856,644</b>

<sup>1</sup> Debt Service on EMPC Notes included in CIP Fund

Debt Service By Year 2015 - 2025



General Obligation Long Term Debt



# Prime Accounts Summary

## Debt Service Fund

Acct	Description	FY13 Actual	FY14 Actual	FY15 Actual	FY16 Amended	FY17 Adopted
40 - Property Taxes		(137,625,912)	(138,029,247)	(136,836,915)	(135,626,000)	(137,960,000)
41 - Other Local Taxes		(29,209,204)	(35,195,484)	(47,942,527)	(31,389,000)	(12,268,000)
43 - Intergovernmental Revenues-State of		0	(67,436)	0	0	0
44 - Intergovernmental Revenues-Federal &		(1,304,602)	(1,204,036)	(1,115,919)	(1,218,514)	(1,109,586)
45 - Charges for Services		(156,625)	(225,749)	(225,750)	(225,750)	(225,750)
47 - Other Revenue		(742,827)	(717,739)	(614,371)	(563,000)	(531,700)
48 - Investment Income		(822,927)	(1,058,206)	(1,306,292)	(293,300)	(500,000)
<b>Revenue</b>		<b>(169,862,097)</b>	<b>(176,497,897)</b>	<b>(188,041,774)</b>	<b>(169,315,564)</b>	<b>(152,595,036)</b>
64 - Services & Other Expenses		302,450	271,500	267,565	400,000	350,000
66 - Professional & Contracted Services		142,502	141,625	134,579	278,723	190,000
Operating & Maintenance		444,952	413,125	402,144	678,723	540,000
80 - Debt Service Expenditure		174,302,871	167,300,827	161,410,530	158,683,484	149,245,157
Debt Services		174,302,871	167,300,827	161,410,530	158,683,484	149,245,157
94 - Other Sources & Uses		0	0	17,827,758	44,578,189	0
Other Financing Sources		0	0	17,827,758	44,578,189	0
<b>Expenditures</b>		<b>174,747,823</b>	<b>167,713,952</b>	<b>179,640,432</b>	<b>203,940,396</b>	<b>149,785,157</b>
99 - Planned Use of Fund Balances		0	0	0	(39,056,330)	(3,870,121)
Planned Fund Balance Change		0	0	0	(39,056,330)	(3,870,121)
<b>Planned Fund Balance Change</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>(39,056,330)</b>	<b>(3,870,121)</b>
96 - Operating Transfers In		(5,381,981)	0	(2,248,502)	(2,248,502)	0
Operating Transfers In		(5,381,981)	0	(2,248,502)	(2,248,502)	0
98 - Operating Transfers Out		6,800,000	6,280,000	6,508,000	6,680,000	6,680,000
Operating Transfers Out		6,800,000	6,280,000	6,508,000	6,680,000	6,680,000
<b>Net Transfers</b>		<b>1,418,019</b>	<b>6,280,000</b>	<b>4,259,498</b>	<b>4,431,498</b>	<b>6,680,000</b>
<b>SUMMARY TOTAL</b>		<b>6,303,745</b>	<b>(2,503,945)</b>	<b>(4,141,844)</b>	<b>0</b>	<b>0</b>

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