



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. This shared fiscal discipline has placed Shelby County Government in a strong financial position to deal with current and future economic challenges.

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 Reduction Plan by limiting 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) retirement plans
- To actively seek to reduce or minimize expenditures through efficiency, technology, innovation or identification of alternate funding sources
- To continue to minimize the size of County government by focusing on the required core services of public safety, education, and health

What indicators measure our success in meeting those goals?

- Growth in General Fund Balance since 2010 from 21% of revenue to 27%
- Agency bond ratings maintained at AA+/AA1 during that period
- General Obligation Debt reduced by almost \$600 million since 2010
- No property tax increase since 2014
- Average Annual Expenditure growth limited to only 1% per year since 2010, including compensation, benefits and operational cost increases
- Reduction of 92 General Fund positions since 2010 to achieve a sustainable level of expenditures, while providing increases to support public safety and judicial functions
- No use of short term borrowing or fund balance for recurring expenditures
- Pension and OPEB obligations funded at 100% of annual required contribution (ARC); Capital expenditures maintained within level specified by Debt Reduction Plan

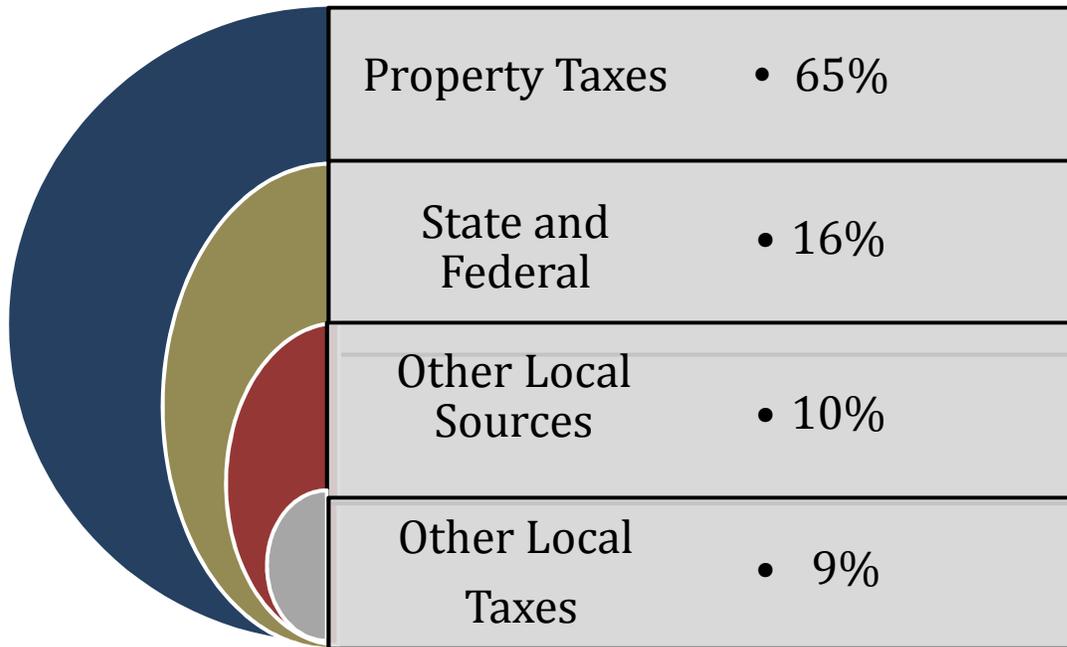
Revenue Overview – All Funds

The Adopted Budget for Fiscal Year 2017 is based on a total revenue projection of \$1,180,669,158. This amount is 2.7% above actual FY16 collections. The property tax revenue is based on the current tax rate of \$4.37 with a penny value of \$1,702,000. Other Sources of funds, such as transfers from other funds, planned use of fund balance, or gain on sale of fixed assets, 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:

Revenue Category	FY17 Amount	FY17%	FY16%
Property Taxes	\$ 768,874,000	65.1%	63.4%
Intergovernmental-State	147,322,132	12.5%	14.0%
Other Local Taxes	108,607,000	9.2%	8.5%
Fines, Fees & Permits	97,465,495	8.3%	8.1%
Intergovernmental-Federal	35,562,888	3.0%	4.2%
Charges for Services	15,744,192	1.3%	1.3%
Other Revenue/Interest	7,093,451	0.6%	0.5%
Total Revenue	\$ 1,180,669,158	100.0%	100.0%

Major Revenue Categories for FY17



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 follows:

<u>Revenue Fund Type</u>	<u>FY17 Amount</u>	<u>FY17%</u>	<u>FY16%</u>
Education Fund	\$ 416,971,000	35.3%	32.8%
General Fund	386,318,258	32.7%	31.9%
Debt Service Fund	152,595,036	12.9%	14.2%
Grant Funds	96,820,903	8.2%	10.5%
Enterprise Funds	79,101,533	6.7%	6.7%
Special Revenue Funds	40,216,865	3.4%	3.3%
Internal Service Funds	8,645,563	0.7%	0.7%
Total Revenue	\$ 1,180,669,158	100.0%	100.0%

Major funds are those that constitute more than 10% of total revenue. For Shelby County, the General Fund, Education 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 or Mosquito Control, and Enterprise Funds such as Fire Services, Codes Enforcement and Corrections.

Property Tax Revenue



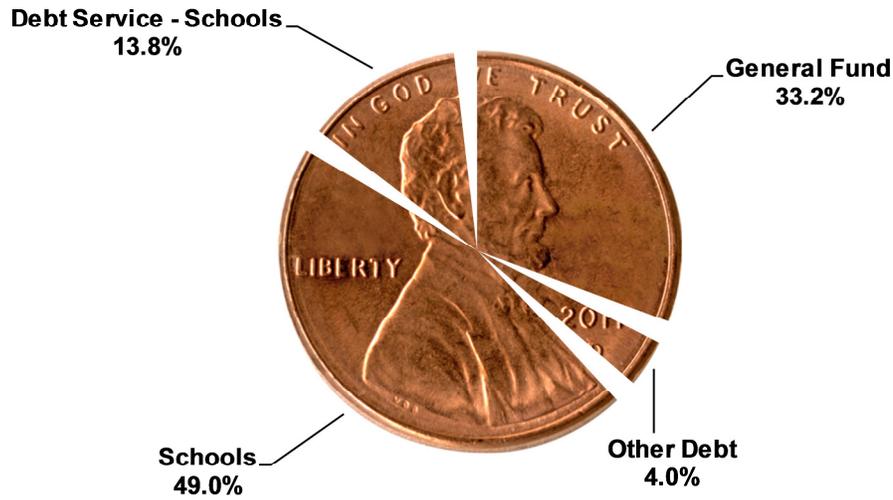
Property taxes are the primary source of operating revenue for Shelby County, providing 65% of total revenues. The property tax rate is set by the County Commission as a part of the annual budget review process at a level determined to be necessary to maintain a balanced budget while providing necessary services to residents. The County has attempted to maintain stable property tax rates to avoid the need for increases required to adapt to cyclical economic and fiscal conditions without the use of reserve funds.

FY17 Property Tax "Penny" Allocations

	<u>FY17 Adopted</u>		<u>FY16 Adopted</u>	
	<u>Rate</u>	<u>%</u>	<u>Rate</u>	<u>%</u>
Education	\$ 2.14	49.0%	\$ 2.14	49.0%
General Fund	1.45	33.2%	1.45	33.2%
Debt Service*	0.78	17.8%	0.78	17.8%
Total	\$ 4.37	100.0%	\$ 4.37	100.0%
<u>Debt Service:</u>				
Schools	0.60	13.8%	0.55	12.7%
Other	0.18	4.0%	0.23	5.2%
Total Debt	\$ 0.78	17.8%	\$ 0.78	17.8%
Total Schools	\$2.74	62.8%	\$2.69	61.7%

Although property tax allocations are the same as last year, a larger proportion of the Debt Service allocation will be used for school debt in FY17. As a result, Education will receive an additional 1.1% of all property taxes in comparison to prior year.

One cent on the property tax rate generates an additional \$1,702,000 in FY17 revenue.



Value of Property Tax Allocations

	<u>FY17 Adopted</u>	<u>FY16 Adopted</u>
Education	\$ 376,081,000	\$ 370,189,000
General Fund	254,833,000	250,825,000
Debt*	137,960,000	135,626,000
Total Property Taxes	<u>\$ 768,874,000</u>	<u>\$ 756,640,000</u>

**includes School Debt*

Functional Expenditures – All Funds

Fiscal Year 2017 countywide expenditures by functional categories consist of the following:

<u>Functional Category</u>	<u>FY17</u>	<u>FY17 %</u>
Education	\$ 419,471,000	35.5%
Criminal Justice	320,137,707	27.1%
Debt Service	152,595,036	12.9%
Health	75,980,881	6.4%
Public Works	80,994,679	6.9%
Community Services	32,250,090	2.7%
All Other	99,239,765	8.4%
Total	<u>\$ 1,180,669,158</u>	<u>100.0%</u>

Including debt service for schools, Education represents 45% of total expenditures from all funding sources – an increase of 2.0% over prior year.

Education

Education is both our highest priority and our largest single investment. Structural changes to the school systems within Shelby County since 2014 have created unique funding challenges for both the County and the Schools. However, we remain committed to supporting the success of the schools and providing equal support for all public schools within Shelby County to the fullest extent possible. Funding for Education has steadily increased despite declining enrollments, as further detailed in the “Education” section of this document.



The total budget for the Education Fund in FY17 is \$419.5 million – an increase of \$28.2 million or 7.2% over prior year. This increase reflects the dedication of the following resources:

- Education will receive 62.8% of all property taxes in FY2017, with the inclusion of school debt. This represents an increase of 1.1% over prior year.
- 100% of the Wheel Tax (\$33 million) has been allocated for school operations. A large portion of this tax was previously allocated to repayment of school debt.
- The General Fund includes a transfer to Education of \$2.5 million and \$3.0 million for Pre-Kindergarten programs.

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 Fiscal 2017 sets that MOE level for future years, following a three year reset period after the “de-merger” of schools. It is imperative that we find a workable balance between academic excellence and fiscal responsibility that can be sustained over time for this critical community asset.

Long Term Debt

The County’s outstanding bonded debt and commercial paper peaked at \$1.85 billion in December 2006, was reduced to \$1.15 billion at June 30, 2015, and will be approximately \$1.05 billion at June 30, 2016. Long term debt is expected to slowly decline from now on as long as CIP annual appropriations from county sources are limited to no more than \$75 million. Adherence to the Debt Reduction Plan made some significant funding options possible this year, including:

- Shifting the entire Wheel Tax (\$33 million) to the Education Fund for school operations. A large portion of the Wheel Tax was previously allocated for repayment of school debt.
- Moving a portion of the Local Option Sales Tax (\$3 million) from Debt Service to the Roads and Bridges Fund for additional road paving. This will provide sufficient funding to improve the current 40 year repaving cycle of the county’s 800 miles of roads to a 20 year cycle within a 10 year period.

A graph in the Debt Service Fund section shows debt service requirements from FY2017 through FY2025. Debt service for FY2017 will be \$149 million, a substantial decrease from the budgeted FY2016 amount of \$158 million, and will slowly decline thereafter. As long as we stay within our Debt and CIP Plans, the County will never need to raise additional revenue for debt service.

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 FY17 are budgeted at \$396.6 – an increase of 3% over prior year budget.

A combination of revenue growth and cost savings contributed to balancing the General Fund budget without a tax increase:

- **Revenue** – Overall growth of \$5 million has been driven primarily by strong property tax collections by the Trustee and an improving residential market and commercial assessments. The General Fund is allocated 33.2% of all property tax revenue. Business tax collections have contributed to the favorable trend, largely offsetting the reduction for a non-reimbursable election cycle in FY17 and other declines in Charges for Services and State/Local reimbursements.
- **Position Control Cost Containment Measures** – Position control budgets were reduced to actual salary levels to adjust for the effect over time of ongoing staffing turnover. The Vacancy Savings credit was also increased to account for hiring trends and attrition patterns and 7.7 Full Time Equivalent (FTE) positions were eliminated in the Mayor’s Administration. Combined savings achieved exceeded \$2.5 million.

Challenges to balancing the General Fund budget this year included these cost factors:

- **Employee Compensation:** A general salary increase of 2.0% at a cost of \$4 million has been included. Employees have received an average increase of only 1.3% in the past ten years. Maintaining equitable compensation is important to recruiting and retaining a productive and motivated workforce. For that reason, funds for potential market study adjustments to certain job classifications were also included.
- **Fringe Benefits:** Based on actuarial reports, an increase was necessary for pension benefits (\$5.4M), with a reduction to Other Post-Employment Benefits (OPEB) rate (-2.3M) as a result of strong FY14 investment returns and plan changes implemented in 2007. Health insurance benefits also increased by 5% or \$1.0 million. The County continues to fully fund its pension and OPEB obligations at 100% of the annual required contribution.
- **Cost Increases for Contracted Services:** Annual escalation in contracts for inmate medical services, jail food services, building security and maintenance was necessary (\$1.3M combined) as well as funding for increased investment in blight abatement efforts (\$1.3M).
- **Increase Requests from Elected Officials:** Requests from Elected Officials for various programs and positions to enhance current service levels approved by the County Commission were added to the Proposed Budget with funding from General Fund reserves:

\$3,100,000	Sheriff (Lapse reduction \$2.3M; vehicles \$.8M)
2,500,000	Transfer to Education Fund
1,300,000	Attorney General and Public Defender
1,000,000	Salary Reserve for Corrections Deputies
1,000,000	Regional One Health
900,000	Courts and Election Commission
<u>\$9,800,000</u>	<u>Increases approved by Commission</u>
<u>(2,000,000)</u>	<u>Other Cost Reductions</u>
<u>\$7,800,000</u>	<u>Total Use of Fund Balance</u>

Of the portion of the property tax rate allocated to the General Fund (33.2%), about 75% is used for Criminal Justice/Judicial services, 13% for Health Services, and only 12% for all other functions - including Public Works, Community Services and administrative services.

General Fund dollars for net expenditures are distributed on a functional basis as shown below:



Criminal Justice and Judicial operations account for 75% of General Fund Property Taxes

Compensation & Benefits



Personnel costs now account for 71% 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. Our employees have also shared a portion of the incremental cost of health and pension benefits over the past several years and have compensated for the gradual reduction in workforce with increased productivity.

General salary increases have been limited to only 1.3% over the past 10 years, as shown in a table provided in the General Fund section of this book. **The FY2017 Adopted Budget includes funding for a 2.0% general salary increase.**

The rising cost of pensions, health care and post-employment benefits (OPEB) will continue to present a significant challenge in controlling total personnel expense. The average cost of benefits at FY17 Adopted Budget rates is about 38% of salaries for permanent full-time employees, as shown below. This cost is 1% less in total than last year due to decrease in the OPEB rate as a result of capping the Life Insurance benefit for retirees at \$20,000. However, this benefit was fully restored in a subsequent amendment to the Adopted Budget.

Benefit Type	FY17 Budget	% of Salaries
Pension	\$ 33,803,091	16.87%
Health Insurance	25,784,236	12.87%
Other Post Employment Benefits	10,703,120	5.34%
Medicare	2,985,164	1.45%
Group Life Insurance	839,528	0.42%
OJI Expense	1,235,240	0.60%
Long Term Disability	641,167	0.32%
Unemployment Compensation	339,691	0.17%
Total Benefits	\$ 76,331,237	38.04%

***Excludes Social Security benefits of \$341,539 that are paid only for temporary employees**

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.

Planned Use of Fund Balance

Maintaining an appropriate General Fund Balance is an essential element of a strong financial plan. Fund Balance is important for several reasons:

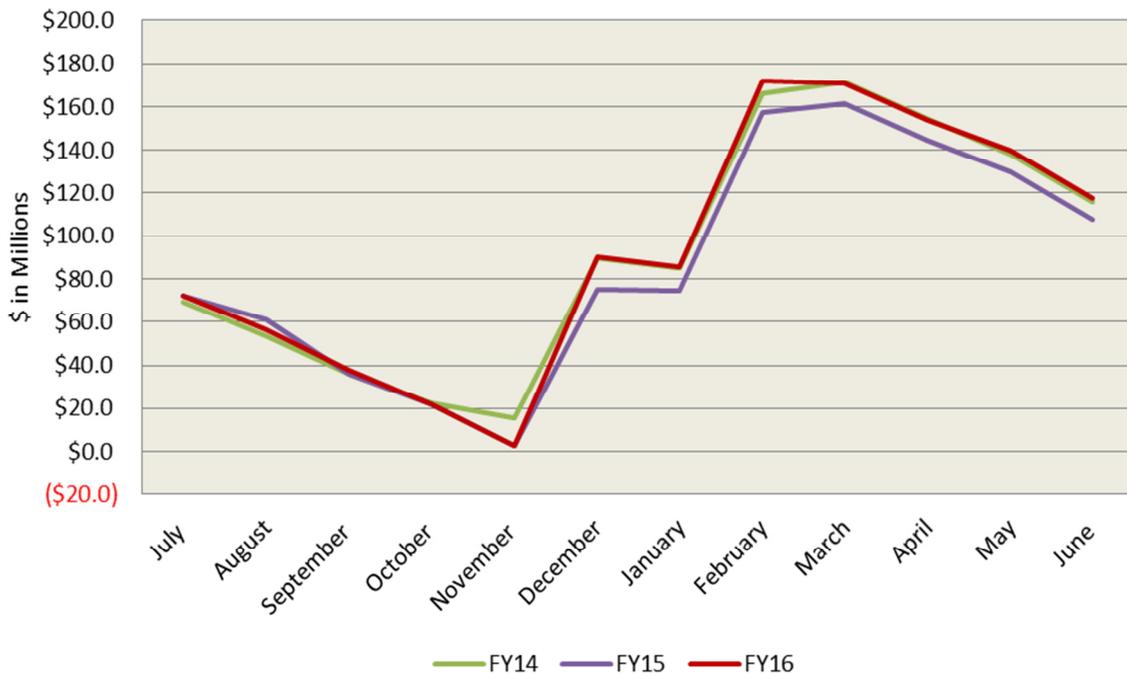
- To provide funds for contingencies/emergencies
- To absorb the impact of federal/state funding reductions
- To demonstrate financial stability for higher bond ratings and lower cost of debt issuance
- To provide sufficient cash flow during the property tax collection cycle

The Moody’s rating agency has reported that governments comparable in size to Shelby County with AA ratings maintain a median 26.85% fund balance; with AAA ratings a median amount was 28.87%. Shelby County has maintained an average fund balance of about 27% of revenue over the past five years.

As the chart below illustrates, the annual tax collection cycle creates the need for large cash reserves during several months of the fiscal year. A fund balance of at least 27% is advised to allow for negative cash flow until December when most residential property taxes are collected. Therefore, the General Fund balance has been slowly increased over the past several years to provide for sufficient cash flow.

Unassigned fund balance at 6/30/16 is estimated at about 29% of revenue, or \$113 million. Although the FY17 Budget does include \$7.8 million in planned use of fund balance, the ending balance at 6/30/17 is projected at about 27% of revenue. That is well within the stated policy range of between 20-30% of revenue.

FY14 - FY16 General Fund Cash Flow



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.

Capital Improvement Plan

The Capital Improvement Plan presents the County's funding level commitment over the next five years. However, only the first year of the CIP plan is actually budgeted. The County's long-term Debt Reduction/Management Plan allows for allocations of approximately \$75 million per year.



Historically, about two-thirds of that total amount has been allocated annually for schools with the remainder for other projects. We continue to recommend and support pay-as-you-go funding for most capital projects other than schools. Shown below are the totals for each CIP project category budgeted for FY17 with significant projects from each group:

Total County Capital Improvement investment is budgeted at \$24.2 million for FY17. In addition to the capital projects funded through the CIP budget, the operating budget also includes \$33 million for capital expenditures that do not qualify for CIP or have alternate funding sources available.

Significant capital projects planned for FY17 include:

Buildings & Property - \$7.8 million (28% of total CIP)

- \$3.2M – Renovation of 1060 Madison for the relocation of Community Services
- \$1.2M – Renovation of 814 Jefferson Health Department Building and related relocations
- \$1.0M – Land/Mobile Radio upgrade for the Shelby County Sheriff's Department

Community Projects - \$7.4 million (26% of total CIP)

- \$2.3M – Agricenter HVAC replacement of old units for energy efficiency upgrades
- \$2.0M – Contribution to construction of West Tennessee Veterans' Home
- \$2.0M – Fed Ex Forum maintenance

Information Technology - \$6.7 million (24% of total CIP)

- \$2.5M – Body/Vehicle Camera acquisition for the Shelby County Sheriff's Department
- \$1.0M – Countywide Planimetric Digital Data for enhanced mapping and aerial imagery of Shelby County
- \$1.0M – Election System Management (ESM) Software replacement to later software for the maintenance of voting information

Roads & Bridges - \$5.5 million (20% of total CIP)

Initial costs for roadway widening projects including Walnut Grove (\$1.0M), Houston Levee (\$1.5M), Macon (\$1.5M), and Hacks Cross (\$1.5M)

Schools

The Shelby County Schools have completed a facilities assessment study authorized in 2015 to evaluate their overall repair and maintenance needs. Based on results of this study and projected space utilization and enrollment trends, SCS will present a comprehensive long-term facility plan as the basis for future capital requests submitted to the County Commission for approval. This five year capital plan does not include funding for the schools, pending evaluation of those needs.

Challenges Ahead

Planning for the future is a critical element to the current year budget 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** - The appropriate funding level for the redefined organizational structure of school systems throughout Shelby County presents a continuing challenge. The schools face several issues, including an immediate need to fund their annual requirements for OPEB, declining enrollments, insufficient State BEP funding, and community pressure to keep underutilized neighborhood schools open. It will become increasingly necessary to find a sustainable balance between meeting the educational needs of the community while staying within a realistic level of available resources.
- **Providing equitable compensation** for employees in an increasingly competitive employment market is an important element in maintaining a competitive compensation and benefits package to ensure our ability to recruit and retain a highly productive staff. Market adjustments for some professional job classifications may also be necessary.
- **Escalating health care and pension costs** 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 will require ongoing evaluation and possibly some plan modifications or cost sharing proposals.
- **Federal Affordable Care Act** and the potential expansion of State Medicaid may have a significant financial impact on Regional One Health services and some related County revenues and expenses.
- **De-annexation** from the City of Memphis has become an option for some areas within Shelby County as a result of recent State legislation. Assuming responsibility for public safety in these areas may require additional resources in the future.
- **Aging Infrastructure** of county roads and buildings creates additional demands for maintenance 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.
- **Video Technology in law enforcement** has created the need for additional manpower for viewing, classifying, storing and retrieving the information generated from vehicle and body worn cameras. Storage of the video for indefinite periods is also a significant cost factor.
- **State Reimbursement for Corrections** has declined in recent years. The cost of providing this function may require significant service reductions or an increase to supplemental funding from the County.
- **Revenue Diversification** options must continue to be explored to reduce our dependence on property taxes.
- **Reductions to State or Federal grant funding** may have an 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. Appropriate indirect cost allocations for providing the infrastructure necessary to provide those programs may also require further analysis.

Current Status and Outlook

While these challenges are daunting, there are also opportunities ahead. Collaborative economic development efforts by the Administration, Commission and other agencies have continued to attract large employers to Shelby County. Commercial indicators show increased activity in building permits, vacancy rates, leasing activity and construction. Local real estate conditions continue to compare favorably to many areas of the country, with residential sales improving based on the increased number of home sale transactions, stabilization of sale prices and reduced foreclosures and mortgage delinquencies.

Five year projections have been developed in conjunction with annual budget preparation and updated throughout the year for 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.

Proactive financial management strategies that focus on operating efficiencies and effective debt management have been instrumental in maintaining the stability of Shelby 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. Bond rating agencies have noted a diversified and expanding economic base, strong financial performance and general fund position as the basis for the County’s AA+/AA1 bond ratings.



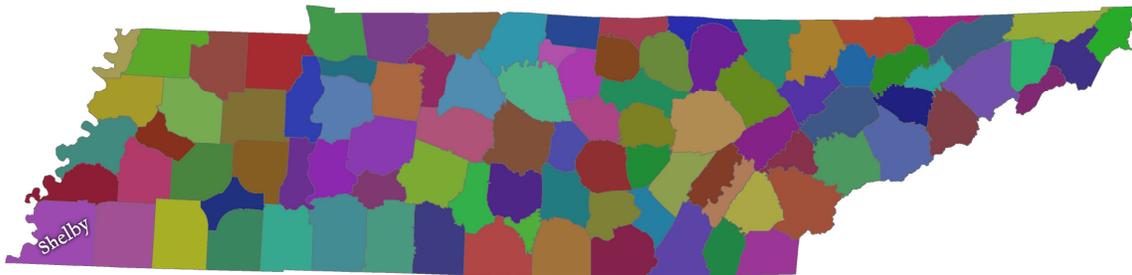
INTRODUCTION

Shelby County, Tennessee

Government Structure and History

Shelby County was carved out of the Chickasaw Indian hunting grounds. The land was purchased, along with the rest of western Tennessee, by the United States for a total of \$300,000. Shelby County was drawn onto Tennessee maps on November 24, 1819, by an act of the State General Assembly. Named for the first governor of Kentucky and Revolutionary War hero Isaac Shelby, the county's first government was appointed by the General Assembly. The five-man Quarterly Court was called into session in a log cabin near Main and Winchester in the raucous river settlement of Memphis. Since the implementation of the Restructure Act on January 1, 1976, the County has operated under the Mayor-Commission form of government.

The County is divided into five districts, with 13 elected representatives on the County Board of Commissioners. All elected officials serve four year terms. The County includes seven incorporated municipalities including the cities of Arlington, Bartlett, Collierville, Germantown, Lakeland, Millington, and the City of Memphis. Shelby County also includes a large unincorporated area. The Mayor, as the County's chief executive officer, oversees the operations of the County's six divisions. The Sheriff, Assessor, Register, Trustee, County Clerk and Clerks of Court are separately elected officials. The thirteen members of the Shelby County Board of Commissioners (the Commission), the legislative branch of the government, reviews and approves the County's programs and budgets.



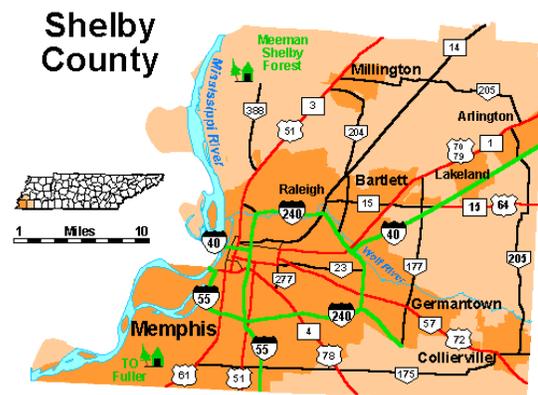
Shelby County is located at the southwestern corner of Tennessee on the Mississippi River. The county includes the City of Memphis and has the largest population of the 95 counties in the state.

Together, the administration and the Board of County Commissioners are responsible for governing the most populous of Tennessee's 95 counties. In August, 1984, the County's voters approved the Home Rule Charter which allows the Commission to pass ordinances locally rather than having to receive approval through the State of Tennessee. The Home Rule Charter became effective September 1, 1986.

in the United States. Located in the temperate zone, Shelby County enjoys four distinct seasons while having a generally mild climate year round. The average high temperature is 81.2 Fahrenheit while the average low is 42.2 Fahrenheit along with an average humidity of 69%. Rainfall averages around 49 inches each year and snowfall slightly over five inches.

Geography and Climate

Located in the southwest corner of Tennessee, the County is bordered by the Mississippi delta at the south and the mighty Mississippi River at the west. The county area contains 755 square miles; over 300 square miles of this area are within the city limits of Memphis. The Loosahatchie River, the Wolf River and Nonconnah Creek drain through the eastern part of the metropolitan area into the Mississippi River. Two large aquifers that lie below the Mississippi River supply drinking water to the citizens of Shelby County. Because of the aquifers' natural filtration process, our drinking water quality is considered to be one of the best



INTRODUCTION

Shelby County, Tennessee



At the heart of the County is Shelby Farms - one of the largest urban parks in the United States. At approximately 4,500 acres, it is five times larger than New York City's famed Central Park. The protection of Shelby Farms, the development of a cohesive greenbelt, the formation of a bikeway system, and the protection of a strong natural water supply are four important steps in making Shelby County an environmentally responsible community and an attractive destination for outdoor enthusiasts.

Business and Employment

Long known as the "Distribution Center of America," Shelby County is ideally located for transportation, travel and commerce, as evidenced by:

- The number one cargo airport in the world – the Memphis International Airport
- The convergence of five Class I intermodal railroads within the county
- A significant presence on nation's major inland waterway – the Mississippi River
- Future Interstate I-69 north-south connection
- Port of Memphis terminal to facilitate intermodal cargo transfer
- Central location for truck distribution to most U.S. destinations within two days

Shelby County corporations offer a diversity of employment opportunities. From the Nobel prize-winning institution of St. Jude's Children's Hospital to the international courier service of Federal Express Corporation, the region's economy has fared well during soft economic times.

Other major corporations located within Shelby County include AutoZone, Belz Enterprises, International Paper, Service Master, Smith & Nephew, Medtronics, and NIKE. More recently, Mitsubishi Electric Power Products, Electrolux, the Great American Steamboat Company and Bass Pro Shops have begun operations based in our community.

Demographics

The current population of Shelby County is approximately 940,000, with about 70% of that population residing within the city limits of Memphis. About 15% of Tennessee's entire population resides within Shelby County. The County is racially diverse, with about 53% African-American, 38% Caucasian, and about 9% Asian, Hispanic and Other.

Education

Education is a high priority for Shelby County. The combined enrollment for the consolidated Memphis City and Shelby County school district includes approximately 138,000 students with over 9,000 full-time and part-time employees. The public school system is the second largest single employer in Memphis and the largest school district in Tennessee. In 2014 six municipalities within Shelby County began to operate independent school districts.



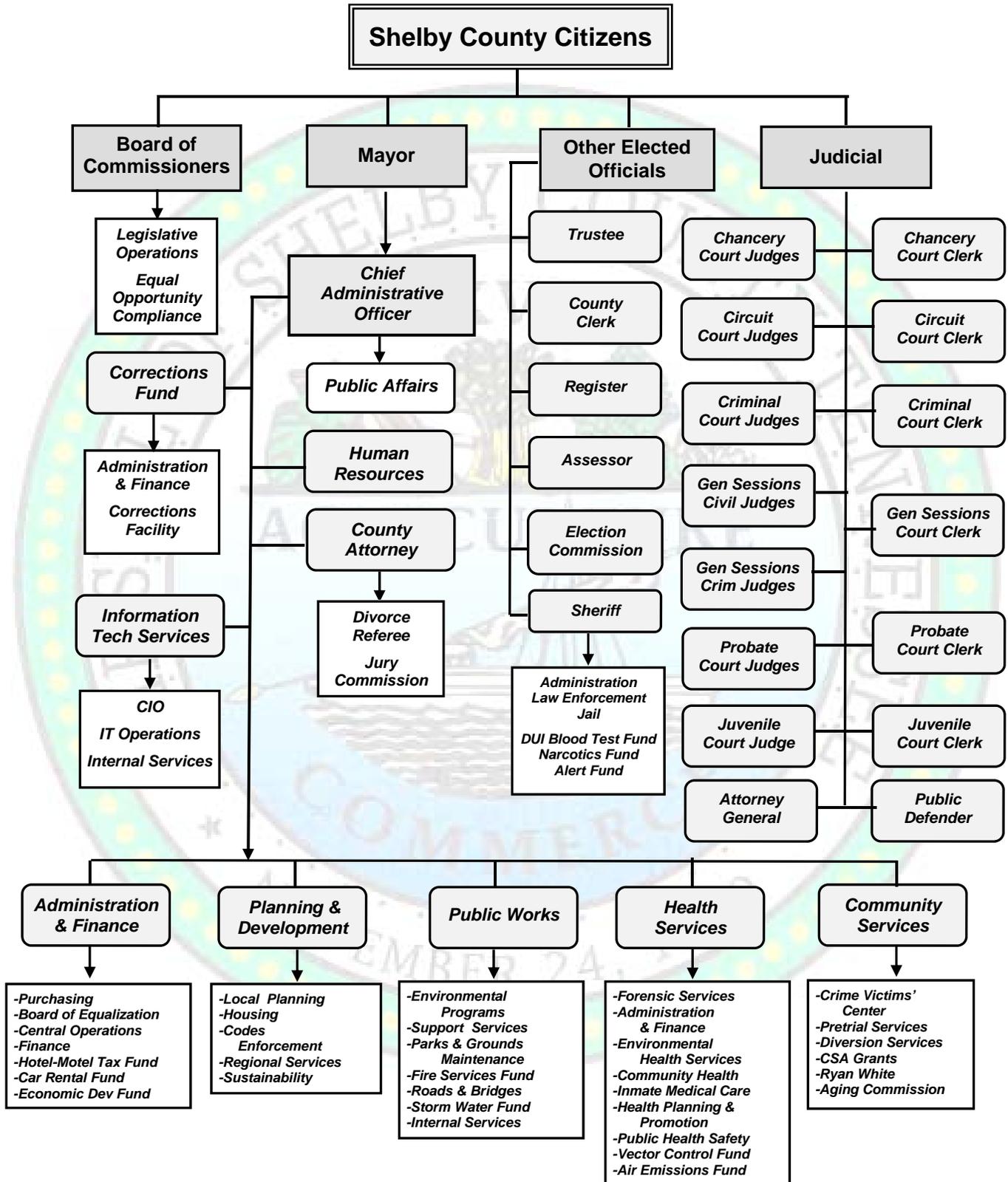
Shelby County also offers nine institutions of higher learning to its citizens, including The University of Memphis, Rhodes College, LeMoyne-Owen College, Christian Brothers University and the University of Tennessee Health Science Center.

Core Belief and Values

Acting on its core belief that Shelby County Government exists only to serve the public and provide a quality community, Shelby County Administration has fostered a work environment that encourages the personal growth of its employees and a commitment to teamwork that produces innovative solutions, technical excellence, and continuous improvement. A strong ethics policy has reinforced integrity, innovative service, accountability, excellence and respect as the values for Shelby County Government.

INTRODUCTION

County Organizational Chart



SHELBY COUNTY GOVERNMENT MISSION AND STRATEGIES

MISSION:

Shelby County Government strives to promote economic growth, improve community health, support education, enhance public safety, and protect natural resources. This mission is achieved through a dedicated workforce in an open, efficient and ethical government that is fiscally responsible and responsive to Shelby 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 Shelby County and to provide an objective foundation for decision-making and measurement of results. 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

- a) Provide sufficient operating and capital funding for all public schools in a manner that is fiscally responsible.
- b) Provide and support programs that ensure that children (0-5 years of age) receive care and training that prepares them to enter school ready to learn.



Strategy 2: Protect and Promote Public Safety

- a) Provide effective law enforcement and detention facilities for juveniles and adults.
- b) Administer equitable civil and criminal justice court systems.
- c) Provide programs that advocate for victims of crime and prevent abuse in vulnerable populations.
- d) Provide programs that promote adult re-entry strategies to reduce recidivism after arrest or incarceration.
- e) Support jail diversion programs for non-violent offenders with substance abuse or mental health issues to reduce detention costs.
- f) Provide effective disaster preparedness and 911 emergency response systems
- g) 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: Protect and Promote Environmental Quality and Livable Communities

- a) Provide and support programs that protect air and water quality and other natural resources of the region.
- b) Develop and implement programs and policies that promote clean and sustainable environmental practices in energy efficiency, waste reduction, transportation systems, recycling and construction.
- c) Enforce or strengthen local codes and ordinances that regulate maintenance of structures, lots and land use to prevent blight and preserve the quality of neighborhoods.
- d) Support initiatives and programs that promote community livability through access to recreation, transportation, education, and commerce.



Strategy 5: Promote Economic Development and a Healthy Economy

- a) Provide programs and policies that support business development and revenue growth for the region with high quality, long-term job opportunities.
- b) Strengthen partnerships with other municipal, state and federal governments to develop cooperation and mutual support in economic development and neighborhood revitalization.
- c) Provide a business-friendly environment in county operations and regulations to encourage local development and diversity.
- d) Coordinate agency programs that address issues of poverty and economic/housing insecurity within the county.



Strategy 6: 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.

DIVISION STRATEGY MATRIX FY17

County-wide Strategies Implemented at Division Level		Education	Sheriff	Public Works	Administration & Finance	Judicial	Corrections	Health Services	Community Services	Other Elected Officials	Planning & Development	Information Technology
	Strategy 1: Support Quality Public Education											
1-a	Provide sufficient operating and capital funding for all public schools in a manner that is fiscally responsible.	✓	✓									
1-b	Provide and support programs that ensure that children (0-5 years of age) receive care and training that prepares them for school.	✓										
	Strategy 2: Protect and Promote Public Safety											
2-a	Provide effective law enforcement and detention facilities for juveniles and adults.		✓				✓					
2-b	Administer equitable civil and criminal justice court systems.				✓							
2-c	Provide programs that advocate for victims of crime and prevent abuse in vulnerable populations.							✓				
2-d	Provide programs that promote adult re-entry strategies to reduce recidivism after arrest or incarceration.						✓					
2-e	Support jail diversion programs for non-violent offenders with substance abuse or mental health issues to reduce detention costs.				✓			✓				
2-f	Provide effective disaster preparedness and 911 emergency response systems.		✓	✓	✓			✓				
2-g	Ensure public safety through enforcement of fire, environmental construction and zoning codes and regulations.			✓		✓		✓			✓	
	Strategy 3: Protect and Promote Community Health											
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.				✓			✓				
	Strategy 4: Protect and Promote Environmental Quality and Livable Communities											
4-a	Provide and support programs that protect air and water quality and other natural resources of the region.			✓				✓			✓	
4-b	Develop and implement programs and policies that promote clean and sustainable environmental practices in energy efficiency, waste reduction, transportation systems, recycling and construction.			✓							✓	
4-c	Enforce or strengthen local codes and ordinances that regulate maintenance of structures, lots and land use to prevent blight and preserve the quality of neighborhoods.			✓		✓					✓	
4-d	Support initiatives and programs that promote community livability through access to recreation, transportation, education, and commerce.			✓							✓	
	Strategy 5: Promote Economic Development and a Healthy Economy											
5-a	Provide programs and policies that support business development and revenue growth for the region with high quality, long-term job opportunities.				✓							
5-b	Strengthen partnerships with other municipal, state and federal governments to develop cooperation and mutual support in economic development and neighborhood revitalization.			✓	✓						✓	
5-c	Provide a business-friendly environment in county operations and regulations to encourage local development and diversity.				✓							
5-d	Coordinate agency programs that address issues of poverty and economic/housing insecurity within the county.				✓			✓			✓	
	Strategy 6: Provide Effective Governance and Sound Stewardship for County Resources											
6-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.				✓	✓		✓		✓	✓	
6-b	Preserve and maintain county infrastructure of roads, bridges, buildings and technical systems for current and future operations.			✓								✓
6-c	Maximize efficiency and minimize cost of operations through centralization, utilization of technology, outsourcing or other methods.			✓	✓							✓
6-d	Build trust and confidence in government through transparent, accessible, and responsive interactions with all internal and external customers.		✓		✓	✓				✓		✓
6-e	Enhance the capabilities and foster the professionalism of the employee workforce through equitable compensation, training programs and succession planning.		✓		✓							
6-f	Actively seek alternative funding sources through fees, grants or community partners to provide county services.			✓	✓			✓	✓		✓	

Strategic planning supports the County's commitment to high performance by providing a focus for the use of resources and services. The Administration has identified strategic goals and objectives as a roadmap to fulfilling the stated mission of Shelby 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.

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.

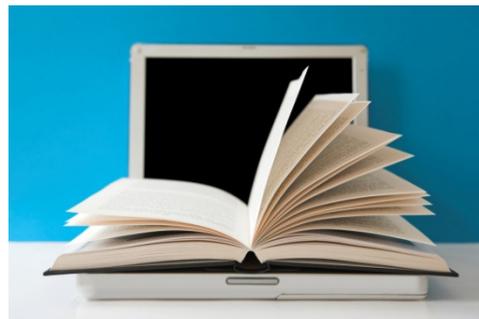
- The ***Mission, Goals and Strategies*** of the County are briefly presented in summary format in the Introduction with a matrix that relates those goals/strategies to each division.
- The ***Division Overviews*** identify the county goals/strategies that each division serves and the departmental structure 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.

STRATEGIC GOALS AND KEY COUNTY INDICATORS

Strategy 1: Support Quality Public Education

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 Shelby County over the past several years 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 within Shelby County. The School Board for each of the seven districts within the county determines 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-Kindergarten programs have also received county funding in recognition of the important foundation these programs provide for future educational attainment.



The County supports the ***PeopleFirst*** Partnership – a strategic plan coordinated by local public and private stakeholders designed to strengthen each child's educational "cradle to career" pipeline from kindergarten through college and beyond. Goals include improvements to kindergarten readiness, high school and college graduation rates, and adult career certifications in an effort to build and retain a quality 21st century workforce within Shelby County.

INTRODUCTION

Strategic Goals/Objectives

Key County Indicators -Education						
	FY10	FY11	FY12	FY13	FY14*	FY15**
Average Cost per pupil - City Schools	\$10,767	\$11,324	\$11,250	\$11,570	N/A	N/A
Average Cost per pupil - SCS County Schools	\$8,439	\$8,957	\$9,318	\$9,293	\$10,333	\$11,222
Average Cost per pupil - State of Tennessee	\$8,773	\$9,084	\$9,123	\$9,123	\$9,346	\$9,375
Average graduation rate - City Schools	70.8%	72.6%	70.3%	67.6%	N/A	N/A
Average graduation rate - SCS County Schools	91.2%	88.9%	90.5%	88.0%	74.6%	75.0%
Average graduation rate - State of Tennessee	86.1%	85.5%	87.2%	86.3%	87.2%	87.8%
Average ACT Score - City Schools	16.6	16.2	16.4	16.2	N/A	N/A
Average ACT Score - SCS County Schools	21	20.7	20.8	20.9	17.7	16.9
Average ACT Score - State of Tennessee	18.3	19	19.2	19.3	19.8	19.4

*FY14 data represents the consolidated City-County school district

**FY15 County School data represents only the Shelby County Schools District

Strategy 2: Protect and Promote Public Safety

Public Safety is a fundamental concern and responsibility for Shelby 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 government structure.



The **Sheriff's Office** has primary responsibility for crime prevention and control in Shelby County and for jail operations for pretrial detainees in custody. In addition to the many programs outlined in their budget section of this document, they have expanded inmate programming to reduce recidivism and continue to support and develop alternatives to incarceration through **Operation Safe Community, the Criminal Justice Coordinating Council, and the Behavioral Mental Health Task Force**. In partnership with other local law enforcement organizations, the Sheriff has expanded **Project Safe Neighborhood** - a federal initiative to reduce gun crime. Grant

funding has been secured to implement programs to impact crimes against women, domestic violence, traffic safety and drug trafficking. School security was reinforced two years ago with the addition of 35 School Resource Officers to adequately staff the consolidated schools. The Sheriff assumed responsibility for all detention and security services for Juvenile Court in FY16, with increased staffing for the juvenile case courtrooms.

Operation: Safe Community 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, Shelby County Sheriff's Office, the Memphis Police Department, and faith-based, social service and neighborhood organizations to combat the area crime problem. Shelby 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. Other adult offender re-entry programs have been expanded to reduce recidivism.

INTRODUCTION

Strategic Goals/Objectives

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**.



Shelby 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 Shelby 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				
	FY12	FY13	FY14	FY15
Felony Offenses (Part I Crimes)*	3,696	3,580	3,369	3,400
Average Sheriff Response Time - unincorporated area (minutes)	13.0	12.5	12.5	12.8
Average Daily Population - Jail	2,691	2,403	2,435	2,440
Average Daily Population - Corrections	2,475	2,450	2,257	2,106
Fire/EMS Call Average Response Time - unincorporated areas	6:47	7:01	6:46	6:23
% of Fire/EMS Calls made within standard time (10min 30sec)	91.56%	89.0%	88.5%	90.3%
Fire/EMS Call Average Response Time - municipal areas	4:58	4:52	4:52	4:34
% of Fire/EMS Calls made within standard time (9min 00sec)	94.24%	94.6%	93.4%	95.2%

***Part I Crimes** include: Murder, Forcible Rape, Aggravated Assault, Robbery, and Theft
Statistics are reported on a calendar rather than fiscal year basis.

Strategy 3: Protect and Promote Community Health



Public Health is a designated responsibility of all county governments in Tennessee. Shelby 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 Shelby 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. County

INTRODUCTION

Strategic Goals/Objectives

funding to Regional One has been increased to offset reductions in state and federal supplements. The County supports the mission of the **Healthy Shelby** initiative, 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 Shelby County for potential business growth, reduce the health care burden on employers and individuals, and promote quality of life for citizens. A **Prescription Drug Discount** program is available to Shelby County residents through a partnership with a private benefits provider to ease the burden of obtaining prescriptions and to encourage health screenings.

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. A **dental health program** for children targets prevention through the provision of sealants in grades K-8.



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 including the Defending Childhood Initiative, the Office on Aging, Minority and Hispanic Affairs, and the Office of Early Childhood. The **Infant Mortality Reduction Initiative** is a statewide project aimed at reducing infant mortality and improving birth outcomes. The decline in infant deaths within the last eight years is a promising sign of overall health improvement in Shelby County.

Wellness education is a strategy designed to motivate residents of Shelby County to take ownership of their personal health and health care. Programs promoting wellness include **“Let’s CHANGE”** and the **“Million Calorie Reduction Campaign”**. 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 County Indicators - Health					
	FY12	FY13	FY14	FY15	FY16
% of low Birth Rate Babies	11.1%	11.1%	11.1%	11.2%	11.0%
Infant Mortality Rates (per 1000 live births)*	10.6	9.2	9.2	N/A	N/A
Access to Clinical Care Ranking**	12th	14th	22nd	18th	16th
Health Outcomes Ranking**	59th	53rd	49th	39th	49th
Health Behaviors Ranking**	55th	62nd	54th	53rd	28th

*data beyond 2014 not yet available

**Source: University of Wisconsin Population Health Institute - County Health Rankings

Health Outcomes measure Mortality (length of life) and Morbidity (quality of life)

Access to Clinical Care measures factors of Access to care and Quality of care

Health Behaviors measures use of tobacco and alcohol, diet & exercise, and unsafe sexual practices

Strategy 4: Protect and Promote Environmental Quality and Livable Communities

Shelby County Government is committed to preserving and enhancing the natural resources with which this community has been blessed. Our natural rivers and streams attract outdoor enthusiasts from both urban and suburban areas. Nearly four times larger than New York’s Central Park, **Shelby Farms** is a recreational gem for families, athletes and sportsmen. The 4,500 acre park has been recently renovated with a \$70M capital improvement project as a unique partnership between private and public donors. Using federal, state and local funding, the County has worked with other agencies to create a cohesive **Greenbelt** that protects the natural areas and connects the County’s communities from downtown Memphis eastward to Collierville, with 16 miles of trails on the very popular **Greenline**.



In coordination with the **Mid-South Clean Air Coalition**, Shelby County and its coalition partners consult and educate government, business and industry, educational institutions and the public on air quality issues. The Coalition also consults and assists government agencies in administering voluntary and mandatory control measures to improve air quality. **Congestion Mitigation Air Quality** projects funded by federal grants have been implemented to reduce harmful toxins created by vehicle emissions. **Environmental Health programs** coordinated by the Health Services Division have also contributed to area improvements in EPA ozone standards and the expansion of water quality monitoring and groundwater protection inspections.



Through the **Memphis Regional Groundwater Study**, the County is using federal funds to ensure the preservation and protection of our excellent regional water quality and aquifers. The County also provides landfill monitoring, testing, and maintenance to protect the groundwater from potential contaminants for 335 acres of landfills, in conformance with state landfill closure procedures. The **Storm Water Program** protects residents from the adverse impact of uncontrolled storm water drainage and the discharge of pollutants into the receiving waters. A countywide master plan for flood plan management practices is in development in conjunction with supportive

local legislation to reduce adverse impacts from urban development and changes in flood profiles.

The **Memphis and Shelby County Office of Sustainability** is charged with the implementation and oversight of the **Sustainable Shelby Plan**, a strategic framework for action with regard to “green” initiatives in Shelby County. This office is the area’s leading advocate and resource on sustainable practices such as energy efficiency, renewable energy, waste reduction and recycling, green infrastructure, sustainable food systems and resilience. Since its creation in 2011, the office has led the development of the Mid-South Regional Greenprint plan, helped secure a \$60 million HUD resilience grant, and certified the City and County as a 4-STAR Sustainable Community.



Blight control is an environmental issue with significant economic development impact. An aggressive effort has been made to revitalize neighborhoods through the removal of structures or debris that may have negative effects on the health, safety or general appearance of the community. Several divisions have joined forces to enforce codes or strengthen local ordinances that regulate illegal dumping and lot maintenance. Increased funding has been provided to support efforts to further reduce blight in Shelby County.

Strategy 5: Promote Economic Development and a Healthy Economy

Shelby County is committed to providing programs and policies that ensure aggressive growth and promote high quality long-term job 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.



Shelby 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 Electrolux, Mitsubishi, the Great American Steamboat Company and Bass Pro to locate in Shelby County and by 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 City/County zoning and land use regulations that impede business development. Efforts by Shelby County to support the strength of **Locally Owned Small Business (LOSB)** have resulted in increased purchases from these vendors to at least 20% of expenditures.

Key County Indicators - Economics					
	FY12	FY13	FY14	FY15	FY16
Construction Permits	6,695	7,044	6,503	7,305	6,486
Commercial Property as % of total Assessment Base	30.7%	30.0%	32.6%	31.4%	31.8%
Median Household Income	\$ 44,694	\$ 45,266	\$ 43,938	\$ 47,083	N/A
Families Below Poverty Level	17.2%	17.2%	18.2%	15.2%	N/A
Unemployment Rate	9.1%	9.7%	7.9%	6.6%	5.6%

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.

INTRODUCTION

Strategic Goals/Objectives

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 \$1.05 billion at June 30, 2016. As long as the County stays within its Debt and CIP Plans, outstanding bonded debt will continue to decline to a level below \$1 billion, and it will not be necessary to raise additional revenue for debt service.

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, or 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 3 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 county government are promoted through transparent, accessible and responsive interactions with all internal and external customers. Shelby 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. Mayor Luttrell also conducts regular **“Meet the Mayor”** sessions with individual citizens to hear to their concerns and suggestions to improve Shelby County.

Key County Indicators - Stewardship					
	FY12	FY13	FY14	FY15	FY16
Taxes collected within first year of the levy	93.02%	93.78%	92.94%	95.74%	96.12%
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	7.66%	7.29%	6.99%	6.35%	5.56%
Total Government Debt Per Capita	\$1,576	\$1,483	\$1,375	\$1,363	\$1,204
GFOA Certificate of Achievement for excellence in Financial Reporting (CAFR) – consecutive years	27	28	29	30	31
GFOA Distinguished Budget Presentation award – consecutive years	4	5	6	7	8
Number of General Fund Positions (FTE)	3,857	3,875	3,903	3,896	3,918

Calendar for Development of Fiscal Year 2017 Budget**SEPTEMBER – OCTOBER 2015**

- Developed budget policies and guidelines for preparation of Operating Budget and CIP requests
- Updated TeamBudget security, formats and software training materials

NOVEMBER – DECEMBER 2015

- Reconciled Position Control budgets
- Prepared initial revenue projections, cost assumptions and fringe benefit rates
- Prepared and distributed Grants worksheets to Divisions for FY17 planning
- Nov 2 - Distributed instructions and forms for CIP 2017-2021 requests
- Nov 20 - Capital Improvement Plan budget requests submitted to Finance

JANUARY 2016

- Jan 14 – Budget discussion meeting with Mayor and Elected Officials
- Jan 19 - Distributed FY17 Operating Budget Kickoff Instructions and Calendar
- Jan 21 - Opened TeamBudget to departments for FY17 data changes
- Jan 20-21: IT Steering Committee review of CIP budget requests for 2017-2021
- “Budget Workshop” opportunities provided for individual assistance

FEBRUARY – MARCH 2016

- Feb 16-23: Budgets and increase requests submitted by all divisions
- Administrative Hearings for budgets of Mayor’s Administration
- Finance Review of budgets for Elected Officials, Judicial and Sheriff
- Feb 23 - Trustee/Administration preliminary revenue forecast
- Feb 23 - Administrative review of CIP budget requests for Buildings and Property

APRIL 2016

- Apr 4 -15: Countywide budget consolidated and balanced
- Apr 5 - Trustee/Administration revenue forecast updated
- April 18 - 27: Proposed Budget compiled and printed
- April 29 - Proposed Budget documents provided to County Commission

MAY 2016

- May 4 - Proposed Budget summary published in Daily News
- May 4 – Mayor’s presentation to County Commissioners
- May 6 - 25 - Budget hearings conducted by County Commission
- May 25 - Budget Wrap-up

JUNE – JULY 2016

- June 1 - Resolutions for Operating Budget, CIP Budget, Personnel Policy and Tax Rate Ordinance presented in Committee.
- Jun 29 - Commission approved FY17 Operating and CIP Budgets
- July 1 - Begin Fiscal 2017
- July 6 - Special Called meeting to amend for Adopted Budget
- July 27 - Commission approved 2017 Tax Rate Ordinance (3rd reading)

AUGUST – SEPTEMBER 2016

- Aug 1 - Commission approved FY17 Shelby County Board of Education Operating Budget
- Prepared Adopted Budget document; submitted to State and GFOA for approval

Format and Organization of the Budget Document:

As the **Table of Contents** illustrates, this summary book divides the budget information into multiple sections according to funds or divisions. Pages are numbered consecutively throughout the book with tabs added for convenience.

The **Introduction** section includes the **Mayor's Letter of Transmittal**, a list of County Officials, a countywide organizational chart and this format guide. The **Budget Overview** is intended to provide a comprehensive outline of key budget information and changes for the proposed fiscal year.

The **All Funds Summary** presents the overall budget of Shelby County with summary information related to revenue and expenditure trends, the Position Control Budget, and Fund Balances.

The **General Fund Summary** highlights the same basic information and trends as the "All Funds Summary" – with a focus only on the General Fund.

Division Summaries are provided for each division of the Mayor's Administration and for the offices of the Sheriff, Judicial, and Other Elected Officials. The following information is included in each section:

- **Organizational Charts by Program** provide a visual guide to the structure of each division for financial reporting purposes. These charts are not intended to reflect the reporting hierarchy of specific positions.
- **Division Overview** narrative to present the Division mission and goals and Departmental structure.
- The "**Budget Highlights**" page summarizes on one page any budgetary issues/trends/challenges the division or office faces, along with a financial summary that notes any significant changes from the prior or current year budget. All funding sources are noted, as well as any increases requested for the proposed year. Additional pages are provided for multiple fund activity or increase requests.
- **Financial Summaries** are included for each division to present Prime Account Reports, Sources and Uses, Net Expenditures by Department/Fund and the Full-Time Equivalent (FTE) position count of permanent full-time and part-time positions only. Temporary employees are not included in the FTE count.

The **Education** section presents the Education Fund information which accounts for taxes collected and allocated for school operations.

The **Debt Service** section includes Shelby County debt management policy, the use and purpose of debt and its limits and capital financing funding types.

The **CIP** section provides a summary of the five year Capital Improvement Plan (CIP) for capital expenditures. Detailed project sheets are provided on the website.

The **Appendix** presents supplemental information related to understanding budget terminology or other financial data.

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 by March 31 and State law requires that the County adopt a budget before July 1. These dates drive the budget calendar.

The formal budgetary process begins with a goal-setting workshop for senior administrative management. 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 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 Shelby 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 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 Capital Improvement Plan. 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. The County has an established maximum annual Capital Improvement Plan of \$75,000,000 from County funds (including debt and pay-as-you-go).

Although the five-year Capital Improvement Plan is approved in total, only the budget for the first year is actually adopted as the CIP 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 designate 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 designate 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 Shelby 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 \$5000. All other encumbrances remain open and reduce budget availability in the new year; unless the department requests that the encumbrance be closed.
- 3) In the case of Capital Projects Budget, for the specific purpose for which the monies were appropriated.

Position Control Budget

An integral part of the annual Adopted Operating Budget for Shelby County is the Position Control Budget (PCB) that defines the approved salary for each 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.

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 Compensation. 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 position control budget 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.

INTRODUCTION

Chart of Accounts

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 Shelby County's **Chart of Accounts** – the financial coding structure used for budgeting and accounting purposes which was revised for Fiscal 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 Grounds Maintenance.

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

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, MLGW 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 Shelby 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.

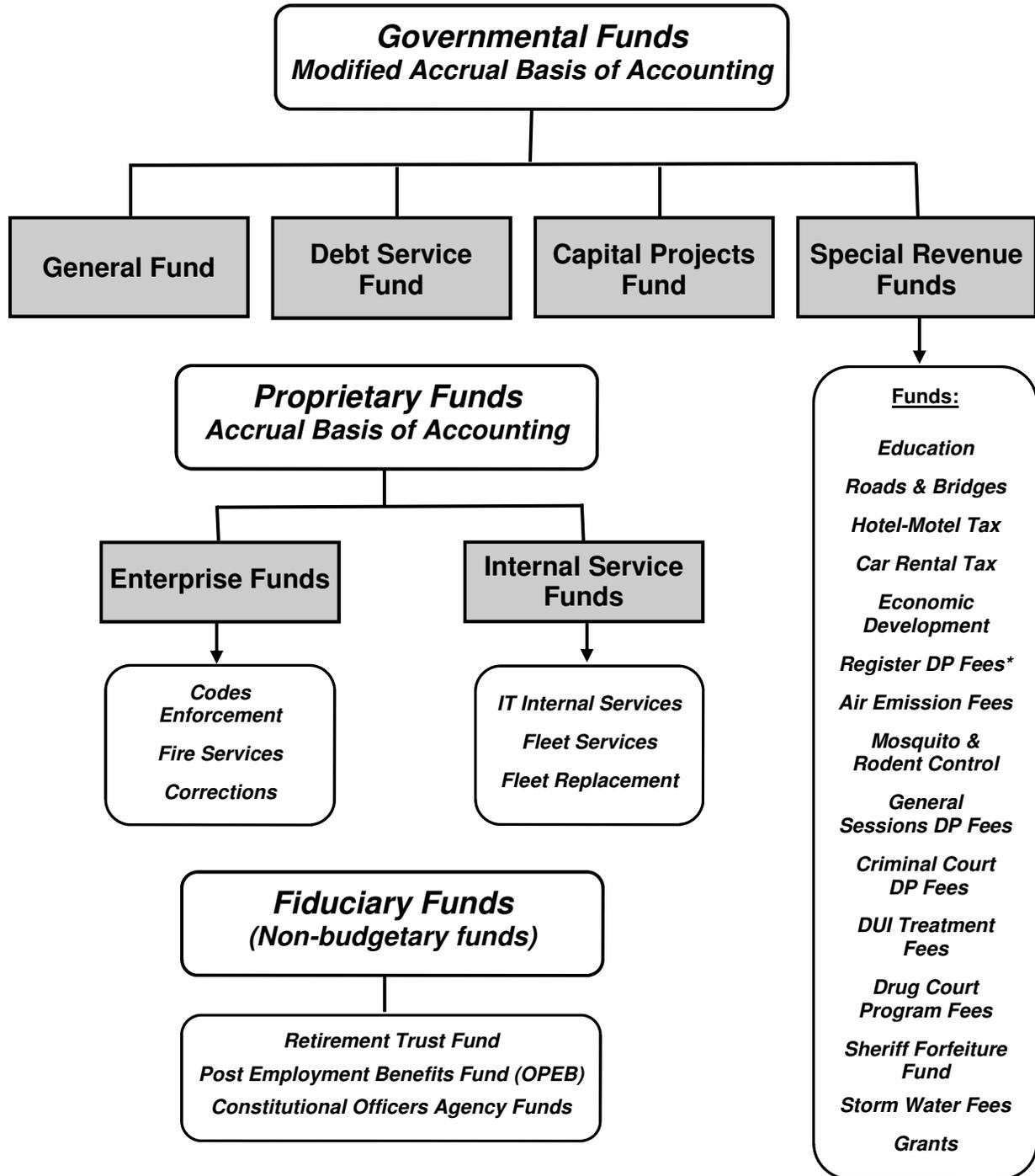
Operating Expense Accounts:

- **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 Shelby County government are organized on the basis of funds, with the operations of each fund accounted for in a separate set of self-balancing accounts that comprise the assets, liabilities, equity, revenues, expenditures and transfers for that fund. Only Governmental and Proprietary funds are subject to appropriation in the operating budget. Fiduciary funds are not subject to appropriation.



*Data Processing Fees

INTRODUCTION

Fund Accounting

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:

Shelby 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 Shelby County include the General Fund, the Education Fund (a Special Revenue Fund), 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 Improvements 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 in Shelby County.

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 Shelby County for the purpose of funding debt service repayment for the Sports Authority and funding for the Convention and Visitor's Bureau.

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 **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 Shelby County.

The **Vector Control Fund** accounts for the collection of the Vector Control fee of \$.75 charged to all MLG&W customers on a monthly basis for the control of mosquito and rat populations.

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

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.

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 Improvements 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 Capital Improvements Fund plan 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 actual costs incurred for housing state prisoners.

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. Shelby 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 Pension and OPEB Funds 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.

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
ADMINISTRATION & FINANCE:							
Various Programs*	X				X		
Hotel-Motel Tax Fund		X					
Car Rental Tax Fund		X					
INFORMATION TECHNOLOGY SERVICES:							
Various Programs*	X						X
IT Internal Services				X			
PLANNING & DEVELOPMENT:							
Various Programs*	X				X		
Codes Enforcement Fund			X				
CORRECTIONS*			X		X		
PUBLIC WORKS:							
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			
HEALTH SERVICES:							
Various Programs*	X				X		X
Air Emissions Fund		X					
Mosquito & Rodent Control Fund		X					
COMMUNITY SERVICES*	X				X		
SHERIFF:							
Various Programs*	X				X		X
Sheriff Forfeiture Funds		X					
JUDICIAL:							
Various Programs*	X				X		X
Court DP Fees		X					
Drug Court/DUI Fees		X					
OTHER ELECTED OFFICIALS							
Various Programs*	X						X
Register DP Fees		X					
EDUCATION		X					X
DEBT SERVICE						X	

*Detailed information about programs within each Division or Fund is provided within the Division Summary sections. Detailed information and appropriation status for CIP Projects are provided in the CIP Section.

INTRODUCTION

Financial Planning Policies

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

INTRODUCTION

Financial Planning Policies

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 and annual debt issuance to less than \$70 million.

Capital Budgeting Policies

Capital expenditures are authorized through the Capital Improvements Plan. 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 capital improvement program provides an identification and prioritization of capital projects. Shelby 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

INTRODUCTION

Accounting Policies

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

Shelby 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.

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