

# DEBT SERVICE FUND



# FY14 ADOPTED BUDGET

**DEBT MANAGEMENT POLICY**

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

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

The Debt Management Policy for Shelby County was established by resolution in 2002 and updated in 2005 to add Derivative Guidelines. The current Debt Management Policy was updated and adopted by resolution in 2011.

**USE AND PURPOSE OF DEBT**

Debt is issued primarily for school construction and for major capital improvements to County facilities, roads and equipment with a cost in excess of \$100,000. A five-year Capital Improvement Plan is developed and updated annually as a part of the budget process. The plan includes consideration of all funding sources and the timing of the capital projects identified in the operating and capital budgets. During the annual budgeting process, the current year proposed capital improvement projects are reviewed and prioritized to ensure consistency with the County's goals and objectives. The County's share of allocations in the Capital Improvement Plan is limited to approximately \$75 million each year. To the extent practical, no more than \$60 million will be funded by debt each year.

The County provides all debt funding for the construction of schools. Eastward expansion of the Shelby County population during the 1990's resulted in the need for construction of more schools to accommodate students in that area. Most of the County's current outstanding debt is associated with this expansion.

**CAPITAL FINANCING**

Decisions regarding the use of capital financing are based in part on the long-term needs of the County versus the amount of other funding resources dedicated in a given fiscal year to capital outlay on a "Pay-As-You-Go" basis, as defined below. It is the County's preference to provide capital outlay on a Pay-As-You-Go basis, except for Education capital funding and for projects in excess of \$5 million. The County also includes Pay-As-You-Go funding in the Operating Budget for smaller asset acquisitions and improvements each year rather than in the Capital Improvement Budget. These capital expenditures are detailed in the CIP section of this book. The Capital Improvement Plan identifies the projects intended to be financed by the issuance of debt.

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

Pay-As-You-Go financing is defined as all sources of funding other than debt issuance, i.e. fund balance, contributions, investment earnings and grants. To the extent available, this form of financing will be used for:

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

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

## **BOND RATINGS**

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

Current bond ratings:   Moody's   AA1  
                              S&P/Fitch   AA+

## **DEBT LIMIT**

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

Shelby County's tax-supported debt level peaked in fiscal year 2007 at \$1.85 billion and has been declining since then. It is the County's intent to consistently reduce its outstanding debt over time until the debt is approximately \$1 billion.

**Debt Affordability Targets:**

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

**BONDED DEBT RATIO ANALYSIS**

(in 000's)

		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Appraised Property Valuation		\$61,383,315	\$66,374,655	\$64,183,575	\$61,837,701
Assessed Valuation		18,089,304	19,657,379	18,942,065	17,749,395
Total General Fund Revenue		357,946	358,638	368,186	359,005
Total General Obligation Debt		1,586,905	1,661,630	1,615,108	1,455,753
<b><u>Debt Ratio Targets</u></b>	<b><u>Goal</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>
Debt to Appraised Valuation %	< 5%	2.59%	2.50%	2.52%	2.35%
Debt to Assessed Property Valuation %	< 12%	8.77%	8.45%	8.53%	8.20%
Debt Per Capita	< \$2,000	1,772	1,856	1,796	1,576
Debt to Per Capita Personal Income %	< 6%	4.26%	4.58%	4.47%	3.98%
Principal Debt % Retired in 10 Years	> 50%	38.59%	40.70%	45.98%	54.04%
Debt Service as % of Non-Capital Expenditures	< 20%	16.67%	16.62%	17.08%	16.51%
<b><u>Fund Balance Targets:</u></b>					
General Fund:	15 - 25%	20.78%	21.11%	23.26%	23.98%
Unassigned as % of annual revenue (preferred balance > 20%)					
Debt Service Fund:	20 - 30%	40.71%	48.28%	53.17%	36.15%
Committed as % of annual revenue (preferred balance > 25%)					

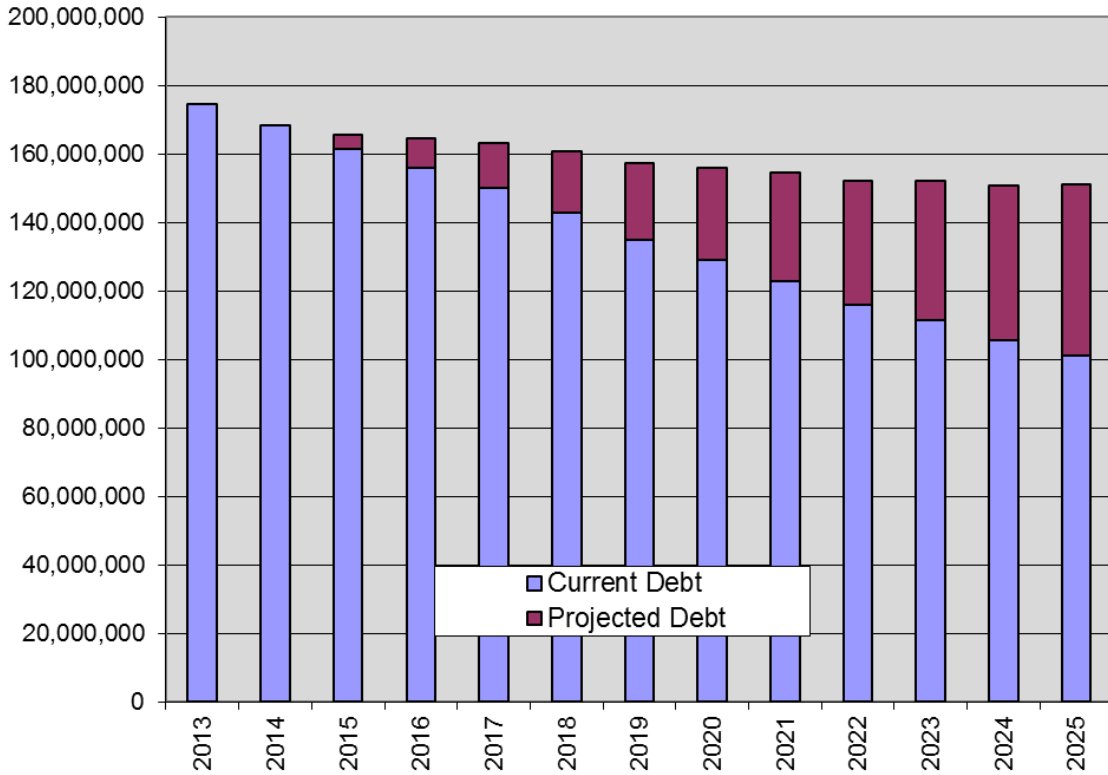
Combined General Obligation Bonds  
As of June 30, 2013

FY Ended June	Bonds Payable	Interest Payable	Fiscal Total
2014	\$ 97,961,437	\$ 67,361,681	\$ 165,323,118
2015	93,691,014	63,778,052	157,469,066
2016	95,314,440	56,630,314	151,944,754
2017	88,029,080	58,033,816	146,062,896
2018	92,191,321	46,788,158	138,979,479
2019	88,281,321	42,801,369	131,082,690
2020	86,086,321	38,998,598	125,084,919
2021	83,623,821	35,266,393	118,890,214
2022	80,496,321	31,710,734	112,207,055
2023	79,151,321	28,396,515	107,547,836
2024	76,786,321	24,939,454	101,725,775
2025	76,256,321	21,326,971	97,583,292
2026	67,112,506	18,281,798	85,394,304
2027	60,358,458	14,793,990	75,152,448
2028	45,090,000	9,128,963	54,218,963
2029	45,427,500	6,937,812	52,365,312
2030	41,200,000	4,916,790	46,116,790
2031	34,865,000	3,021,273	37,886,273
2032	16,227,500	1,644,129	17,871,629
2033	8,017,500	1,046,825	9,064,325
2034	8,367,500	594,500	8,962,000
2035	1,277,500	122,500	1,400,000
2036	1,340,000	58,625	1,398,625
<b>TOTAL</b>	<b>1,367,152,503</b>	<b>576,579,260</b>	<b>1,943,731,763</b>

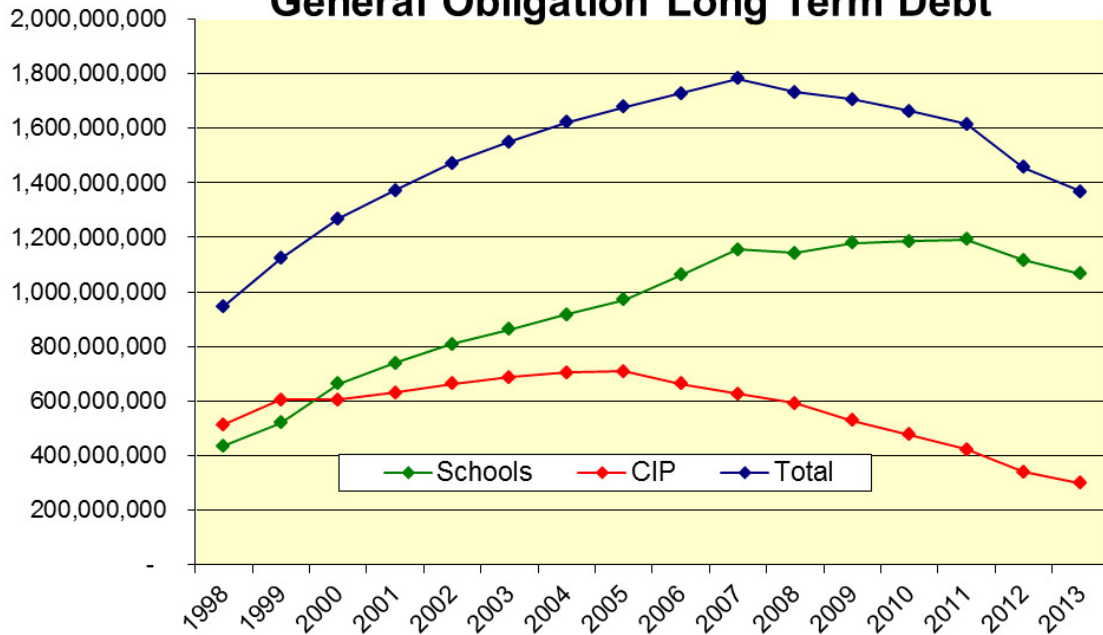
Current Year Requirement:

Year	Principal	Interest	Fiscal Total
Outstanding Debt	97,961,437	67,361,681	165,323,118
Projected Debt	268,658	320,055	588,713
Interest Swap & Issue Cost	-	2,913,000	2,913,000
<b>Total</b>	<b>\$ 98,230,095</b>	<b>\$ 70,594,736</b>	<b>\$ 168,824,831</b>

### Debt Service By Year 2013 - 2025



### General Obligation Long Term Debt



# Prime Accounts Summary

## Debt Service Fund

Acct	Description	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Amended	FY14 Adopted
40 -	Property Taxes	(151,142,924)	(147,047,410)	(137,757,438)	(136,138,000)	(136,233,000)
41 -	Other Local Taxes	(38,573,503)	(35,372,935)	(25,076,111)	(24,585,000)	(24,665,000)
44 -	Intergovernmental Revenues-Federal &	(1,991,043)	(3,538,587)	(1,304,602)	(1,304,602)	(1,304,602)
45 -	Charges for Services	(204,000)	(136,000)	(233,000)	(204,000)	(204,000)
47 -	Other Revenue	(4,490,261)	(812,339)	(744,636)	(629,667)	(529,667)
48 -	Investment Income	(467,058)	(467,758)	(442,668)	(450,000)	(295,000)
	<b>Revenue</b>	<b>(196,868,789)</b>	<b>(187,375,028)</b>	<b>(165,558,455)</b>	<b>(163,311,269)</b>	<b>(163,231,269)</b>
64 -	Services & Other Expenses	340,400	310,500	276,850	400,500	400,000
66 -	Professional & Contracted Services	25,096	117,238	126,484	283,279	280,590
	Operating & Maintenance	365,496	427,738	403,334	683,779	680,590
80 -	Debt Service Expenditure	171,703,160	183,123,753	169,605,109	177,199,389	168,824,831
	Debt Services	171,703,160	183,123,753	169,605,109	177,199,389	168,824,831
94 -	Other Sources & Uses	0	(917,922)	5,642,283	0	0
	Other Financing Sources	0	(917,922)	5,642,283	0	0
	<b>Expenditures</b>	<b>172,068,656</b>	<b>182,633,569</b>	<b>175,650,726</b>	<b>177,883,168</b>	<b>169,505,421</b>
99 -	Planned Use of Fund Balances	0	0	0	(15,989,919)	(9,293,387)
	Planned Fund Balance Change	0	0	0	(15,989,919)	(9,293,387)
	<b>Planned Fund Balance Change</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(15,989,919)</b>	<b>(9,293,387)</b>
96 -	Operating Transfers In	(9,646,179)	(7,460,264)	(264,716)	(5,381,980)	(3,260,765)
	Operating Transfers In	(9,646,179)	(7,460,264)	(264,716)	(5,381,980)	(3,260,765)
98 -	Operating Transfers Out	6,564,000	6,916,000	6,916,000	6,800,000	6,280,000
	Operating Transfers Out	6,564,000	6,916,000	6,916,000	6,800,000	6,280,000
	<b>Net Transfers</b>	<b>(3,082,179)</b>	<b>(544,264)</b>	<b>6,651,284</b>	<b>1,418,020</b>	<b>3,019,235</b>
	<b>SUMMARY TOTAL</b>	<b>(27,882,312)</b>	<b>(5,285,724)</b>	<b>16,743,555</b>	<b>0</b>	<b>0</b>

