DEBT SERVICE FUND

FY16 ADOPTED BUDGET

DEBT MANAGEMENT POLICY

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

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

The Debt Management Policy for Shelby County was first established by resolution in 2002, with further updates in 2005 and 2011. The current Debt Management Policy was updated and adopted by resolution in 2014.

USE AND PURPOSE OF DEBT

Debt is issued primarily for school construction and for major capital improvements to County facilities, roads and equipment 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 $55 million will be funded by debt each year. About 60% of the County's total expenditure for Debt is related to schools.

CAPITAL FINANCING

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

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

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

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

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

BOND RATINGS

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

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

DEBT LIMIT

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

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

		2011	2012	2013	2014
Appraised Property Valuation		$65,216,501	$64,287,974	$63,834,912	$60,586,935
Assessed Valuation		19,312,088	18,999,484	18,847,861	18,165,887
Total General Fund Revenue		368,186	362,350	368,929	380,460
Total General ObligationDebt		1,615,108	1,455,753	1,374,036	1,269,191
Debt Ratio Targets	Goal				
Debt to Appraised Valuation %	< 5%	2.48%	2.26%	2.15%	2.09%
Debt to Assessed Property Valuation %	< 12%	8.36%	7.66%	7.29%	6.99%
Debt Per Capita	< $2,000	1,796	1,576	1,483	1,375
Debt to Per Capita Personal Income %	< 6%	4.47%	3.98%	3.66%	3.24%
Principal Debt % Retired in 10 Years	> 50%	58.38%	63.22%	65.86%	70.70%
Debt Service as % of Non-Capital Expenditures	< 20%	17.08%	16.51%	16.29%	16.07%
Fund Balance Targets:					
General Fund - Unassigned as % of annual revenue (preferred balance > 20%)	20 - 30%	23.26%	25.28%	25.73%	26.93%
Debt Service Fund -Committed as % of annual reve (preferred balance > 25%)	20 - 30%	53.17%	54.05%	47.55%	45.14%

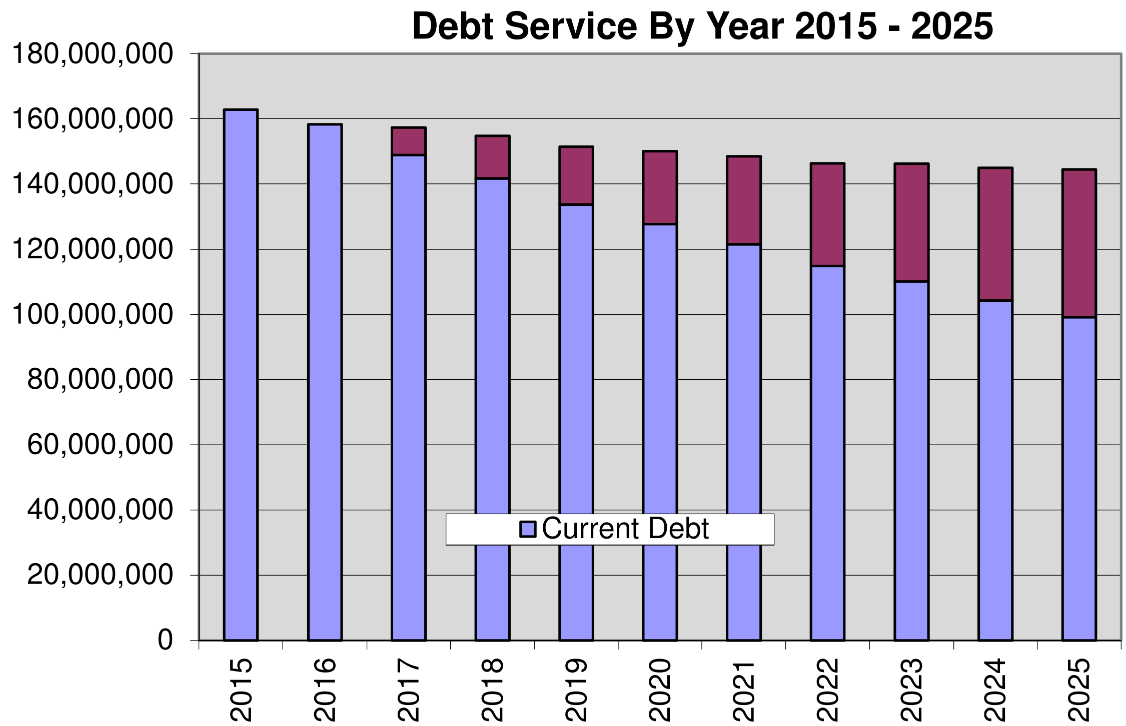
Shelby County's debt obligations are within the stated affordability targets, with favorable trends achieved over the past four years.

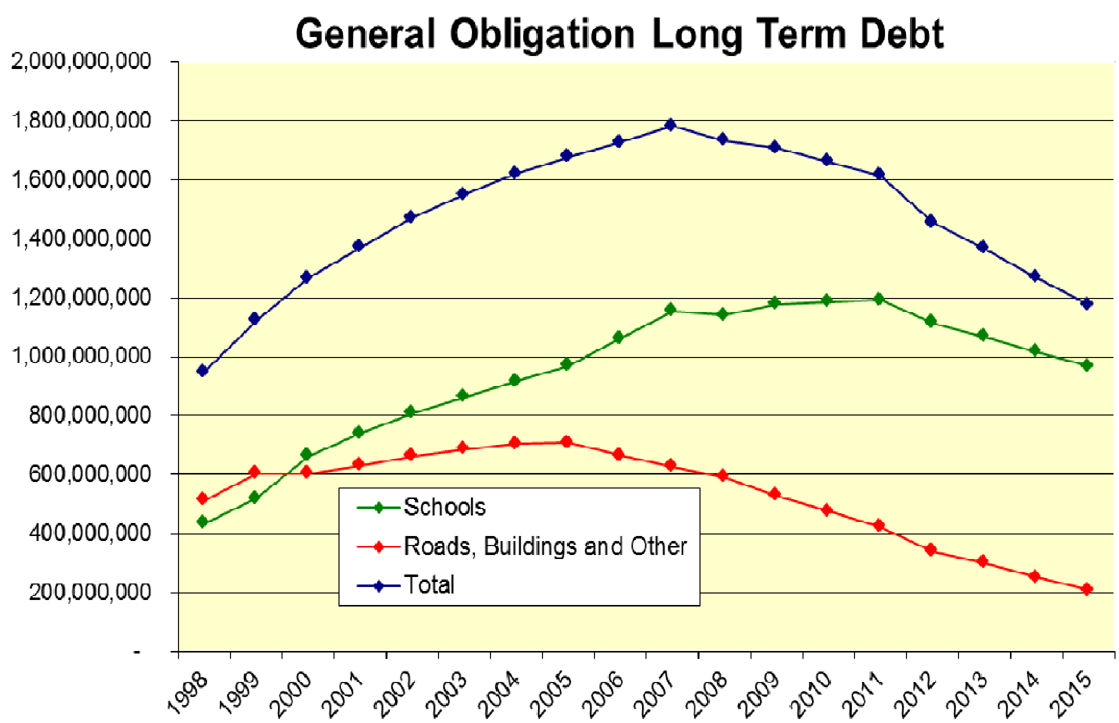
Debt Service Fund	Debt Outstanding at 6/30/15	Budgeted FY16 Debt Service Payments Principal	Interest	Total
General Obligation Bonds	$ 1,054,318,377	$ 88,878,119	$ 51,572,962	$ 140,451,081
School Construction Loan Agreements	89,031,674	7,636,321	4,095,833	11,732,154
Total Bonded Debt	**1,143,350,051** [1]	**96,514,440**	**55,668,795**	**152,183,235** [2]
Swap Interest & Issuance Cost	-	-	5,575,000	5,575,000
Capital Leases - Forensic Center	6,131,862	369,422	134,014	503,436
TOTAL DEBT OUTSTANDING	**$ 1,149,481,913**	**$ 96,883,862**	**$ 61,377,809**	**$ 158,261,671**

Schedule of Outstanding Bonded Debt at 6/30/15

	Year	Principal	Interest	Total
FY 2016 Budgeted Debt Payments:	2016	**96,514,440**	**55,668,795**	**152,183,235** [2]
	2017	89,254,078	57,048,297	146,302,375
	2018	93,476,321	45,741,389	139,217,710
	2019	89,631,321	41,690,350	131,321,671
	2020	87,576,321	37,749,954	125,326,275
	2021	85,253,821	33,876,199	119,130,020
	2022	82,231,321	30,218,202	112,449,523
	2023	80,981,321	26,807,208	107,788,529
	2024	78,581,321	23,385,197	101,966,518
	2025	77,071,321	19,909,769	96,981,090
	2026	66,351,321	16,642,140	82,993,461
	2027	53,760,604	13,238,450	66,999,054
	2028	38,224,040	7,752,365	45,976,405
	2029	37,817,500	5,847,220	43,664,720
	2030	33,290,000	4,123,405	37,413,405
	2031	26,645,000	2,536,778	29,181,778
	2032	7,687,500	1,480,588	9,168,088
	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
	TOTAL	**1,143,350,051** [1]	**425,538,756**	**1,568,888,807**

[1] *Does not reflect accreted value or bond premiums/discounts*
Debt Service on EMPC Notes, 2015 Series A, included in CIP Fund


Debt Service By Year 2015 - 2025
180,000,000
160,000,000
140,000,000
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
Current Debt
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025


General Obligation Long Term Debt
2,000,000,000
1,800,000,000
1,600,000,000
1,400,000,000
1,200,000,000
1,000,000,000
800,000,000
600,000,000
400,000,000
200,000,000
-
Schools
Roads, Buildings and Other
Total
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015

Prime Accounts Summary

Debt Service Fund

Acct Description	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Amended	FY16 Adopted
40 - Property Taxes	(137,757,438)	(137,625,912)	(138,029,247)	(132,704,000)	(135,626,000)
41 - Other Local Taxes	(25,076,111)	(29,209,204)	(35,195,484)	(28,579,000)	(31,389,000)
43 - Intergovernmental Revenues-State of	0	0	(67,436)	0	0
44 - Intergovernmental Revenues-Federal &	(1,304,602)	(1,304,602)	(1,204,036)	(1,218,514)	(1,218,514)
45 - Charges for Services	(233,000)	(156,625)	(225,749)	(225,750)	(225,750)
47 - Other Revenue	(744,636)	(742,827)	(717,739)	(753,000)	(563,000)
48 - Investment Income	(442,668)	(822,927)	(1,058,206)	(293,300)	(293,300)
Revenue	**(165,558,455)**	**(169,862,097)**	**(176,497,897)**	**(163,773,564)**	**(169,315,564)**
64 - Services & Other Expenses	276,850	302,450	271,500	400,000	400,000
66 - Professional & Contracted Services	126,484	142,502	141,625	283,823	278,723
Operating & Maintenance	403,334	444,952	413,125	683,823	678,723
80 - Debt Service Expenditure	169,605,109	174,302,871	167,300,827	164,719,142	158,261,674
Debt Services	169,605,109	174,302,871	167,300,827	164,719,142	158,261,674
94 - Other Sources & Uses	5,642,283	0	0	17,827,758	0
Other Financing Sources	5,642,283	0	0	17,827,758	0
Expenditures	**175,650,726**	**174,747,823**	**167,713,952**	**183,230,723**	**158,940,397**
99 - Planned Use of Fund Balances	0	0	0	(23,716,657)	5,943,669
Planned Fund Balance Change	0	0	0	(23,716,657)	5,943,669
Planned Fund Balance Change	**0**	**0**	**0**	**(23,716,657)**	**5,943,669**
96 - Operating Transfers In	(264,716)	(5,381,981)	0	(2,248,502)	(2,248,502)
Operating Transfers In	(264,716)	(5,381,981)	0	(2,248,502)	(2,248,502)
98 - Operating Transfers Out	6,916,000	6,800,000	6,280,000	6,508,000	6,680,000
Operating Transfers Out	6,916,000	6,800,000	6,280,000	6,508,000	6,680,000
Net Transfers	**6,651,284**	**1,418,019**	**6,280,000**	**4,259,498**	**4,431,498**
SUMMARY TOTAL	**16,743,555**	**6,303,745**	**(2,503,945)**	**0**	**0**

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