



Shelby County Government

MARK H. LUTTRELL, JR.
MAYOR

December 18, 2017

To the Members of the Board of County Commissioners and the Citizens of Shelby County, Tennessee:

The comprehensive annual financial report of Shelby County, Tennessee (hereafter, Shelby County) for the year ended June 30, 2017, is hereby submitted. Local ordinances and state statutes require that Shelby County publish each fiscal year a complete set of financial statements prepared in compliance with Generally Accepted Accounting Principles (GAAP) and audited by a firm of licensed certified public accountants.

Management assumes full responsibility for the completeness and reliability of all of the information presented in this report, based upon a comprehensive framework of internal controls that have been established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free from any material misstatement.

Watkins Uiberall, PLLC, and Banks, Finley, White and Company, certified public accountants, have issued an unqualified opinion on Shelby County's financial statements for the fiscal year ended June 30, 2017. The independent auditor's report is presented as the first component of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides an analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of Shelby County, Tennessee

Shelby County, established in 1819, is the largest county in the State of Tennessee with Memphis as the County seat. The County is located in the extreme southwest corner of Tennessee on the eastern bank of the Mississippi River and is the hub of the 105 county Mid-South region. Contained within the County's 783 square miles are the seven incorporated municipalities of Arlington, Bartlett, Collierville, Germantown, Lakeland, Memphis and Millington. The population of the County is 934,603. The County is empowered to levy, without limit, a property tax on both real and personal property located within its boundaries.

The County operates under the Mayor-Commission form of government. The Mayor, as the County's chief executive officer, oversees the operations of the County's seven divisions. The thirteen members of the Shelby County Board of Commissioners (the Commission) as the

legislative branch of the government, review and approve the County's programs and budgets. The Mayor and each Commissioner serve a four year term. The Sheriff, County Clerk, Assessor, Register, Trustee, Circuit Court Clerk, Criminal Court Clerk, General Sessions Court Clerk, Juvenile Court Clerk and Probate Court Clerk are also elected to four year terms.

Shelby County provides a full range of services, including law enforcement and judicial systems, jail and corrections facilities, health and community services, fire protection and recreational activities. Shelby County is also financially accountable for a legally separate school district, public hospital, agricultural center and emergency communications district, which are reported separately within the Shelby County financial statements. Additional information on these entities can be found in Note I. A. in the notes to the financial statements.

The annual budget serves as the foundation for Shelby County's financial planning and control. All departments and elected officials submit their requested budget to the County Mayor by late February. After a series of administrative reviews, the County Mayor presents a proposed consolidated budget to the County Commission by April 30. The County Commission conducts budget hearings and then adopts a final budget. This process is generally completed by July 1 as the beginning of the fiscal year. However, the County Commission has the authority to adopt a continuing budget until a final budget can be approved. The appropriated budget is prepared by fund, division (a function such as public works), and department (e.g., parks). The Mayor may authorize transfers of appropriations within the same fund, division, or expenditure category (personnel or non-personnel). Any other transfers require approval by the County Commission.

Local economy

Shelby County has experienced significant improvement in the local economy since the post-recession period. This stabilization and growth in commercial and residential property values is clearly reflected in the reappraisal conducted during 2017. The County has also experienced notable success in attracting new businesses in the past several years, along with the continued expansion of existing businesses.

The County is the major wholesale and retail center for western Tennessee, eastern Arkansas and northern Mississippi. The Memphis Metropolitan Statistical Area (MSA) is considered one of the top 100 suburban markets in the country and ranks in the top fifty in total effective buying income, according to Sales & Marketing magazine. The industrial economy of the County is highly diversified with twenty major industrial groups listed in the Directory of Memphis Manufacturers as classified by the Bureau of the Budget. Major industries include chemicals, electronics, foods and beverages, paper products, hardwood lumber products, pharmaceuticals, soybean and cotton oil derivatives and fertilizers.

The major areas of employment in Shelby County are the services, government, and wholesale and retail trade. The southeastern region and the United States overall show a heavier concentration in manufacturing than does the County, but they also display lower employment in transportation and public utilities. According to the Tennessee Department of Labor, the unemployment rate for Shelby County as of October 31, 2017 was 3.7%, as compared to the state's rate of 3.0% and the national rate of 3.9%.

Long-term financial planning

Long-term planning is reviewed and updated annually for operations, capital improvements and debt based on analysis of historical data and projections of future requirements. Close cooperation exists between the Administration and the Commission in developing an annual financial plan in a transparent and timely process with the shared goals of maintaining structural balance, stable tax rates and adequate fund balance levels.

During the past ten years total governmental revenue has increased by only .5%. Revenue growth from property (10.2%) and other local taxes (11.1%) has been partially offset by reductions in Federal and local revenue resulting from moving the Head Start program to another entity (61.3%), various State grant revenues (10.4%) and investment income due to lower interest rates (83.7). During this period, local taxes have increased as a percent of total revenue from 74% to 81.2% because the areas of relative increase in expenditures are primarily supported by local taxes. Property taxes have increased from 64.8% to 71.0% of total revenue. Most fees and fines as well as many other revenues are set by the State and are not regularly adjusted to provide for inflationary cost increases.

During this same ten year period, the County's total governmental expenditures have increased by 4.0%. The core functions of education, law enforcement, judicial, health and debt service now account for 79.6% of total expenditures compared to 70.7% ten years ago. Education increased by 15.4% (\$55.7 million) and law enforcement increased by 18.6% (\$26.3 million). The significant reduction of 66.6% (\$95 million) in capital outlay reflects continued adherence to the debt reduction plan along with reduced allocations for schools during a period of organizational transition.

As part of our annual budget process, operating revenue and expenditures are projected for the next five years. This provides a basis to consider the longer term implications of decisions regarding new programs, service level changes, salary increases, benefits and the property tax rate. We have also considered the need to plan for cash flow requirements. Our property taxes become delinquent on March 1 and most payments are received in December (for individual income tax purposes) and February. With our fiscal year starting July 1, we will always have negative cash flow from July 1 through late December. For many years we utilized short term borrowing for these cash flow needs. In 2009, as a result of increasing fund balances, the County ended the use of short term borrowing for cash flow purposes. In 2014 the County adopted a policy of maintaining the General Fund unassigned fund balance as a percent of General Fund revenue between 20% and 30% with the intent to stay above 25%. This percentage has increased annually for ten consecutive years and is 28.4% as of June 30, 2017.

As part of the annual budget process the County also adopts a five year capital improvements plan. Several years ago we recognized the need to control growth in both our outstanding debt and our annual debt service payments. We have aggressively reduced the local funding of our capital plan from \$142.8 million in 2008 to an average of \$45 million annually since 2009 to stop the growth of debt. In December 2006, our general obligation debt, excluding accretion, peaked at \$1.85 billion and has declined to less than \$1.0 billion as of June 30, 2017. Our debt policy sets the maximum annual local capital funding at \$75 million. At that amount, outstanding debt balances will continue to slowly decline in future years.

Major initiatives

The Administration has identified a number of priorities designed to strengthen the long-term financial position of the County. The following initiatives provide a financial planning focus in areas that are important to our future prosperity.

1. **Promote Economic Development and Smart Growth** – Shelby County is committed to providing programs and policies that ensure aggressive growth and promote high quality long-term job opportunities. Smarter regulations have been adopted to curtail suburban sprawl and to facilitate business development. In addition, a joint entity with the City of Memphis has been created called the Economic Development Growth Engine (EDGE) to provide a single organization to focus on economic development and to provide companies with one entity to handle all related governmental issues.
2. **Support Quality Public Education** – Shelby County has increased funding for school operations by \$58.2 million over the past four years during a period of structural transition from one unified district to seven independent districts. Capital funding has also been provided to address facility utilization and structural repair issues identified during the transition. An investment for Pre-Kindergarten programs for low-income children has been funded in the amount of \$3 million annually since fiscal 2015.
3. **Focus on Budget and Financial Stability** – Preparation of the budget by this Administration is focused on minimizing the size of government while maintaining core functions that are important to our citizens. All programs are reviewed thoroughly to evaluate the effectiveness of service delivery and to identify opportunities for savings through technology, efficiency measures or alternate funding sources. The basic goals of maintaining structural balance, appropriate fund balance levels and property tax rate stability are fundamental to the planning process.
4. **Provide and Promote Community and Environmental Health** – The dual priorities of public health and high quality of life for our citizens are supported through strong community and environmental programs. Integrated healthcare services focus on wellness, early intervention and prevention of chronic and infectious diseases. Environmental protection services ensure that air and water quality are protected and that sustainable practices are utilized in energy efficiency, waste reduction, transportation, recycling and construction.
5. **Provide Efficient and Responsive Government Operations** – A training office has been established to enhance skills and foster professionalism in the employee workforce through improved training programs and succession planning. Trust and confidence in government are supported through transparent, accessible and responsive interactions with all internal and external customers.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Shelby County, Tennessee for its comprehensive annual financial report (CAFR) for the year ended June 30, 2016. Shelby County has received this prestigious award for over thirty consecutive years. In order to be awarded the Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report

Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate. The County also received the GFOA Distinguished Budget Presentation Award for the fiscal year ended June 30, 2016, which is the eighth consecutive year to receive this award.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Due credit is also given to all County Commissioners for their interest and support in planning and conducting the operations of Shelby County in a responsible and progressive manner.

Sincerely,



Mark H. Luttrell, Jr.
County Mayor



Harvey Kennedy
Chief Administrative Officer



Wanda Richards
Director, Division of Administration and Finance