



Shelby County Government

LEE HARRIS
MAYOR

September 21, 2022

The Honorable Michael Whaley, Budget Chairman
The Honorable Mickell Lowery, Commission Chairman
Members of the Shelby County Board of Commissioners

Dear Mr. Chairman and Commissioners:

I am pleased to present Our Budget for Tomorrow. The Fiscal Year (FY) 2023 Adopted Budget for Shelby County Government (the “County”) is balanced and represents our commitment to confronting the economic challenges and opportunities that lie ahead. I appreciate the time and effort the County’s Finance and Budget staff have invested in this consolidated budget and the budget process for our countywide elected officials, courts, and schools.

Over the past year, our employees have continued to respond to the greatest health and economic crisis our country has faced in nearly 100 years by providing essential services to our citizens. As a result of the hard work and dedication our employees have shown, we worked closely with the County Commission and other elected officials to deliver a general increase of 5% for all Shelby County Government employees. This represents the largest pay equity increase for our employees in more than a decade and further represents our understanding of economic factors that impact our most valued resource.

In line with every budget I have presented to this Commission, this adopted budget does not contain a property tax increase, but rather includes a tax rate reduction due to the recent reappraisal and “certified recapture tax rate” discussed further below.

PROPERTY TAXES

Property taxes are fundamental to the County budget as this funding source represents approximately 60% of all recurring operating revenue. The reappraisal conducted by the Assessor last year identified significant increases in property values across the County. The increase in property values were further affirmed as fewer appeals were received than originally estimated. Higher property values result in higher property tax revenues. As a result, the State calculated a “**certified tax rate**” which neutralized the property tax revenue impact from higher property values. This calculation included an estimate of expected appeals from property owners based on historical data.

In the year following the reappraisal, the State calculated a “**certified recapture tax rate**” to recognize the actual level of appeals and adjust the previous certified rate accordingly. The Board of Equalization actually received about half of the expected level of appeals. Therefore, the recapture rate established by the State was set at \$3.39 and the Commission adopted this rate for FY 2023. This rate represents a reduction of \$.06 cents from the rate of \$3.45 set by ordinance of the County Commission for FY 2022.

The Administration worked closely with the Assessor and Trustee to forecast property tax revenue for FY 2023 based on current year collection patterns and property values reflected in the new certified roll. The resulting projection of \$815.4 million in property tax revenue for FY 2023 represents a small increase over the FY 2022 budget. The estimated value of revenue generated from one cent on the property tax rate is \$2,360,956.

In addition to the reduced tax rate, a reallocation of the existing tax rate structure for FY 2023 to better align resources with current needs in the respective major funds was approved by the County Commission. These reallocations reflect positive collection trends and address some continuing structural imbalances in the General Fund, as discussed below.

GENERAL FUND

The General Fund provides for the core functions of county government and the valuable employees who provide those services. This adopted budget utilizes the base of the FY 2022 Amended Budget established by the County Commission and the tax rate allocation to the General Fund to address the following needs for FY 2023:

- Provides for a 5% general salary increase for employees to continue to bring equitable and competitive salaries in-line with industry standards, essential to a successful and productive work force.
- Provides an increase of 3% to the County's health insurance premiums without passing the cost on to the employee. The County is committed to providing the best affordable health and wellness benefits to our staff and families.
- Provides increases in contractual and unavoidable costs surrounding our growing footprint in both real property and information technology infrastructure, mail and postage services, and utilities.
- Supports several key offices' personnel resources, including **Public Defender's Office, Probate Court, Administration & Finance, Human Resources, Public Works, Planning & Development and Community Services.**
- Provides needed **mental health services to inmates** at our jail, juvenile justice center, and corrections facility as part of a forthcoming inmate medical services contract; and
- Supports expenditures surrounding the August and November FY 2023 County elections.

As a result of the COVID-19 pandemic, the County was allocated \$182 million from the American Rescue Plan Act of 2021. The FY 2023 Adopted Budget continues to utilize this Federal funding to provide services primarily in the areas of Community Services, Health Services, and Emergency Management & Homeland Security. This funding will support one-time general fund expenditures in fiscal years 2023 and 2024.

This budget allocates 36.9% of property tax revenue to the General Fund. (\$1.25 of \$3.39 rate)

EDUCATION

This adopted budget provides \$427,259,000 for education, maintaining the required Maintenance of Effort funding level, continuing our commitment to the schools. Our public education system in Shelby County is now in its ninth year of operations with seven independent school districts. The County has supported the schools with increased funding of more than \$67 million since 2013 by means of property tax growth and the dedication of 100% of the Wheel Tax to school operations. Over this same period, funding on a per pupil basis has increased as total attendance has decreased slightly over the past five years. Additionally, for Pre-Kindergarten (Pre-K), dedicated funding from the majority of the County's share of sales tax collections is included at the historic level of \$8.9 million, an increase of \$400,000 as compared to prior year, furthering the support in FY 2023.

This budget allocates 46.8% of property tax revenue to the Education Fund (\$1.59 of \$3.39 rate) and provides Pre-K funding of \$8.9 million.

DEBT

County debt continues to be managed at acceptable levels. Outstanding long-term debt is projected to be \$870.6 million at the end of FY 2022. With our continued effort to reduce Shelby County's debt, we will experience a \$6 million reduction in our debt service expenditures for FY 2023, and as a result, for the first time since FY 2019, revenues in the Debt Service Fund are projected to exceed expenditures and no additional revenue must be allocated to pay debt service in FY 2023, therefore allowing for the reallocation of the penny to support the General Fund. We should continue to ensure that our debt burden does not constrain our financial ability to respond to other pressing needs of the community.

To our benefit, the major bond rating agencies have recognized our commitment to "live within our means" by awarding the County the second highest ratings of AA+/AA+/AA1 over the past seven years. Maintaining these ratings will ensure that we minimize the future cost of debt financing.

This budget allocates 16.4% of property tax revenue to the Debt Service Fund. (\$0.55 of \$3.39 rate)

CAPITAL IMPROVEMENT PLAN

The adopted five-year CIP for FY 2023 to FY 2027 illustrates the significant need for maintenance and renovations to aging County buildings and infrastructure, as well as investment in information technology to provide efficient and secure operations.

The FY 2023 capital budget provides \$27.4 million to the County's school districts, including Memphis-Shelby County Schools (MSCS). The past two years, capital funding has been available to the school districts on an upfront, monthly basis, and this method of funding has stabilized and supported capital projects for many of the municipal school districts. The adopted plan includes our commitment to supporting educational endeavors with the inclusion of \$2.9 million for architectural and engineering to MSCS for construction a new school building.

OTHER FUNDS

Grant Funds

The COVID-19 crisis has dramatically impacted our nation, and Federal as well as Federal through State funds have been granted to the County to respond locally. Several of the largest recent and pending awards are:

- **American Rescue Plan Act State and Local Fiscal Recovery Funds:** \$182 million in Federal funding to be utilized up to FY 2024. The County received the first tranche of \$91 million in May 2021 and the second tranche in June of 2022. The County chose to utilize these funds as revenue loss to proactively respond to the needs of the community and the operating divisions in response to the negative consequences and financial losses as a result of the pandemic. This adopted budget anticipates further utilization of these funds in a like manner.

In summary, I sincerely thank the County Commission, Elected Officials and Division Directors for their ongoing partnership and support in the approval of the FY 2023 Adopted Budget. It is with great pleasure that we have ensured that this adopted budget effectively allocates the resources that we have to serve our residents. We look forward to our continued work with the Board of County Commissioners with a shared sense of fiscal integrity and commitment to making Shelby County a great place to live, work, play, and invest for years to come. I am certain that Shelby County remains in an excellent position to meet the challenges of the future.

All the best



Lee Harris
Mayor

LH/mh