

Budget Message

April 20, 2018

Chairman Eilert and County Commissioners;

It is my privilege and honor to present the proposed Johnson County operating budget and capital improvement program for FY 2019. More than just numbers and dollars, this budget is a policy document that outlines the organization's efforts to serve the citizens of Johnson County. It represents an organizational blueprint for FY 2019 and beyond.

Our community continues to grow and prosper and we currently enjoy a strong economy with low unemployment rates and a robust housing market. For many reasons, however, this was a surprisingly challenging budget to develop. We focused on the highest priorities and then explored opportunities to trim other expenditures without negatively affecting services. Ultimately, we were able to construct a budget that includes a partial rollback of the mill levy for FY 2019.

Rolling Back the Mill Levy Again

For the second consecutive year, the budget targets a quarter mill levy rollback, making the cumulative impact a reduction of over a half mill. For the proposed FY2019 budget, the rollback is initially set at .275 to accommodate for valuation changes likely to occur before the tax roll is finalized in October. Strong valuation growth has increased the County's ability to execute a rollback, but also made it crucial to do so given that the largest growth and impact on our residents was in more moderately priced homes (under \$350,000). Adjusting the budget to accommodate a mill levy rollback was not an easy process, but it is important for the organization to work to reduce the tax impact upon our residents.

Using the Board's strategic goals as our guideposts, we have developed a solid budget focused upon meeting frontline demand while also taking cues from the citizen survey. Consequently, within a limited number of new positions, funding has been set aside for key initiatives and priorities.

Priority Requests for Additional Resources (County Tax Support)

Department	Funded Position Requests	FTE	Service Area
<i>New Positions</i>			
District Attorney's Office	Clerk II (Electronic Delivery)	1.0	Public Safety
Sheriff's Office	Investigative Taskforce	3.0	Public Safety
Sheriff's Office	Forensic Technician	1.0	Public Safety
Mental Health	Mental Health Co-responder - Sheriff Partnership	1.0	Human Services
Mental Health	MNH Case Managers (Partial Fee Support)	3.0	Human Services
Technology & Innovation	Security Engineer	1.0	Support Services
Technology & Innovation	Asset Administrators –Centralized Asset Management	2.0	Support Svcs/BOCC
Technology & Innovation	Developer Analysts - Mobile Strategy	3.0	Support Svcs/BOCC

County Tax Funds Added for Existing Positions

Human Services	Nutrition Program (Prior Grant Funded)	3.0	Human Services
District Court Admin.	Juvenile Diversion Officer (Prior Fee Funded)	1.0	Public Safety

Approaching the FY 2019 Budget

Early indications were that assessed valuation growth would again be very strong. Bidding wars on homes that were already listed above appraised value resulted in significant increases to market value for certain segments of the market. Amidst this good news, the Board gave staff preliminary direction to attempt another rollback.

When the initial revaluation numbers came in slightly below last year's numbers, following this direction became more challenging. Though portions of the market had grown in value far more than last year, other segments grew less than in past years. The overall result was a similar, albeit slightly lower, preliminary growth number. Not surprisingly, the number of appeals also grew significantly, 27.3% and 15.6% for residential and commercial, respectively. Other major revenue growth, particularly sales tax, was less robust, and in conjunction with the final year of the Mortgage Revenue Collection Fee phase out, this year's rollback became more difficult. To compound the problem, there was an unusually high number of departmental requests for additional funding due to efforts to keep pace with growing demand for services.

Balancing the Budget

Given the large number of requests for limited resources, it became necessary to employ a new approach to clarify priorities and manage expectations. This new approach included a budget symposium including the Sheriff, District Attorney, department directors, the County Manager's Office, and the Budget Office to review and assist in budget development. The symposium included an update, overview, and a prioritization exercise to both educate leadership and develop organizational priorities for the FY 2019 Budget. The exercise helped manage expectations, incorporated feedback from departments, and strengthened relationships as we began developing a budget. As part of the process, the Requests for Additional Resources were vetted and pared down, and a consensus was achieved regarding funding priorities and the values that should drive budget decisions. The potential challenges surrounding the dark store/hypothetical lease theories were also discussed so that dialogue could begin regarding contingency planning.

Utilizing information from the budget symposium, we narrowed the additional resource requests and searched for opportunities to reduce the budget. We considered reductions, repurposing vacant positions, delayed implementation of planned initiatives, and use of fund balance when appropriate. The strategies to reduce the budget included:

- A review and elimination of vacant positions that had been open for an extended timeframe.
- Utilizing existing staff, Treasury and Financial Management centralized payroll and other administrative functions for smaller departments.
- A review of department budgets resulting in reductions based upon spending trends including:
 - The addition of capacity for Public Works to manage fluctuations in weather with budgeted reserves
 - The reduction to budgeted contractual services in the Planning Department
 - The reduction in the equipment reserve for the Corrections Department
 - A reduction in the Records and Tax Administration budget for contractual services and commodities
 - A reduction in the Legal budget for contractual services
 - The cost of the EMC medical director will be funded within the existing budget
 - The Department of Technology and Innovation will absorb increased maintenance costs within their existing budget
 - The Facilities Department will absorb increased custodial contract costs within their existing budget
 - Facilities project manager positions that had been assigned to the Library were eliminated
 - The Department of Technology and Innovation will repurpose funds for a vacant position to a priority area.



Streamlining the budget not only increased efficiencies, it allowed for the reallocation of resources in order to move into stronger alignment with the Board's strategic priorities:

1. Complete or advance existing projects approved by voters and the BOCC with efficiency and effectiveness
2. Develop and implement a comprehensive plan to protect, support, integrate and use county government data systems
3. Develop a vision and finance plan for transportation to increase the economic health of Johnson County, State of Kansas, and the Kansas City Metropolitan Area
4. Advance the self-sufficiency of vulnerable populations including those with I/DD, those with mental health needs, those who are aging, those who are housing insecure

In the end, we challenged a great organization to get better, to be both more effective and more efficient. I am very proud of how the organization responded.

2019 Budget Summary: By the Numbers

The FY 2019 Budget is \$1.07 billion, comprised of \$814.5 million in expenditures and \$261.8 million in reserves.

A total of 4,008.04 FTEs is included in the FY 2019 Budget, including 15 new positions that are County tax support funded and 8.0 FTEs that are fee supported. The remaining new positions are 20.9 for the Library (1.0 countywide children's services and 19.9 for the Lenexa Library) and 13.6 FTEs for the Park and Recreation District's operating and Legacy Plan needs, and all fall outside of the County Taxing District.

The FY 2019 Budget includes \$2.5 million in ongoing additional resources from County property tax support and approximately \$5.5 million in one-time expenses funded from excess reserves in a number of departments and agencies to address inflationary increases and pent up demand.

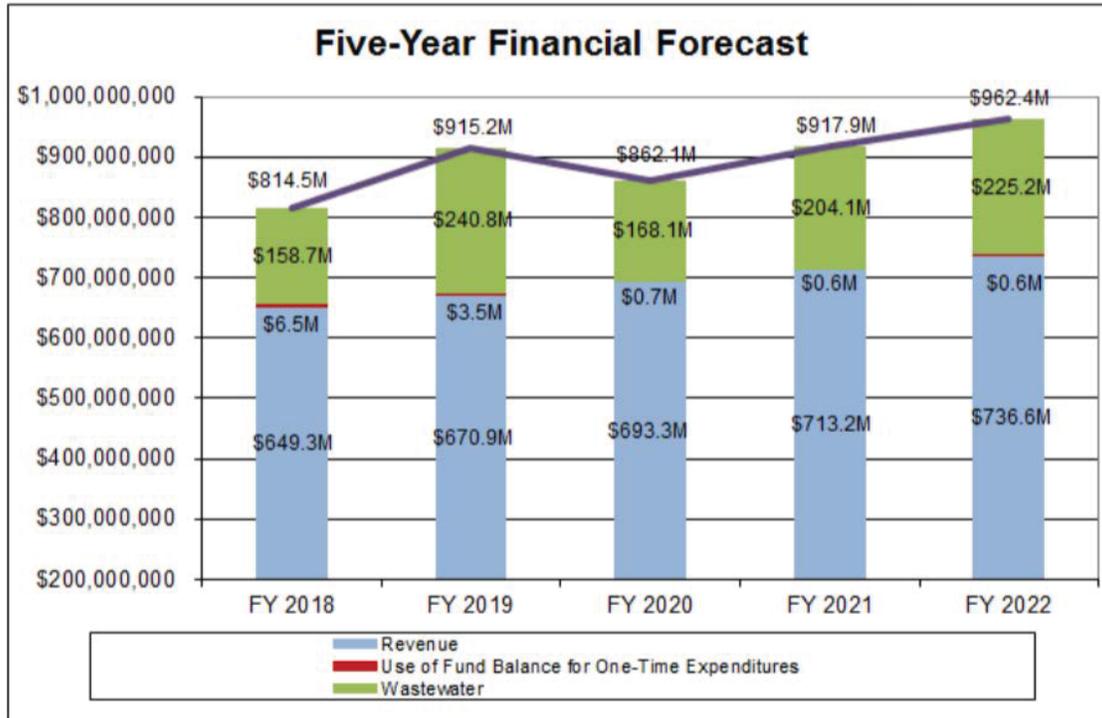
Aligning excess reserves with one-time expenditures is a key strategy to balancing budgets in each year of the Five Year Forecast, as well as the FY 2019 Budget. The use of \$6.5 million in reserves, \$5.9 million of which are in the County's General Fund, primarily to fund one-time capital expenditures has been included in the FY 2019 Budget.

Wastewater customers receive a combined bill that includes user charges for Operations and Maintenance and a capital finance charge that funds debt service related to the JCW capital improvement plan. Revenues for FY 2019 are projected to increase 7.75% over FY 2018 to cover increasing operating and capital costs. It should be noted that the increase is in aggregate and that individual billing customer classes may rise by differing amounts. The increase is consistent with prior year plans. The need for revenue growth is driven primarily by inflationary pressures associated with the inter-local agreement with Kansas City, Missouri, including costs associated with the Tomahawk plant shutdown during the construction phase; treatment chemicals, and personal services that have been included in the FY 2019 budget. Even with the increases, JCW rates remain among the lowest of the six major metropolitan area sewer providers.

Also included in the FY 2019 Budget is the FY 2019 - 2023 Capital Improvement Plan (CIP). The FY 2019 CIP is \$99.0 million. Excluding Stormwater, Wastewater and other projects that have dedicated funding sources, the FY 2019 CIP includes a total of \$14.8 million for various capital projects. Historically, staff attempts to align one-time revenues with one-time capital needs. Information on specific projects is included in the CIP section of the Overview and department sections.

Multi - Year Financial Forecast and Plan for the Future

The County's Five-Year Financial Forecast is summarized below. It reflects a 0.275 mill levy reduction in FY 2019, and a constant mill levy in FY 2020 - FY 2023. In FY 2018 through FY 2023, the large anticipated increase in expenditures is due to the addition of capital expenditures to Wastewater Sewer Repair and Construction Finance Plan (SRCFP) for the Tomahawk project. To illustrate the impact of the Tomahawk project, Wastewater has been broken out separately.



In conjunction with the chart above detailing the County's projected revenue and expense for the next five years, the chart below shows projected fund balances for the County's General Fund for the same period. In future years, there will be less funding available for one-time capital projects unless the County experiences operating surpluses.

Projected Fund Balances for General Fund

Fiscal Year	Projected Ending Fund Balance (\$)	Projected Ending Fund Balance (%)
2019	\$89.6 million	26.0%
2020	\$86.7 million	24.4%
2021	\$86.7 million	23.5%
2022	\$86.7 million	22.7%
2023	\$86.7 million	22.0%

In February 2013, the Board adopted a revision to the General Fund reserve policy that would adjust the percentages reserved and the elements used for the calculation. As a general guideline, the policy calculation is expected to generate a reserve amount that ranges between 20% and 25% of estimated General Fund net revenues. In keeping with past Board direction, the multi-year budget projection gradually draws down the General Fund balance reserve to maintain the minimums of 20-25% annually. Representatives of Moody's Investors Service, one of the three national firms that rates the County's bonds, indicated that their ratings criteria base formula calls for 30% General Fund Reserves for local governments with Aaa ratings, the highest rating possible, that the County currently enjoys.

Present and Future Challenges

This is an exciting era in Johnson County, especially from a capital project perspective. One of the county's most significant challenges, both now and in the coming years, is oversight of a number of large projects and capital initiatives. In late 2016, voters approved a ten-year quarter-cent sales tax to build a much-needed new courthouse and coroner/medical examiner facility. A **preliminary design for** the courthouse has been shared with the public and construction is set to begin later this year. The BoCC recently formally approved a \$335 million dollar expansion to the Tomahawk plant that will divert flows from Kansas City, Missouri, and save money in the long-run. The County's Park District is moving forward with their Legacy Plan with two new parks opening in 2018 (Big Bull Creek Park and Meadowbrook Park) and the ten-mile Cedar Niles Trail addition that runs between 119th Street and 127th Street. The Legacy Plan was authorized and funded by the BoCC with .75 mills in FY 2016, as was the Library Master Plan. The Library is utilizing their funding initially to construct the new Monticello Branch, set to open in August, 2018, as well relocating the Lackman branch to the new Lenexa City Center in 2019, where it will be adjacent to City Hall and Lenexa's new community center.

The County is fully committed to acting as a good steward of the taxpayers' money. These projects are significant in size, scope, and impact. In January, the BoCC reconfirmed their commitment by making oversight of these initiatives their top strategic goal for the year.

Looming on the horizon are growing challenges to the current methodology for appraising commercial properties throughout several states, including Kansas. Early rulings from the state Board of Tax Appeals lowered the valuation for several retail chains in Johnson County by 30% using the Hypothetical Lease Theory. While circumstances can vary for each property, a preliminary estimate of a 30% valuation reduction across the County for similarly classified properties has been estimated to reduce County, Parks, and Library ad valorem by an estimated \$21 million at our current mill levy rates. I have asked the Budget and Financial Planning Department to begin contingency planning



discussions in order to prepare the organization for the possibility of significant revenue loss. Potential strategies include staffing level and efficiency reviews, restructuring, and service prioritization.

In addition to the potential loss in revenue, fundamental changes in valuation methodology for commercial property would also shift the tax burden from business to residential. Always a balancing act, it is important to note that there have been significant shifts back and forth over the years, most recently with the 2006 exemption which phased out personal property taxes paid by business on their machinery and equipment.

FY 2019 marks the second year that the County has been under an ad valorem tax lid imposed by the state of Kansas. The tax lid limits increases in ad valorem levied by a simple formula accounting for new construction and improvements and the consumer price index. Fortunately, the law provides for a few exemptions, including law enforcement and emergency services, which, in tandem with the County's new valuation, has allowed us to stay within the lid limits thus far. This is critical because it has allowed the BoCC to exercise fully their budgetary responsibilities. Working with the legislature to amend the tax lid to include additional exemptions would serve to align the intent of the law more realistically with its impacts.

The County is an agent of the State of Kansas. Many of our programs are in partnership with and partially funded by the State. While State funding has somewhat stabilized in recent years, it has not always kept up with inflation and demand. The FY 2019 Budget includes increased local funding to stabilize the nutrition program for Johnson County seniors. The State continues to face extreme budget difficulties and the potential for further funding reductions translates to an on-going challenge for the County.

As Johnson County continues to grow, change, and age, county government must continue to adapt and meet its challenges head on. We will meet those challenges with a commitment to the needs of the community, adherence to the Board's goals and vision, and dedication to good stewardship and fiscal responsibility.

Conclusion

Johnson County Government has long been an award winning organization aspiring to sustain and enhance the quality of life in our exceptional community. Balancing the provision of excellent and innovative services with the principals of good stewardship on behalf of our citizens is fundamental to our mission. This requires full commitment to continuous improvement in both organizational efficiency and effectiveness. We are proud of our organization, its history, and its accomplishments, but we must continue to adapt, grow, and improve. What we can do for our community, day in and day out, is to give our very best. We must always strive to improve. Our Board expects it, our organization is committed to it, and our community deserves it.

In conclusion, I would like to thank the Budget and Financial Planning Department, the staff in the County Manager's Office, as well as the department directors and their staff for their diligent efforts in the preparation of the FY 2019 Budget. Much time and effort went into its development.

Respectfully submitted,

Penny Postoak Ferguson
Interim County Manager