

Budget Message

May 2, 2019

Chairman Eilert and County Commissioners;

It is my pleasure to present the proposed Johnson County operating budget and capital improvement program for FY 2020. The budget ties the County's financial plan to the goals and objectives of the Board and the organization. At its best, a budget reflects the needs and wishes of our residents, whom we all serve.

Our community indicators are largely positive as both our population and local economy continue to grow. There are signs that the economy may be slowing while community pressures and expectations show no sign of letting up. Challenges await in 2020 and beyond.

A New Decade Dawns; An Old Decade Winds Down

Just as 2020 marks the beginning of a new decade, 2019 marks the end of a decade that ten years ago found Johnson County, the country, and much of the world in a very different place. Fortunately, we took proactive steps in late 2008 to put the County in strong financial shape during 2009 while we were constructing our first budget under the shadow of the Great Recession. We were able to balance the County's budget that year, and in the years following, with less ad valorem than the year before, with less staff, and without significant impact to services. The County's population continued to grow, however, and along with it, demand. We worked collaboratively to find efficiencies wherever we could, eliminating positions through attrition so our remaining employees could focus on meeting increasing demands knowing the County was doing everything it could to avoid layoffs. All told, the County found \$46 million in budget reductions, including the elimination of 428 positions – all without layoffs, while maintaining a constant mill levy throughout. You will hear more about that effort later in this message.

As the County emerged from the Great Recession, new challenges surfaced due to pent up demand and reductions in revenue from the State. So significant was the impact of the elimination of the Mortgage Registration Collection Fee, coupled with the after effects of the recession, the Board increased the mill levy in FY 2016 to offset the revenue loss and set the County on a positive trajectory into the future. The economy has been extremely solid in recent years and the Board has been able to roll back the mill levy over the past two budgets.

Balancing the FY 2020 Budget brought with it its own set of challenges, some familiar, some unique. While the County's key revenues continue to grow, that growth has slowed while demand in a number of areas has intensified. We were able to balance the budget within a constant mill levy and there are many positives to be found in this budget. Many challenges remain, however, with more on the horizon.

While no one can know with certainty what the future holds, we can look out into the coming decade and think about what we want our community to look like, what we want to accomplish, and how we will need to change. The constant for me is our commitment to do our part so that Johnson County remains a great place to live, to work, and to raise a family. With a new decade fast upon us, this is an ideal time to consider both next year and the next decade.

FY 2020 Proposed Budget Aligned with Resident and Board Priorities

I am proud of what we have accomplished within the FY 2020 Proposed Budget. We were able to maintain or even enhance our high level of quality services and programs within the means of a proposed constant mill levy for FY 2020. As our Community Survey reveals year after year, Johnson County sets the standard of service delivery compared to other communities of our size. Our 2019 survey revealed a 97% satisfaction rate for Johnson County as a place to live, and a 95% satisfaction rate as a place to raise children.

In addition to measuring satisfaction with our programs and services, we ask residents to let us know the services they consider the most important as well as the areas on which they wish us to prioritize in the future. In the 2019 survey, our services that ranked as “most important” included emergency services, including MED-ACT’s response to medical emergencies; Emergency Management and Communication dispatch of 911 first-responders; and the Sheriff’s Office. A few other key survey data points revealed:

- The County’s role in providing safety-net services to residents/families in need, the vulnerable population and low-income households received an 88% rate of importance.
- The County’s top priorities for the next five years should be personal safety and low crime.
- The survey asked why residents plan to stay in Johnson County for the next 10 years. By far, the top reason, with a 64% response, was a sense of feeling safe and a low-crime rate. Fortunately, 92% of respondents currently have an overall feeling of safety in Johnson County.

You will see in the Requests for On-Going Additional Resources I am proposing enhanced funding for public safety and criminal justice that align with these priorities voiced in the Community Survey.

Our residents’ desire for the County to provide safety-net services correlates with one of your top three priorities for 2019-2020, which is to strengthen and finance the appropriate level of service to meet the needs of the County’s vulnerable populations, pursuing innovative strategies. You will note below requests for Human Services and Mental Health in an effort to implement your priority as well as meet a desire of our residents.

Another of your top priorities for 2019-2020 is to develop a creative and innovative vision for a transit plan that is financially sustainable. The FY 2020 proposed budget includes an extension of the current microtransit pilot in the amount of \$500,000.

Making decisions about what we can fund, and what we need to put on hold, is always complex. We made a conscience effort to fund the requests we could that aligned with both your priorities and those of our residents. Sometimes, we need to be decisive in order to have the best long-range outcomes. For example, this year’s CIP includes \$54.7 million for a new combined Mental Health and Public Health building in Olathe to replace two aging, failing facilities. Staff has worked with Springsted, the County’s financial advisor to develop a financing plan so that we can utilize future debt capacity and minimize investment in the existing building by starting the project sooner rather than later.

With Requests for Additional Resources (RARs), we focused on honoring prior commitments and doing our best to meet the highest and most strategic needs. Following are the on-going RARs with County tax support that we addressed:

Requests for On-Going Additional Resources (County Tax Support)

Funding for Prior Decisions

Department	Expenditure Type	FTEs	2020 Net Property Tax Impact
Health & Environment	Medical Examiner	9.7	\$907,337
Med-Act	JCFD Ambulance Service Transition	7.0	\$606,398

Funding in Proposed Budget

Department	Expenditure Type	FTEs	2020 Net Property Tax Impact
District Attorney	Staffing	2.00	\$184,791
District Court	Contractual Services	na	\$100,482
JIMS	Maintenance Support	na	\$285,200
Sheriff	Staffing, Contractual, & Technology	7.00	\$2,136,753
Human Services	Housing Program Shortfall	1.80	\$141,876
Mental Health	Staffing	4.00	\$292,732
Budget & Financial Planning	Staffing	1.00	\$144,238
Countywide	United Community Services Increase	na	\$10,000
Facilities	Staffing	1.00	\$72,883
Human Resources	Contractual Services	na	\$11,293

Not Funded in Proposed Budget

Department	Expenditure Type	FTEs	2020 Net Property Tax Impact
Corrections	Staffing	2.00	\$166,896
District Attorney	Staffing	1.00	\$96,670
District Court	Staffing & Pay	3.00	\$247,626
Emergency Mgmt & Comm	Staffing	1.00	\$79,505
Med-Act	Staffing	16.00	\$1,659,299
Sheriff	Staffing	7.00	\$689,378
Mental Health	Staffing & Contractual Services	6.00	\$466,355
Facilities	Janitorial Services	na	\$175,000
Human Resources	Talent Acquisition and Strategy Specialist	2.75	\$271,948
Technology & Innovation	Contractual Services & Commodities	na	\$380,620

2020 Budget Summary: By the Numbers

The FY 2020 Budget is \$1.26 billion, comprised of \$934.5 million in expenditures and \$331.4 million in reserves.

A total of 4,065.62 FTEs is included in the FY 2020 Budget, including 31.68 new positions that are County tax support funded, and 3.0 FTE funded with existing resources. The remaining new positions are 9 for Wastewater and 10.35 FTEs for the Park and Recreation District's operating and Legacy Plan needs, all of which fall outside of the County Taxing District.

The FY 2020 Budget includes \$5.3 million in ongoing additional resources from County property tax support and approximately \$8.2 million in one-time expenses funded from excess reserves in a number of departments and agencies to address inflationary increases and pent up demand.

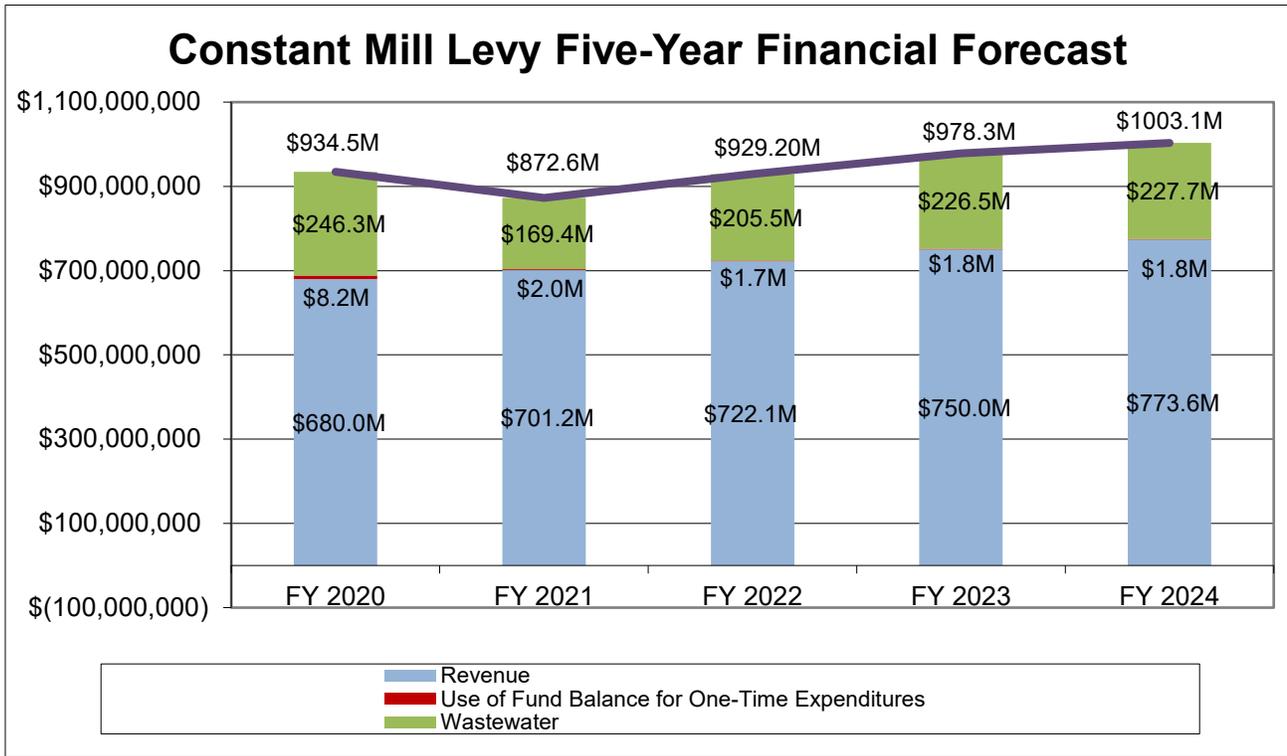
Aligning excess reserves with one-time expenditures is a key strategy to balancing budgets in each year of the Five Year Forecast, as well as the FY 2020 Budget. The use of \$8.2 million in reserves, \$3.9 million of which are in the County's General Fund, primarily to fund one-time capital expenditures has been included in the FY 2020 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 2020 are projected to increase 6.5% over FY 2019 to cover 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 need for revenue growth is driven primarily by inflationary pressures and costs associated with the Tomahawk plant construction phase; debt service on capital projects, treatment chemicals, and personal services that have been included in the FY 2020 budget. Even with the increases, JCW rates remain among the lowest of the six major metropolitan area sewer providers.

Also included in the FY 2020 Budget is the FY 2020 - 2024 Capital Improvement Plan (CIP). The FY 2020 CIP is \$253.8 million. Excluding Stormwater, Wastewater and other projects that have dedicated funding sources, the FY 2019 CIP includes a total of \$66.9 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 Revenue Forecast and Demand for the Future

The County has long presented a balanced five-year financial revenue plan with a constant mill levy and expenses that manage to it. It provides a high-level picture of revenue trends as well as major outliers, such as the \$335 million Wastewater Tomahawk plant expansion currently underway, known to be on the horizon. I would urge you to keep in mind that this forecast does not leave much room to address challenges and pressures that we know are coming or have already arrived, which I will address in the next section. Accordingly, below is the County's current Five-Year Financial Forecast under a constant mill levy.



One Million Residents in Our Future

We currently have approximately 604,000 residents in our County, with about 95,000 residents 65 and over. Research from Wichita State University predicts that we will reach one million residents in just over 30 years from now. Over the next two decades, our senior population is expected to double.

This is the time to start thinking about how, not too far into the future, the population growth, and growing needs for our vulnerable populations, will put increased pressure on our programs and services. As our population ages, we can expect more frequent calls for ambulances, additional people needing the Mental Health services, and the need for additional staff to support clients with intellectual and developmental disabilities as their caregiving parents age, are some examples.

Some projected future needs include:

- \$4 million annually for four additional MED-ACT stations: the transition of two stations in Overland Park and two new stations: one each in southern and western Johnson County due to growth in those areas.
- \$3.5 million annually to open remaining jail units, in addition to those requested for FY 2020, due to the rising average daily population of inmates, with the jail projected to reach capacity in the next five to six years.
- \$103 million over the next ten years for additional Park & Recreation District funding to refurbish, revitalize, and upgrade their sports complexes across the County and institute a safety program.
- \$4.5 to \$6 million annually to fully fund the original Comprehensive Library Master Plan.
- \$850,000 to \$1.7 million annually to increase employee merit pool from 3% to 3.5% or 4% in order to keep up with the local government market.

- Developmental Supports is seeing increased needs for additional services related to age-related illnesses such as Alzheimer's and dementia. Additionally, federal and state guidelines are moving toward more individualized supports which will necessitate additional staffing. The State's waiting list for services in Johnson County continues to grow and is currently over 500, which equates to a five year wait.
- Additional staffing for Mental Health to meet surging demand. Recent years have averaged 8 to 9 additional staff, with about half of the funding coming from the County.

External Pressures

In addition to the challenges and pressures that will come with increased population, we face the unknown of several external pressures.

Looming on the horizon are growing challenges to the current methodology for appraising commercial properties throughout several states, including Kansas. Appeals on commercial properties are up significantly this year. 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. A significant reduction to commercial property values would also reduce ratio of commercial to residential property tax overall in much the same way as the 2006 exemption phasing out personal property taxes paid by business on machinery and equipment.

FY 2020 is the County's third year 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. The law does provide 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 its budgetary responsibilities. Additional exemptions for items largely out of the County's control would serve to align the intent of the law more realistically with its impacts.

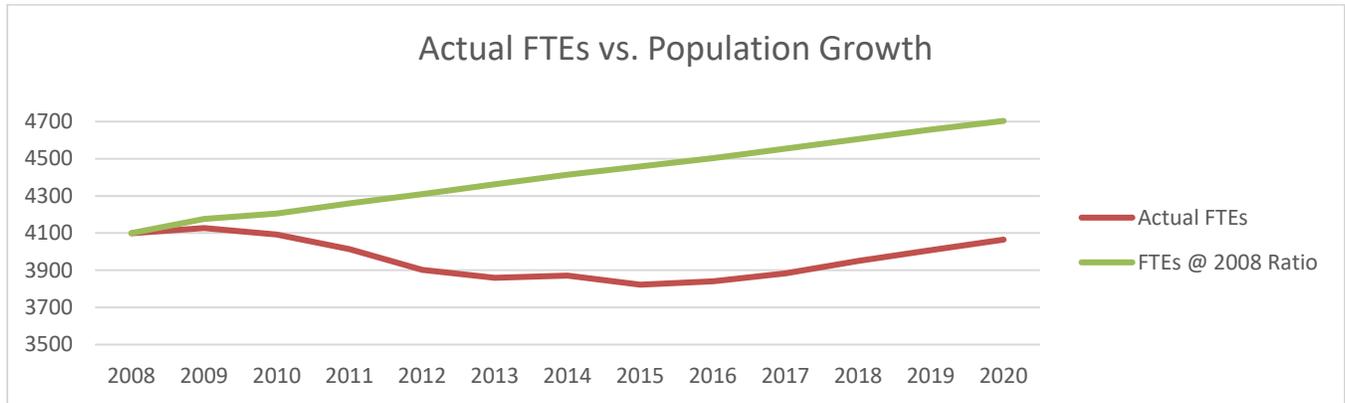
Many County programs are in partnership with and partially funded by the federal and state grants. While funding has somewhat stabilized in recent years, it has not always kept up with inflation and demand. The FY 2020 Budget includes increased local funding for Housing Services to offset lack of growth in federal funding.

A History of Stewardship; a Culture of Improvement

The potential impact to the County's five-year outlook of the items listed above is significant with the potential to necessitate changes to the mill levy. Before the mill levy can be considered, we must insure that we are doing all that we can with what we have, and that services we are providing are the ones we should be providing.

Since the onset of the Great Recession, the County has maintained service levels for more residents with less staff. As noted earlier, the County reduced 428 FTEs during those years while the County continued to grow. As a result, the County's ratio of FTEs to population dropped. In fact, the FY 2020 Budget includes 4066 FTEs, still below the count of 4100 in 2008, despite the County's population growing by approximately 78,000 during that time. One way to look at that is that those new residents together would constitute Kansas' 7th largest County.

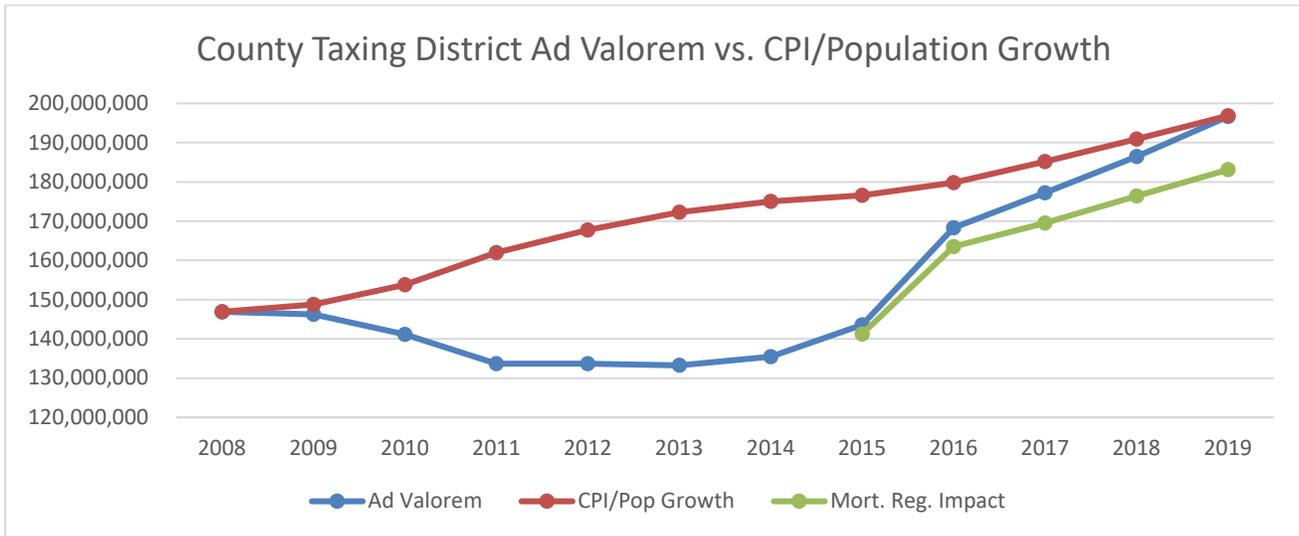
Put in more practical terms, if the County had continued to add FTEs commensurate with population growth, we would have 638 more FTEs in FY 2020. Clearly, we are doing more with less.



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Actual FTEs	4,127	4,093	4,013	3,902	3,860	3,871	3,822	3,841	3,884	3,951	4,008	4,066
FTEs @ 2008 Ratio	4,176	4,205	4,259	4,311	4,364	4,415	4,459	4,503	4,554	4,606	4,657	4,704
Difference	(48)	(112)	(246)	(409)	(504)	(544)	(636)	(662)	(670)	(655)	(649)	(638)

In addition to serving more residents with fewer employees, the County also went a number of years with decreasing ad valorem collections due to maintaining a constant mill levy throughout the Great Recession despite drops in assessed valuation. To truly appreciate the following chart and table, it is important to remember that, as an employer of over 4000, salary and benefit costs generally rise well above other types of inflation, such as the 'basket of goods' the federal government utilizes to monitor the Consumer Price Index (CPI).

It is even more impressive then to look at what the County has achieved since the onset of the Great Recession by looking at the trend of ad valorem, or revenue, collected compared to the expense drivers of CPI and population growth. If the County had simply levied ad valorem each year based on population and CPI, we would have levied an additional \$213 million since 2009. Further, if we had levied for growth in CPI and population, and also for the impact of the State phasing out the Mortgage Registration Collection Fee, the additional ad valorem levied would grow to over \$250 million.



Surplus/(Deficit) of Actual Ad Valorem vs. CPI/Population Growth (in millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Ad Valorem	(2.5)	(12.6)	(28.3)	(34.0)	(39.0)	(39.6)	(33.0)	(11.5)	(8.0)	(4.5)	(0.2)	(213.2)
MRCF							(2.4)	(4.8)	(7.7)	(10.0)	(13.5)	(38.4)
TOTAL							(35.40)	(16.30)	(15.70)	(14.50)	(13.70)	(251.60)

A look across the State provides another comparison. Johnson County has long had the lowest County Taxing District mill levy in the State. Below is how Johnson County stacks up with the five counties with lowest mill levy in Kansas. Home values play a big part in Johnson County's ability to provide high quality services with the lowest mill levy in the State.

Kansas County	Mill Rate	Difference	Percent Greater than Johnson County
Johnson	19.024		
Pottawatomie	29.983	10.959	37.3%
McPherson	31.414	12.390	41.3%
Brown	31.938	12.914	41.1%
Butler	34.274	15.250	47.7%
Sedgwick	29.383	10.359	54.5%

However, when other factors are taken into account, an affordability index of sorts can be developed that paints a fuller picture of how Johnson County compares amongst the five most populous counties in the State:

Kansas County	Median Household Income	Median Value Owner Occupied Homes	Mill Rate	Estimated Median County Tax	County Tax as % of Household Income
Johnson	\$81,121	\$232,500	19.024	\$509	0.63%
Sedgwick	\$52,841	\$130,900	29.383	\$442	0.84%
Wyandotte	\$42,783	\$92,800	39.011	\$416	0.97%
Douglas	\$54,370	\$188,100	46.015	\$995	1.83%
Shawnee	\$54,667	\$127,600	48.194	\$707	1.29%

Resiliency, Creativity and Innovation

Prioritizing our services, finding efficiencies and being good stewards of taxpayer dollars is nothing new for this organization. In the aftermath of the recession we held Strategic Program Area budget reduction meetings for the FY 2010 – FY 2013 budgets, where staff prioritized services to reduce expenditures where they could. Department leaders prioritized the needs of other departments ahead of their own in many cases.

We saved Johnson County taxpayers a collective \$1 million annually by merging Emergency Management and Emergency Communications, the Departments of Health and Environment, the Johnson County Museum into the Johnson County Park and Recreation District and our management agreement with KCATA for transit.

While we have experienced a better economy in the past 3-5 years, the spirit of stewardship remains strong. It is woven into the fabric of our culture as one of five operational values in our Pillars of Performance, right alongside another value, continuous improvement. Here are some examples of those values in action.

- \$2 million has been saved by partnering with various governmental entities within the county to expand the fiber optic network to county facilities using shared resources, producing approximately 390 miles of usable City, School District and County fiber, of which the county has invested/constructed only 20 miles of that fiber.
- In 2018 the Department of Technology began implementing centralized IT purchasing across departments not serviced by JIMS which, through early March, 2019 has saved the County over \$210,000.
- The Sheriff’s Office has cut staffing cost by eliminating in person roll calls and replacing them with “Roll call notes”. This results in an ongoing annual cost savings of approximately \$160,000. The Sheriff also eliminated a number of posts on the midnight shift, when inmates are sleeping, resulting in ongoing savings in overtime of approximately \$715,400 annually.

- The consolidation of Fleet Services since 2013 has resulted in over \$2 million in one-time savings and \$200,000 in annual ongoing funds.
- Efficiencies were gained through the JCPRD Regional Park management approach in that a maintenance facility is not being constructed at each park, saving potentially millions of dollars in building construction and infrastructure costs.
- The Medical Examiner's Office (MEO) and the Toxicology Lab within the Johnson County Crime Lab will combine staffing and equipment. By sharing equipment, the County will save at least \$860,000 in start-up costs. In addition to equipment, one toxicology scientist position will be shared by both the MEO and Crime Lab.
- By replacing an oversized postcard with a smaller version, the Election Office saved \$140,000 in postage and printing, which will become an ongoing savings for the County.
- MED-ACT has begun remounting existing ambulance modules on new cabs and chassis. In 2018 this saved about \$100,000 compared to the price of a new ambulance. In 2019 MED-ACT will save about \$122,000 spread among two ambulances.
- A Public Works Road Maintenance Worker identified a lack of efficiency in a shoulder rocking process, recommended a piece of equipment as a solution, and quadrupled his team's productivity.
- Staff has developed a new Health Care Fund reserving strategy designed to increase the County's flexibility in managing and increase the utilization of reserve funds.

I wanted to share other examples of staff excellence, innovation and creativity.

An employee team developed a new performance management system, the **Pillars of Performance and Development (PPD)**, which provides a more responsive and proactive way to monitor performance. Based on the foundational elements of teamwork, job proficiency, learning & development, and leadership practices, PPD emphasizes coaching and accountability, focusing on future goals, to insure on-going improvement.

Other employee teams coming from all corners and levels of the organization are looking at other systems and structures, such as our **benefits package and our leave policies**, with a fresh set of eyes through the lens of today's competitive job market. This work will ensure that we optimize budget dollars dedicated to pay and benefits to attract and retain the best workforce possible.

In 2018, we launched the **Leadership in Action program** to recognize and reward outstanding contributions. Thirty-nine employees, which translates to one percent of our workforce, were honored. We rewarded employees for finding efficiencies, saving money, and going above and beyond to cover the work of others when needed. This program identified stories such as a Public Works employee whose creativity and consultation saved the County \$250,000 on a construction project, and a Johnson County Library branch manager, who, while performing his existing workload, created new operational procedures and built a staff training program in preparation to open the Monticello Library.

We recently repurposed existing staff resources to dedicate two employees to our **new Innovation Initiative**. The goal is to tap into and foster the innovation, creativity and passion that already exists throughout the organization and help lead in order to solve problems and find efficiencies to improve service delivery and stewardship. The team is partnering on several department and process-specific projects as well as working with

Mental Health staff to assist in developing performance scorecards across County departments, agencies and offices with a consistent, meaningful format.

Investing in the Future Pays Off Today: Board Top Priority

While I take pride in what our workforce has accomplished, the success of the County also relies on the vision of our Board. In the FY 2016 budget, you as the Board made the commitment to raise the mill levy for the first time in a decade, including increases for Johnson County Library and Johnson County Park & Recreation District to partially fund their master plans. Today you are seeing completion or progress on several major projects, on time and on budget, that are already improving the life for our residents now and in the coming years.

Construction is underway on the expansion to the Tomahawk Wastewater Treatment Plant that will save us \$25 million a year in operational costs. The long-term infrastructure investment will utilize the latest proven technologies, protect the environment, and improve water quality in Indian Creek and for downstream communities.

In 2018, as part of its Legacy Plan, JCPRD used its mill levy increase to open Big Bull Creek Park, now the largest park in its system. 2019 will see the opening of Meadowbrook Park, with many amenities including a new clubhouse. Recent activity in the Library Master Plan includes the opening of the Monticello Library in western Shawnee in 2018, and the June 2019 relocation of Lackman Branch to the Lenexa City Center.

In 2016, Johnson County voters approved a ten-year quarter-cent public safety sales tax. Today, we are seeing the benefits of those investments. A much-needed new courthouse is emerging in downtown Olathe, and just a few miles away, construction is proceeding on the County's first-ever medical examiner facility.

Conclusion

As discussed earlier in this budget message, our annual Community Survey is one tool that measures how well we are serving our residents. Another important tool is our Employee Engagement survey. We make it a priority to measure the engagement and satisfaction of our workforce in order to provide the programs, services and customer service our residents deserve. While departments, agencies and offices track their own performance measures, we are working towards an organization-wide system of performance measures to help us increase communication, consistency, and accountability.

I have outlined the many challenges we are facing in the not-too-distant future. Some of those challenges are already making an impact. While there is much to celebrate in this year's 2019 Community Survey, a few results gave me pause. We saw a decrease in a few areas, including the overall quality of services. Overall satisfaction is still high; however, we need to be mindful going forward.

It is important to bring two perspectives, one for FY 2020, and one for the longer-term. My hope is that this budget will position us for both. We've prioritized our decisions by looking at what we deemed to be critical and essential, but we've also tried to consider what was fundamental to moving the organization forward.

At the dawn of a new decade, it is logical to look out farther. There is reason to be optimistic, but we must be clear-eyed as well, realistic about the challenges and the weight of the decisions that await us in the near future. I am proud of this proposed budget. I feel it includes the right balance of stewardship with providing the quality

level of services our community expects and deserves. We need to begin discussions this year about challenges for the next few years.

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 2020 Budget. Much time and effort went into its development.

Respectfully submitted,

Penny Post oak Ferguson
County Manager