

Johnson County, Kansas Multi-year Budget Projection - May 2019

Introduction

In May of 2019, the Board of County Commissioners (BOCC) will review multi-year budget projections of revenues and expenditures for FY 2019 through FY 2024. These projections include the County Manager's budget for FY 2020. Projections for FY 2019 through FY 2024 are based on historical trends and existing County services. The projections will be updated periodically for changes in policy, legislation, and the economy.

Methodology

The financial projections include estimated revenues and expenditures for FY 2019 through FY 2024, including calculations of the amount of property tax revenue necessary to balance the budget in FY 2020 through FY 2024. The financial projections are based on assumptions for the following items:

- Revenue sources other than property taxes
- Operating expenditures, including estimated compensation increases
- Capital Improvement Program (CIP) expenditures
- Assessed valuation
- Delinquency rate for property taxes

Once all assumptions have been documented, the County's financial forecast automatically calculates the amount of property tax revenue needed to balance the budget. In addition, the financial forecast calculates the estimated mill levy based on the property tax revenue, the assessed valuation, and the delinquency rate for property taxes.

Using this forecasting model, it is possible to illustrate the impact of policy decisions on the amount of property tax revenue and the estimated mill levy. In order to decrease future property taxes, policy adjustments must be made to either expenditures or other revenue sources (or a combination of both).

It should be emphasized that the financial projections were created based on a number of assumptions to illustrate potential trends. Some of the assumptions are controlled by policy makers, while others cannot be controlled and are virtually impossible to predict. Staff has created the current assumptions for illustration purposes; those assumptions which can be controlled will ultimately be determined by the Board.

Budget Principles

During the past few years, the County has adhered to the following budget principles in order to maintain a solid financial condition:

- Funded on-going operating expenditures with on-going revenue sources
- Maintained a sufficient General Fund reserve for unknown and unusual circumstances
- Estimated revenues using a conservative approach to avoid budget shortfalls during the fiscal year

The future continuation of these principles reflects the County's commitment to prudent financial management and the maintenance of existing credit ratings.

Historical Information

In order to understand the context for future budget projections, it is important to review certain historical data.

Assessed Valuation

Assessed valuation is an important component of future budget projections since it serves as the basis of property tax revenue calculations. The formula for calculating property tax revenue is illustrated as follows:

$$\text{Property Tax Revenue} = \text{Assessed Valuation}/1000 * \text{Mill Levy} * (1 - \text{Delinquency Rate})$$

(For FY 2020, the estimated delinquency rate used for budget projections is 2.10%)

General information regarding assessed valuation for the County taxing district is presented in the table below.

Table #1: Assessed Valuation from FY 2010 to FY 2019 (County Taxing District only)

<u>Fiscal Year</u>	<u>Total Assessed Valuation</u>	<u>\$ Increase*</u>	<u>% Increase</u>
2010	\$7,969,528,237	\$(261,778,469)	(3.2)%
2011	\$7,535,717,941	\$(433,810,296)	(5.4)%
2012	\$7,551,985,565	\$16,267,624	0.2%
2013	\$7,520,503,387	\$(31,482,178)	(0.4)%
2014	\$7,630,978,170	\$110,474,783	1.5%
2015	\$8,084,290,606	\$453,312,436	5.9%
2016	\$8,596,593,490	\$512,302,884	6.3%
2017	\$9,229,880,308	\$633,286,818	7.4%
2018	\$9,858,473,397	\$628,593,089	6.8%
2019	\$10,558,374,635	\$699,901,238	7.1%
		Average % Increase	2.62%

*Annual increase includes new property and reappraisal of existing property.

As noted in the table, the average increase in assessed valuation is 2.62% over the past 10 years.

Mill Levies and Property Tax Revenue

General information regarding mill levies and property tax revenue is presented in Table #2 below.

Table #2: Mill Levies and Property Tax Revenue from FY 2010 to FY 2019

<u>Fiscal Year</u>	<u>Total Mill Levy</u>	<u>% Change</u>	<u>Total Property Tax Revenue</u>	<u>% Change</u>
2010	23.213	0.2%	\$176,540,919	(3.2)%
2011	23.256	0.2%	\$168,031,158	(4.8)%
2012	23.188	(0.3)%	\$167,964,097	—%
2013	23.210	0.1%	\$168,320,608	0.2%
2014	23.247	0.2%	\$170,843,754	1.5%
2015	23.270	0.1%	\$180,141,184	5.4%
2016	26.595	14.3%	\$218,891,153	21.5%
2017	26.607	—%	\$234,527,808	7.1%
2018	26.351	(1.0)%	\$248,093,703	5.8%
2019	26.013	(1.3)%	\$261,619,389	5.5%

From 2009 to 2015, the mill levy remained relatively flat. In 2016, the mill levy increased 3.325 for Park and Recreation, Library, State revenue reductions, and general operations. In 2018 and 2019, the mill levy was reduced by a combined total of 0.594 mills.

Mortgage Registration Fee Revenue

During 2014, the State passed legislation to phase out the Mortgage Registration Fee in Kansas beginning in FY 2015. The fee had been in place since 1925, and had provided over \$18 million annually to the County prior to the recession. Due to this legislation, the revenue was phased out over five years. In FY 2019, the phase out was complete with no revenue projected.

Information on mortgage registration fee collections for FY 2010 to FY 2018 is presented on the next page:

Table #3: Mortgage Registration Fee Revenue from FY 2010 to FY 2018

<u>Fiscal Year</u>	<u>Actual Collections</u>	<u>% Increase (Decrease)</u>
2010	\$11,996,856	(17.6)%
2011	\$11,624,954	(3.1)%
2012	\$16,019,920	37.8%
2013	\$16,102,301	0.5%
2014	\$13,449,832	(16.5)%
2015	\$13,683,823	1.7%
2016	\$11,604,108	(15.2)%
2017	\$7,872,537	(32.2)%
2018	\$3,846,501	(51.1)%

Revenue Assumptions

Revenues are estimated using a conservative approach to avoid budget shortfalls during the fiscal year. The County's Revenue Estimating Committee meets during the months of February through June to review and modify revenue estimates for the County's major revenue sources. The current growth projections for the key major revenue sources are presented in the table below.

Table #4: Percentage Growth Projections for Major Revenues

<u>Revenue Source</u>	<u>FY 2020</u>	<u>FY 2021 through FY 2024</u>
Assessed Valuation*	5.5%	5.4% - 4.6%
Sales Taxes	2.0%	2.0%
Interest on Delinquent Taxes	\$2.25 million	\$2.0 million
Motor Vehicle Taxes	2.9%	3.0%
Recording Fees	\$5.7 million	\$5.7 million

*The delinquency rate for property taxes has been assumed to be 2.1% in all years.

Most revenue projections are estimated to show increases in FY 2020 and continue through FY 2024. The County will continue to closely monitor the economic situation and its potential impact on the County's major sources of revenue.

Expenditure Assumptions - Operating Budget

Staff has prepared a set of operating expenditure growth estimates for FY 2020 through FY 2024. These projections assume: 1) flat mill levy for the County Taxing District, Park & Recreation Taxing District and Library Taxing District, and 2) minimal increases to service delivery in FY 2020 through FY 2024. In FY 2015, the State legislature passed tax lid legislation beginning with the FY 2018 Budget. Based on the budget form from the State and the County's current projections, the County was able to maintain existing services under the tax lid without an election. The expenditure projections are summarized in the following table.

Table #5: Projections for Operating Expenditures

<u>Expenditure Item</u>	<u>FY 2020</u>	<u>FY 2021 - FY 2024</u>
Salaries - percentage growth	3.0%	3.0% - 4.0%
Health Insurance Program - percentage growth	30.0%	7.0%
Supplemental Retirement - County match percentage	3.0%	3.0%
Other Fringe Benefits	20.0%	20.0%
Contractual and Other Miscellaneous Items	\$5.3 million	\$0.0M - \$4.0M

Expenditure Assumptions - Capital Improvement Program (CIP)

Staff has prepared a set of CIP projections for FY 2020 through FY 2024. These projections are presented in Table #6 below.

Table #6: Projections for CIP Expenditures

<u>CIP Item</u>	<u>FY 2020</u>	<u>FY 2021 through FY 2024</u>
CARS Program	\$16.6 M	\$16.8M - 17.4M
Bridges, Roads, and Culverts Program	\$2.0 M	\$1.9 M
On-going Capital Projects*	\$3.8 M	\$4.8 M
Park and Recreation Strategic Master Plan	0.726 mills	0.726 mills
Library 20 Year Master Plan	0.730 mills	0.730 mills
Transit Bus Replacement	\$2.7 M	\$3.2 M - \$4.6 M

*These projects include Facilities Capital Replacement Plan, Information Technology Infrastructure Maintenance and Fiber Master Plan, JIMS Infrastructure Maintenance, and Mental Health Capital Replacement Plan.

Impact on Total County Budget

The total estimated expenditure amount for FY 2020, excluding reserves, is \$934.5 million. This represents an increase of \$118.6 million, or 14.5%, when compared to the FY 2019 budgeted expenditure amount of \$815.9 million. The majority of this increase is due to issuing approximately \$80 million in debt for the new Wastewater Tomahawk Treatment Facility. The total estimated expenditure amount is projected to increase to \$998.0 million by FY 2024.

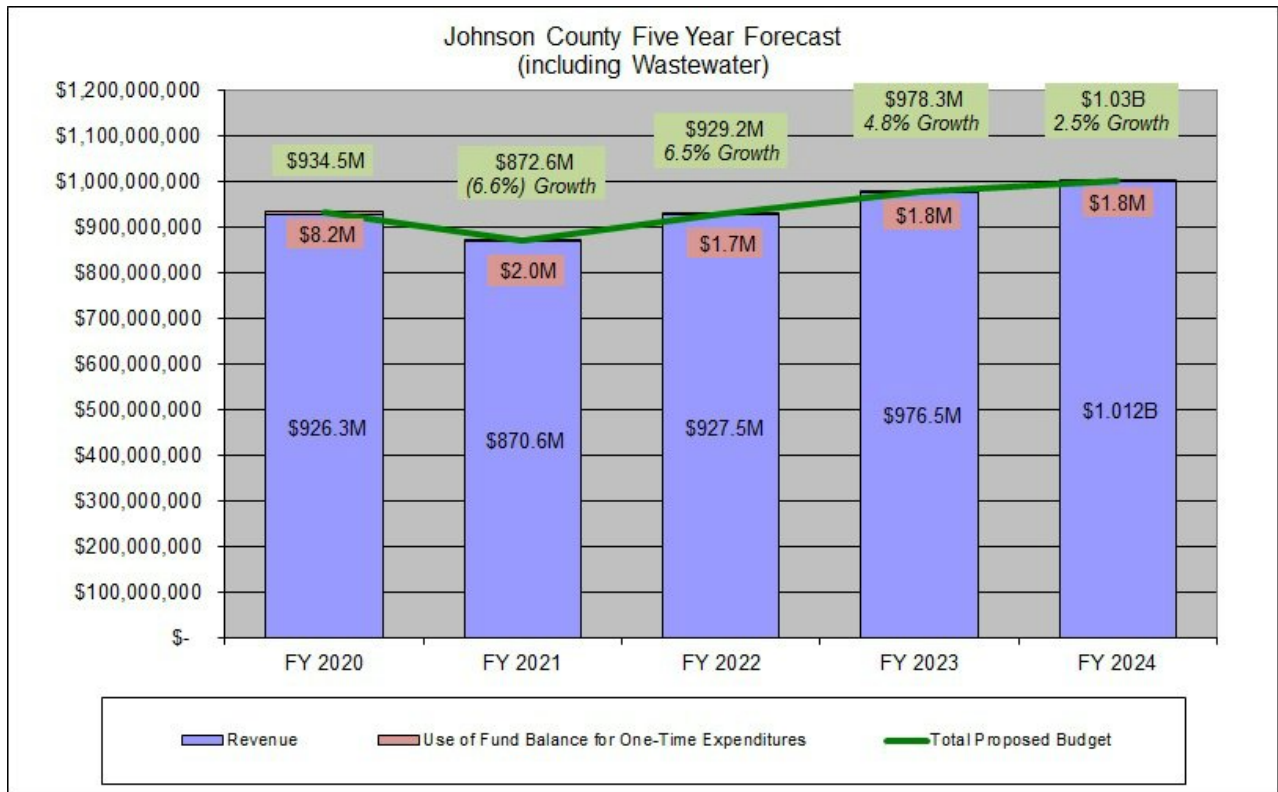
Projections for assessed valuation (County taxing district), property tax revenue, and mill levies are presented in the following table.

Table #7: Projected Property Tax Revenue and Mill Levies for FY 2020 - FY 2024

Fiscal Year	County Taxing District Assessed Valuation	Property Tax Revenue	Total Mill Levy	Mill Levy Change
2020	\$11.1 billion	\$276.0 million	26.013 mills	0.000 mills
2021	\$11.7 billion	\$291.0 million	26.013 mills	0.000 mills
2022	\$12.3 billion	\$305.6 million	26.013 mills	0.000 mills
2023	\$12.9 billion	\$319.6 million	26.013 mills	0.000 mills
2024	\$13.5 billion	\$334.3 million	26.013 mills	0.000 mills

The County is proposing a flat mill levy for FY 2020. With changes in appeals between August and October when values are finalized, the County is anticipating some fluctuation in the final amount of the mill levy. In FY 2021 through FY 2024, the mill levy is projected to remain flat.

The graph below reflects the total budget, use of fund balance for one-time expenditures and other revenue.



In FY 2020, there is a large anticipated increase in expenditures due to issuing approximately \$80 million for the Wastewater Tomahawk project. The graph on the following page shows the County's budget projections excluding Wastewater.



General Fund Reserve Levels

Projections for the General Fund reserve for FY 2020 through FY 2024 are presented in the following table.

Table #8: Projected General Fund Reserve

Fiscal Year	Projected General Fund Reserve (\$)	Projected General Fund Reserve (%)*
2020	\$95.2 million	26.5%
2021	\$94.9 million	25.7%
2022	\$94.9 million	24.7%
2023	\$94.9 million	23.9%
2024	\$94.9 million	23.1%

*Calculated as a % of estimated General Fund revenues, excluding intrafund transfers and General Fund cost allocation.

Moody’s Investors Service has assigned an Aaa rating with the issuance of the Johnson County’s \$232.8 million Internal Improvement general obligation bonds, Series 2018A. When rating the County’s debt, Moody’s Investors Service commented that the Aaa rating reflects the general obligation credit characteristics of Johnson County, which includes:

- Johnson County’s sizable and wealthy tax base that benefits from its significant role in the Kansas City metropolitan area economy.
- Well managed financial operations.
- Low net direct debt burden.

Moody’s Investors Service also assigned an Aaa to the Public Building Commission’s (PBC) Lease Purchase Revenue bonds reflecting the unconditional and long-term commitments of the county.

On February 28, 2013, the County adopted a revised General Fund reserve policy. The reserve calculation in the policy is based on the following goals:

1. Maintaining working capital to meet cash flow requirements and provide contingencies for unpredictable revenue sources and emergencies or other unanticipated expenditures.
2. Funding capital asset replacement and debt retirement.

According to the policy, the annual calculation is expected to generate a reserve amount that ranges between 20% and 25% of estimated annual General Fund net revenues (total General Fund revenues, excluding intrafund transfers and General Fund cost allocation). The County's General Fund has gradually increased over time as a result of unanticipated revenues above estimates and conservative departmental spending. As indicated in the previous table, the County is projected to comply with the current reserve policy in FY 2020 through FY 2024.

Questions for the Board

The Multi-year Budget Projection is based on a number of assumptions which continue to change as time passes. Some of the variables in the financial projections are controlled by the Board, while others cannot be controlled and are virtually impossible to predict. Overall, the Multi-year Budget Projection should be viewed as a tool to illustrate the impact of policy alternatives and to highlight potential fiscal problems in future years.

The five year forecast shows a balanced budget with no mill levy increases. If these assumptions change, the County will be faced with expenditure reductions or revenue enhancements to maintain a balanced five year model. In addition, key decisions on strategic issues or possible state legislation could alter future financial projections.

Overall, the County is faced with the following policy questions:

1. ***What services will the County provide?***
2. ***Who is the best provider of service?***
3. ***What level of service will be provided to the community?***
4. ***What is an acceptable level of cost for each County service?***
5. ***How will the County finance the cost of services?***

Staff will continue to monitor and update the financial projections on a periodic basis as policy decisions are made and more current information is available.