



Budget Message

April 28, 2017

Chairman Eilert and County Commissioners:

I am pleased to present the Johnson County operating budget and capital improvement program for FY 2018. The budget is a policy document that outlines our roadmap for the future and represents a commitment on behalf of the Board of County Commissioners to the community and to the organization charged with executing the Board's plan.

While Johnson County's economy is strong and growing, and provides a solid foundation for next year's budget, both optimism and caution are in order. The County is working under a new budget calendar, commencing a month earlier than prior years in order to accommodate a potential election in accordance with updated state statutes. In addition to the added uncertainty that goes with the earlier start, the earlier budget preparation also puts the County ahead of the State's budget process, which can have dramatic impact on the County through the reduction of funding for County services. On a broader level, the nation's economy is currently enjoying the fourth longest period of economic recovery in U.S. history, and a slow-down is likely imminent. The extent to which an economic downturn may affect Johnson County is difficult to predict.

Current revenue projections support an equally strong budget; one that meets the needs of a growing community, adequately compensates staff, and maintains good stewardship of taxpayers' dollars. The budget not only adheres to the Board's direction to maintain a constant mill levy; it creates a potential opportunity to return some resources back to the Johnson County taxpayers.

Providing a Path to a Rollback

The FY 2018 budget has been balanced with a constant mill levy and with approximately \$2.4 million unspecified. This means that if the economy and revenue projections hold steady, and the State budget is finalized without significant negative impact to the County, the FY 2018 Budget is on a trajectory to roll back a quarter mill.

Three key factors put the County in a position to move toward a mill levy reduction. As noted above, the County's economy remains strong and growing. Additionally, the Board increased revenues in 2016 to offset the multi-year phase-out of the Mortgage Registration and Collection Fee, including an estimated \$3-\$4 million reduction during FY 2018. Finally, this past November, Johnson County Citizens supported a ten-year, quarter-cent sales tax to build a new Courthouse and a Coroner's facility, thus significantly reducing the investment needed in the existing Courthouse.

Because we are dedicated to a practice of good stewardship, it is essential that we manage tax revenue as an investment by the citizens of Johnson County rather than as the independent assets of the County or any individual department or agency. Johnson County government strives to manage this investment to provide the best possible services in the most efficient manner possible. To that end, we must also use these resources only when there are identified immediate needs.

Living Under the Lid

At this point, the first year of operation under the property tax lid imposed by the State appears to be manageable. Significant new valuation combined with growth in exempt areas of the budget, namely law enforcement and emergency services, has yielded enough room in the law's formula for the County to maintain a constant mill levy and meet the needs of the organization and the community in FY 2018 without a county vote. Consequently, a number of significant budget challenges have been addressed in the FY 2018 Budget:

Johnson County currently has a **highly competitive job market**. As of February 2017, the unemployment rate was 3.2%, increasing competition with other public and private entities in our efforts to hire and maintain quality staff. The FY 2018 budget includes a 3% merit pool in order to both maintain adequate compensation and compete in the local labor market. Pay ranges are also being adjusted 2.4% based on market projections. This may necessitate larger merit increases in 2019 and beyond. The Sheriff's Office in particular is struggling to fill vacant positions with qualified candidates, creating issues with both staffing and overtime expenses. As a result, Johnson County is conducting a full market analysis for civil service positions.

After years of good claims experience, **healthcare costs jumped** during the second half of FY 2015, and the increase occurred too late to adjust funding for FY 2016. With excess reserves spent down, it was necessary in FY 2017 to increase the County's contribution 18% while employees' costs were increased by 36% through a combination of premium and out-of-pocket increases. For FY 2018, an increase in funding of 18% is necessary to address both medical inflation and to begin building reserves back up to our target level. Staff is analyzing whether a portion of the increase may be one-time in order to ease the ongoing impact to employees, given the dramatic increase they absorbed in FY 2017.

The County's health insurance cost increases were mitigated due to the State **decrease in the funding rate for KPFRS** rather than increasing it as originally projected while also **increasing KPERS less than projected**.

Johnson County Government has entered into an agreement with Overland Park Fire Department (OPFD) to provide emergency medical services. Over the next five years, Med-Act will assume full staffing of emergency medical services in Overland Park that are currently jointly staffed by OPFD and Med-Act. All new County positions will be supported by revenue. The first phase of this change is set to begin in FY 2018, requiring Med-Act to add additional personnel to provide these services.

Additional support for the District Attorney's Office is also included in the FY 2018 budget. **Staffing at the DA's Office** has remained constant over the last ten years, and case filings have been increasing over the past few years. The DA's Office has historically operated in a highly efficient manner in comparison to the rest of Kansas, and the growing workload is stretching current resources. The budget includes the addition of two assistant district attorneys and one investigator to sustain the high level of prosecution services expected by our citizens.

In July 2016, the State of Kansas implemented a **Statewide 30.1% reduction to Senior Care Act funding**, decreasing the Johnson County Senior Care Act budget by \$296,114 (38%). The Area Agency on Aging, (AAA) has been able to manage the reduction in the short term, but the decreased funding will create a deficit in the AAA personnel budget in FY 2018. State cuts force difficult decisions either to assume funding previously provided by the State or to reduce essential services. Because Senior Care Act funding provides critical services to a highly vulnerable population, funding for these services is included in the budget.

Resources are included in the budget to increase Transit services in an effort to support the workforce needs of local businesses in major corridors including the the Gardner-Edgerton area around that industrial area. Additional resources are also budgeted to provide additional needed specialized services for citizens with disabilities.

While there was great concern that the tax lid might limit the ability of Johnson County Government to support essential functions and services, we are fortunate that the tax lid is unlikely to hinder our efforts in FY 2018. While these concerns remain for future years, we are well situated to fund our essential efforts during FY 2018.

2018 Budget Summary: By the Numbers

The FY 2018 Budget is \$1.06 billion, comprised of \$820.1 million in expenditures and \$243.0 million in reserves.

A total of 3,950.72 FTEs is included in the FY 2018 Budget, including 8.25 new positions that are County tax support funded and 12.0 FTEs that are fee supported for Med-Act. The remaining new positions are 8.0 FTEs for the Library and 12.0 FTEs for the Park and Recreation District and all fall outside of the County Taxing District.

The FY 2018 Budget includes \$3.1 million in ongoing additional resources from County property tax support and approximately \$4.2 million in one-time expenses funded from excess reserves in a number of departments and agencies to address inflationary increases and pent up demand.

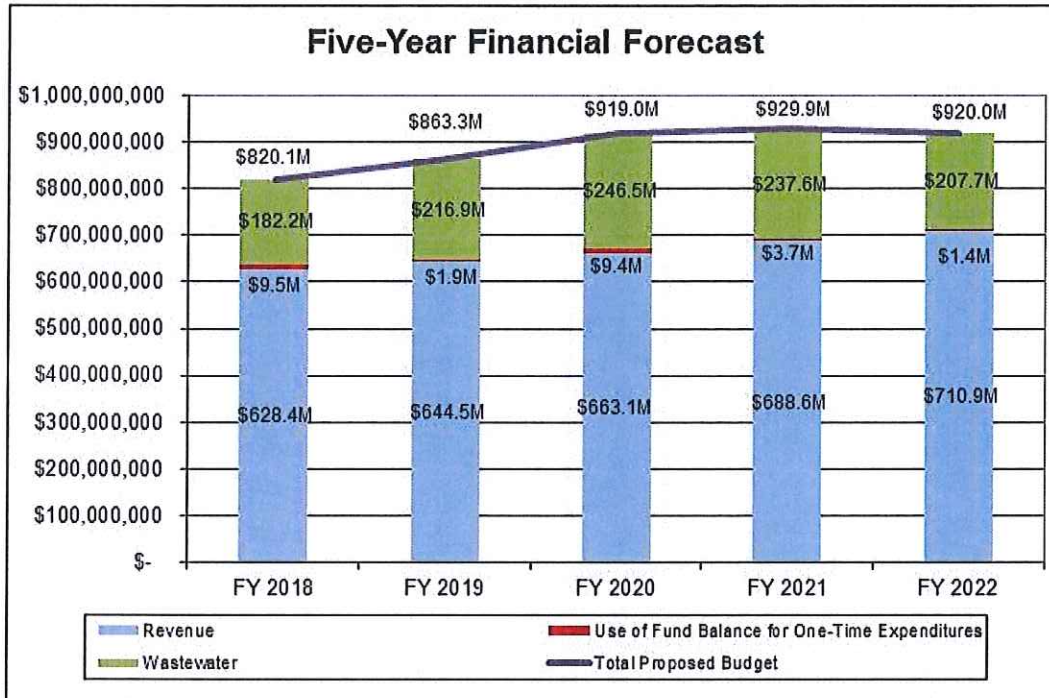
Aligning excess reserves with one-time expenditures is a key strategy to balancing budgets in each year of the Five Year Forecast, as well as the FY 2018 Budget. The use of \$9.5 million in reserves, \$3.5 million of which are in the County's General Fund, primarily to fund one-time capital expenditures has been included in the FY 2018 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 2018 are projected to increase 7.0% over FY 2017 to cover increasing operating and capital costs. It should be noted that the 7.0% 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 associated with the inter-local agreement with Kansas City, Missouri, including costs associated with the Tomahawk plant shutdown during the construction phase; trash and sludge removal; billing software upgrades; plan review; and personal services which have been included in the FY 2018 budget. Even with the increases, JCW rates remain among the lowest of the six major metropolitan area sewer providers.

Also included in the FY 2018 Budget is the FY 2018 - 2022 Capital Improvement Plan (CIP). The FY 2018 CIP is \$159.6 million. Excluding Stormwater, Wastewater and other projects that have dedicated funding sources, the FY 2017 CIP includes a total of \$32.4 million for various capital projects. Within those capital projects is \$13.1 million for Elections voting machines which had been previously approved by the Board but requires reauthorization for FY 2018 for debt issuance purposes. 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 constant mill levy in FY 2018 - FY 2022 and does not factor in the impact of the Property Tax Lid legislation. In FY 2018 through FY 2021, the large anticipated increase in expenditures is due to the addition of \$277 million in capital expenditures to Wastewater SRCFP for the Tomahawk project. To further 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 of time. 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 (%)
2018	\$81.9 million	24.3%
2019	\$81.9 million	23.7%
2020	\$79.1 million	22.0%
2021	\$79.1 million	21.2%
2022	\$79.1 million	20.5%

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 maintaining the minimums of 20-25% annually. Recently, 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.

Future Challenges

One of the County's biggest challenges is simply to follow through on the significant capital projects currently underway in several key areas. Johnson County voters approved a ten-year quarter-cent sales tax last fall to fund construction of a much-needed new courthouse and a coroner's facility at a combined capital cost of over \$200 million. Larger yet is Wastewater's long-anticipated approximately \$300 million Tomahawk plant expansion that will divert flows from Kansas City, Missouri, and save money in the long run. The County's Park District is moving forward with implementation of their Legacy Plan, a multi-tiered approach to reinvesting in current parks' aging infrastructure, developing and opening new parks, and extending the District's streamway trail system. Highlights in FY 2017 include Lexington Lake Park, Big Bull Creek Park, and Meadowbrook Park and Activity Center. The Legacy Plan was authorized and funded by the BoCC with .75 mills, beginning in FY 2016, as was the Library's Master Plan. The Library's 0.75 mill is initially funding the new Monticello Library that is under construction in western Shawnee as well as a branch that will be co-located with the new Lenexa City Hall and Community Center.

The County takes its obligation to be a good steward of the taxpayers' money very seriously and these projects are significant both in terms of dollars spent and in terms of positive impact to the community. The BoCC demonstrated their commitment by making their oversight of these initiatives their top strategic goal for the next two years.

As Johnson County continues to grow and mature, the challenges facing county government change as well. Recognizing that fact, the BoCC also focused on increasing the economic health of the County, the State, and the metropolitan area with their second strategic goal in addition to goals related to comprehensively addressing transportation and advancing the self-sufficiency of vulnerable populations. Successfully meeting these emerging challenges head on is critically important for the continued health and vitality of Johnson County.

The County's efforts in these areas are often in partnership with, and partially funded, by the State. As expected, funding for the Senior Care Act was cut by the State as the legislature struggles with balancing their budget under extremely tough circumstances. The FY 2018 Budget recognizes the importance of this program by utilizing County dollars to maintain its operation, which helps keep our senior citizens independent while also avoiding the need for nursing home placements. The County is optimistic about the new legislature and the support we are receiving from our local delegation for County government and the services we provide with State funding. However, the State continues to face extreme budget difficulties and the potential for further funding reductions translates to an on-going challenge for the County.

Johnson County's delegation has also expressed a willingness to consider key changes to the tax lid legislation. Short of repealing the property tax lid and returning full local control to the duly elected Board of County Commissioners, the legislature could also make changes that would make the tax lid more reasonable. Changing the election component to protest petition, or increasing the exemptions to include retirement and health care expenses, would allow the Board of County Commissioners to make the budget decisions each year that they were elected to make. An analysis of twenty years of County expenditure history revealed that health care and state-mandated retirement contributions are the costs that have grown significantly above the tax lid formula. Until the

law is repealed or at least fixed, the County will continue to be vulnerable to outside factors and lack the control necessary to maintain services at a satisfactory level.

It would not be realistic or wise to expect the local economy to maintain the current level of growth and vitality. The prospect of a future economic downturn in concert with the added limitations created by the tax lid are likely to create challenges in future years. We are hopeful that we will be able to mitigate these challenges through collaboration with our state delegates.

Conclusion

I am both pleased and excited about the state of the FY 2018 Budget; we have an opportunity to continue the excellent work of County government while also rolling back the mill levy for our citizens. Johnson County citizens have come to expect quality and cost effective services from local government. This budget allows us to continue to meet those expectations while maintaining the lowest mill levy in the State.

In conclusion, I would like to thank the Budget and Financial Planning Department, the staff in the County Manager's Office, as well as department directors and their staff for their diligent efforts in the preparation of the FY 2018 Budget. Much time and effort went into its development.

Respectfully submitted,



Hannes Zacharias
County Manager