Johnson County, Kansas Multi-year Budget Projection - April 2017

Introduction

In May of 2017, the Board of County Commissioners (BOCC) will review multi-year budget projections of revenues and expenditures for FY 2017 through FY 2022. These projections include the County Manager's budget for FY 2018. Projections for FY 2017 through FY 2022 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 2017 through FY 2022, including calculations of the amount of property tax revenue necessary to balance the budget in FY 2018 through FY 2022. 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:

Property Tax Revenue = Assessed Valuation/1000 * Mill Levy * (1 - Delinquency Rate)

(For FY 2018, 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 2008 to FY 2017 (County Taxing District only)

Fiscal Year	Total Assessed Valuation	$ Increase*	% Increase
2008	$8,168,949,925	$435,853,468	5.6%
2009	$8,231,306,706	$62,356,781	0.8%
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%
		Average % Increase	**1.87%**

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

As noted in the table, the average increase in assessed valuation is 1.87% 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 2008 to FY 2017

Fiscal Year	Total Mill Levy	% Change	Total Budgeted Property Tax Revenue	% Change
2008	23.242	0.2%	$181,916,207	5.9%
2009	23.165	(0.3)%	$182,375,544	0.3%
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	—%	$234,342,975	7.1%

From 2008 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.

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 will be phased out over five years.

Information on mortgage registration fee collections for FY 2007 to FY 2016 is presented on the next page:

Table #3: Mortgage Registration Fee Revenue from FY 2008 to FY 2016

Fiscal Year	Actual Collections	% Increase (Decrease)
2008	$13,324,145	(28.5)%
2009	$14,566,774	9.3%
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)%

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

Revenue Source	FY 2018	FY 2019 through FY 2022
Assessed Valuation*	6.5%	5.7% - 4.2%
Sales Taxes	2.25%	3.0%
Interest on Delinquent Taxes	—%	2019 (11.11%) 2020-2022 0%
Motor Vehicle Taxes	3.0%	3.0%
Mortgage Registration Fees	$3.0 million (56% reduction due to State legislation)	2019 - 2022 $0
Recording Fees	$5.9 million (13% increase due to State legislation)	2019 - 2022 $5.9M

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

The economy and housing market have recovered, and most revenue projections are estimated to show increases in FY 2018 and continuing through FY 2022. 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 2018 through FY 2022. 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 2018 through FY 2022. 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, it appears the County will be able to maintain existing services under the tax lid. The expenditure projections are summarized in the following table.

Table #5: Projections for Operating Expenditures

Expenditure Item	FY 2018	FY 2019 - FY 2022
Salaries - percentage growth	3.0%	3.0% - 4.0%
Health Insurance Program - percentage growth	12.0% - 18.0%	10.0% - 7.0%
Supplemental Retirement - County match percentage	3.0%	3.0%
Other Fringe Benefits	20.0%	20.0%
Contractual and Other Miscellaneous Items	\$2.5M - \$5.0M	\$1.0M - \$4.0M

Expenditure Assumptions - Capital Improvement Program (CIP)

Staff has prepared a set of CIP projections for FY 2018 through FY 2022. These projections are presented in Table #6 below.

Table #6: Projections for CIP Expenditures

CIP Item	FY 2018	FY 2019 through FY 2022
CARS Program	\$15.0 M	\$15.3M - 15.6M
Bridges, Roads, and Culverts Program	\$2.0 M	\$2.0 M
On-going Capital Projects*	\$4.8 M	\$5.0M - \$6.0M
Park and Recreation Strategic Master Plan	0.75 mills	0.75 mills
Library 20 Year Master Plan	0.75 mills	0.75 mills
Transit Bus Replacement	\$4.5 M	\$2.3M - \$3.3M

*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 2018, excluding reserves, is \$820.1 million. This represents an increase of \$85.3 million, or 11.6%, when compared to the FY 2017 budgeted expenditure amount of \$734.9 million. The total estimated expenditure amount is projected to increase to \$920.0 million by FY 2022.

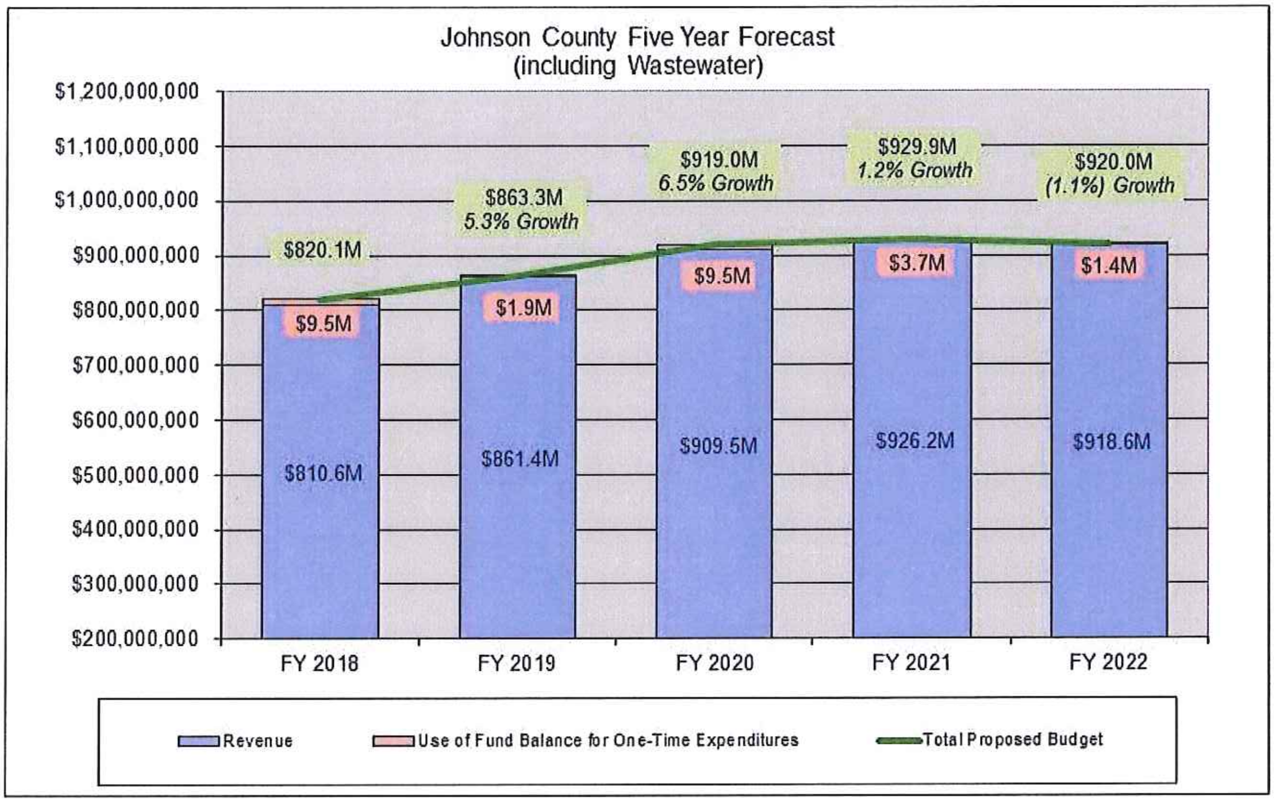
Projections for assessed valuation (County taxing district), property tax revenue, and mill levies are presented in the following table.

Table #7: Projected Property Tax Revenue and Mill Levies for FY 2018 - FY 2022

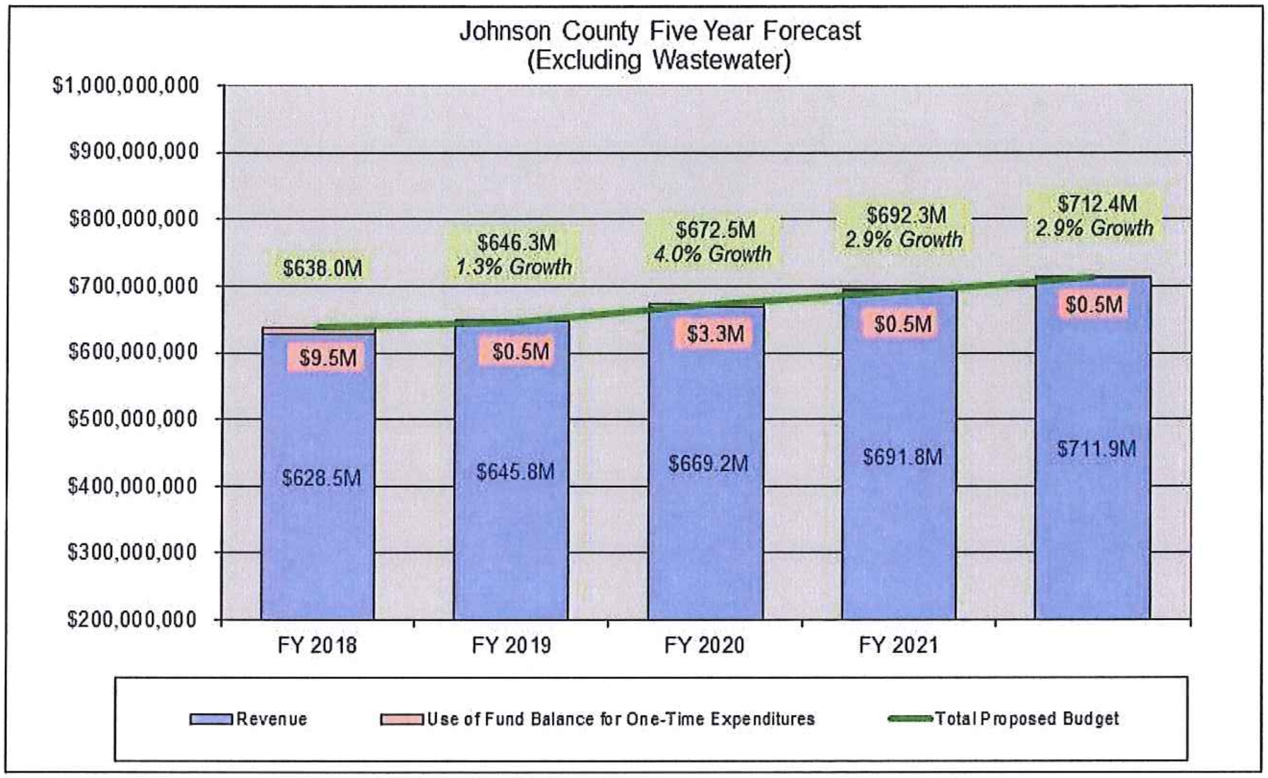
Fiscal Year	County Taxing District Assessed Valuation	Property Tax Revenue	Total Mill Levy	Mill Levy Change
2018	$9.8 billion	$249.4 million	26.607 mills	0.000 mills
2019	$10.4 billion	$263.4 million	26.607 mills	0.000 mills
2020	$10.9 billion	$276.3 million	26.607 mills	0.000 mills
2021	$11.4 billion	$288.9 million	26.607 mills	0.000 mills
2022	$11.9 billion	$301.0 million	26.607 mills	0.000 mills

In FY 2019 through FY 2022, the mill levy is projected to remain flat. With the tax lid legislation, the mill levy could fluctuate based on assessed valuation changes and results of possible elections.

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



In FY 2018, FY 2019, and FY 2020 there is a large anticipated increase in expenditures due to the addition of $135,000,000 capital expenditures to Wastewater SRCFP for the Tomahawk project. The graph below shows the County's budget projections excluding Wastewater.



General Fund Reserve Levels

Projections for the General Fund reserve for FY 2018 through FY 2022 are presented in the following table.

Table #8: Projected General Fund Reserve

Fiscal Year	Projected General Fund Reserve ($)	Projected General Fund Reserve (%)*
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%

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

Johnson County has been rated 'AAA' from Standard & Poor's Rating Services since 1999 for its general obligation bonds, and 'AAA' since 2007 for the Public Building Commission's bond rating. Standard & Poor's Rating Services stated that the 'AAA' rating reflects their assessment of the following factors:

- Economy that benefits from participation in the broad and diverse economy of the Kansas City metropolitan area
- Very strong budgetary flexibility, performance and projected structural improvement.
- Very strong liquidity providing very strong cash levels to cover debt service and expenditures
- Strong management conditions with strong financial practices and policies
- Very strong debt and contingent liabilities position, driven by county's low direct debt burden
- Strong institutional framework

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 2018 through FY 2022.

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.