

## **Budget Message**

July 9, 2020

Chairman Eilert and County Commissioners;

It is my distinct honor to present the Johnson County proposed operating budget and capital improvement program for FY 2021. The budget is our financial and policy plan for the year. It has been designed to represent the goals and objectives of the Board and to enable the organization to meet them while providing the best possible services to the entire community, whom we all ultimately serve.

Experiencing a global pandemic, and witnessing the protests and call for change, have made 2020 a year that we will not forget. The dramatic impact of COVID-19 has been worldwide. Our community and our organization have been no exception. The uncertainty that ensued, combined with existing challenges of increased demand for our services due to a growing population, meeting the needs of our county's aging population and other ongoing pressures have together created unparalleled challenges in constructing this budget. We have had to rethink our approach and our strategy.

COVID-19 forced us to pause work on the FY 2021 budget and focus on the current budget. Early into the pandemic, recognizing the projected millions of revenue shortfall, we acted quickly to make substantial expenditure reductions to avoid utilizing our reserves.

### ***Charting a Course Amidst Economic Adversity***

Putting together a budget in the face of this much uncertainty was challenging but not impossible. We kept our values at the forefront throughout; guiding us as we navigated through 2020 and planned for FY 2021. We started with a focus on what you as a governing body consider priority areas, our core services, what our residents value from county government, and what our organization is capable of. Keeping in mind the old adage, "*Hope for the best and plan for the worst*", we revisited what it means to budget conservatively in times like these. We looked at what was not only reasonable, but also what was strategic.

Ultimately, we determined to frame our baseline projections conservatively based on the current outlook while simultaneously developing contingencies should the economy worsen. What this means is that we built our projections based on a conservative estimate of a one-year downturn in FY 2020 followed by modest recovery in FY 2021 and beyond. We have balanced our budget and five-year financial forecast within these parameters with the ongoing expenditure reductions necessary to bring overall expenditures in line with ongoing revenues. None of the reductions are expected to have a material impact on services. In other words, the FY 2021 Budget is structurally balanced as is our five-year financial forecast and our service capacity has remained intact as well.

The economic impact of COVID-19 on the County's major revenues has been overall negative but also definitely varied amongst the different revenue streams. Early estimates in April of revenue shortfalls for 2020 for our County Taxing District ranged from \$18 to \$38 million based on predicted impacts on our

ad valorem, sales and use tax, and other revenue streams. By mid-May, with more information and a clearer financial picture, we projected a \$25 million “first wave” revenue loss for this budget year. In mid-June, after having more revenue come in, we projected a \$15 million shortfall.

Looking forward, we have been closely studying our revenue sources:

- **Ad valorem** is based on valuations from the prior year so impacts to assessed valuation will be felt in future years, leaving collection rates as the big question for next year. At this point, the County’s planned uncollectable rate of 2.1% appears to be sufficient, although we won’t know for certain until we get to the December 2020 and April 2021 due dates for next year’s property tax.
- **Sales tax** is the next largest revenue source for the County Taxing District and was also significantly impacted thus far by COVID-19, with our first two impact months of collections down approximately 10% below budget, making our 10% projected decline for the entirety of the year a conservative basis for our 2021 projections.
- **Use Tax** has been up very strongly; 13% higher year-to-date this year compared to 2019, and with April of this year was 18% higher than April, 2019.
- The other large loss, although mostly independent of the pandemic impact was to **interest income**. Repeated reductions of the prime rate by the Federal Reserve Bank drove down our projected revenue for 2021 to \$1.2 million for the General Fund; \$6.9 less than we earned in 2019.

In total, revenues for the County Taxing District in the Proposed FY 2021 Budget are projected to be \$3 million less than the original FY 2020 Budget.

Contingencies in response to a potential second wave of revenue reductions will be addressed through a variety of methods. We will first look at a continuation of one-time, current year expenditure reductions. These include extension of vacancies we are holding open and the current hiring slowdown as well as operational savings should any services be suspended. Further reductions would likely involve service impacts. We have draft contingency plans in place and are prepared to discuss them with the Board if needed. While we will do all that we can to avoid service impacts, should that become the case, policy determinations will need to be made.

### ***Approaching the FY 2021 Budget Twice***

As we initially began developing the budget, the outlook was similar to last year’s. Assessed valuation growth was strong albeit lower than in previous years. Economic growth was steady, and unemployment rates were extremely low. One key difference was the result of repeated reductions of the prime rate by the Federal Reserve Bank. This led to a \$5.7 million-dollar General Fund shortfall in investment interest revenue in FY 2020 as well as similarly low projections for FY 2021.

At the March BOCC budget retreat, we presented the original challenge, which was to meet service demands and remain competitive in the employment market with solid, but not spectacular revenue growth. Over half of the ad valorem growth with a constant mill levy was offset by the loss of interest

revenue; leaving increased funding to meet service demands needing to be funded by expenditure reductions elsewhere in the organization.

Then everything changed.

As the coronavirus reached the United States and began to increase in numbers, state and local governments, including our own, made immensely difficult decisions to protect public health and save lives. Sectors of the economy deemed non-essential or with a high risk of spreading the virus (such as theaters or personal care businesses) completely shut down. As a result, unemployment soared. Essential businesses that remained open had to limit occupancy or alter how they provided service to their customers.

From a budget perspective, work on the FY 2021 Budget was largely suspended so that the County could respond quickly and aggressively address FY 2020 revenue shortfalls resulting from non-essential business shutdown.

Quick action combined with a strategic approach resulted in \$25 million of first wave expenditure reductions achieved by a hiring freeze (except for essential positions), ceased nonessential spending, and tools such as furloughs, overtime reductions and capital project deferment. Where it makes sense, some of these savings will carry over into 2021's proposed budget.

### ***Board priorities and community survey***

In making the tough decisions about where we proposed increasing and decreasing funding for the FY 2021 budget, we did so with a sharp, strategic focus on the programs or services tied to **Board priorities**: completing existing projects, protecting our vulnerable populations, optimizing the funding available for transit and focusing on innovation. We also closely examined the **results of our 2020 Community Survey**. Some of those datapoints that rose to the top in importance included the following:

- **Safety and low crime** came in as the first most important quality of life issue in Johnson County for the next 20 years and are listed as the top primary reason people live in Johnson County.
- “Making sure that necessary **health and human services** are available” is the #1 most critical role for Johnson County Government in the next 10-20 years.
- When asked “what is the most important county service to provide?” Johnson County **Emergency Medical/Ambulance Service ranked #1**.
- When asked to indicate in which areas Johnson County should devote additional resources, the top five answers were **mental health services, aging services, addressing homelessness, public health and public transportation**.

### ***Proposed reductions***

This year, we requested targeted budget reductions from County Taxing District departments (where the negative revenue trends were concentrated). Where we did make tough choices on expenditure cuts, we did so thoughtfully with an eye towards reductions based on efficiencies and, to the extent possible, with minimal to no impact on services. The proposed FY 2021 budget includes \$6.6 million in budget reductions. The impact of reductions across the departments can be summarized into these themes: staff taking on more work, potential slight service delays, reduced non-essential travel and training, deferred internal repairs and upgrades, and deferred projects and studies. The reductions also include 69 eliminated or unfunded positions. This includes 21 FTEs being eliminated in 2020 due to the moving of the ACT program.

While these cuts included the continued freezing or elimination of vacant positions, we were able to accomplish this without any layoffs, with the exception of one program that has found efficiencies in recent months.

### ***Proposed Requests for Additional Resources and Emerging Initiatives***

Similarly, we only funded Requests for Additional Resources (RARs) where a lack of funding would directly link to reduced service levels. We also made sure to maintain funding in areas that align with your Board priorities and our 2020 Community Survey results mentioned above. Some examples include:

- **Mental Health:** additional county support ongoing, as well as one-time assistance to the Mental Health fund reserve. Also additional funding for Human Services in-home mental health counseling
- **MED-ACT:** a combination of revenue, reserves, on-going and one-time expenditures for staffing of a new station for adequate coverage for the community
- **Public safety:** conversion of overtime to non-sworn jail positions, school resource officer (portion), and additional park police
- **JCW:** Ratepayer-funded positions and operating costs for the Tomahawk plant (no general fund dollars.)
- **Aging:** potential additional funding for aging.
- **Transit:** designated funding to continue piloting our innovative micro transit program
- **Public health:** in addition to the funding for the recently created epidemiology division, increased vaccine funding, an electronic medical record system that will create efficiencies, and increased expenses/staffing for Medical Examiner Office are included.
- **Innovation:** funding to fill a position we had to freeze in 2020 due to COVID-19

Other funded RARs include \$1 million for the Airport, and funding for District Courts, JIMS (for the new courthouse), Planning (update comprehensive plan), Public Works, Facilities Management and the Appraiser's Office.

## **Workforce**

Finally, during the roller coaster of economic outlooks as spring gave way to summer, we began to receive word that many of our Johnson County cities were planning merit increases in FY 2021. While many of our residents are facing economic uncertainty and hardship, we balanced service demands, being fiscal stewards and maintaining an exceptional workforce.

It was crucial to balance recruitment challenges (including the recent compensation analysis that puts our pay and benefits package below the market's midpoint), a comparison to our cities' plans for merit, rewarding a workforce that has gone above and beyond, the economic uncertainty and being good stewards of taxpayer dollars. Decisions on how best to compensate our employees, while being sensitive to the fact that we are utilizing tax dollars collected from residents, some of whom who are quite frankly hurting right now, did not come easily.

I would be remiss if I did not mention here that along with our Board, our leadership and staff met the unprecedented challenges created by the pandemic with dedication, flexibility and tireless work. They adapted to new ways of serving our public, worked evenings and weekends and even answered the call to work in other departments when needed.

Ultimately a partial reduction in the merit pool from where we started pre-pandemic seemed most appropriate. It helped us to balance the budget without impacting services, hopefully without demotivating employees, a key factor in our success in serving our community as exemplified by the results of our 2020 Community Survey. With everything considered, the proposed budget includes a two percent merit pool with a one percent bonus pool, which is a bit of a change from recent years. The bonus pool is intended to encourage employees to be creative and innovative.

### ***FY 2021 Budget by the Numbers***

The FY 2021 Budget is \$1.25 billion, comprised of \$931.5 million in expenditures and \$321.5 million in reserves, and is based on a constant mill levy: 19.036 mills for the County, 3.904 mills for the Library, and 3.090 mills for the Park District. The projected County mill levy should maintain Johnson County as having the lowest mill levy in the state.

A total of 4107.69 FTEs are included in the FY 2021 Budget. This is a net decrease of (18.17) FTEs from the FY 2020 budget of 4125.86 FTEs. There are 35.8 new FTEs proposed in the FY 2021 Budget. In the County Taxing District there are 4.0 new positions that are tax support funded and 11.8 that are funded with fees. Outside the County Taxing District, Wastewater is adding 14.0 FTEs for Tomahawk and the Park & Recreation District is adding 6.0 FTEs. Reductions include 10.0 FTEs across multiple departments in the 2021 Budget. Changes in departmental business models led to positions being eliminated this year in Parks (29.26 FTEs), Corrections (21.0), District Courts (5.38), and Developmental Supports (5.0); many of which contributed to the budget reductions highlighted earlier. FTEs added outside the budget cycle include (11.0) for Mental Health primarily for the Sheriff's contract and co-responders, as well the new Epidemiology Division at DHE (14.75). Lastly, an additional 22.0 FTEs have been un-funded for FY2021 to support various departments, agencies, and offices' budget reductions.

The FY 2021 Budget includes \$3.0 million in ongoing additional resources from County property tax support and approximately \$16.6 million in one-time expenses funded from excess reserves across all funds in a number of departments and agencies to address inflationary and one-time 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 2021 Budget. The use of \$16.6 million in reserves, \$6.8 million of which are in the County's General Fund (ending 2021 at 28.9%), primarily to fund one-time capital expenditures has been included in the FY 2021 Budget.

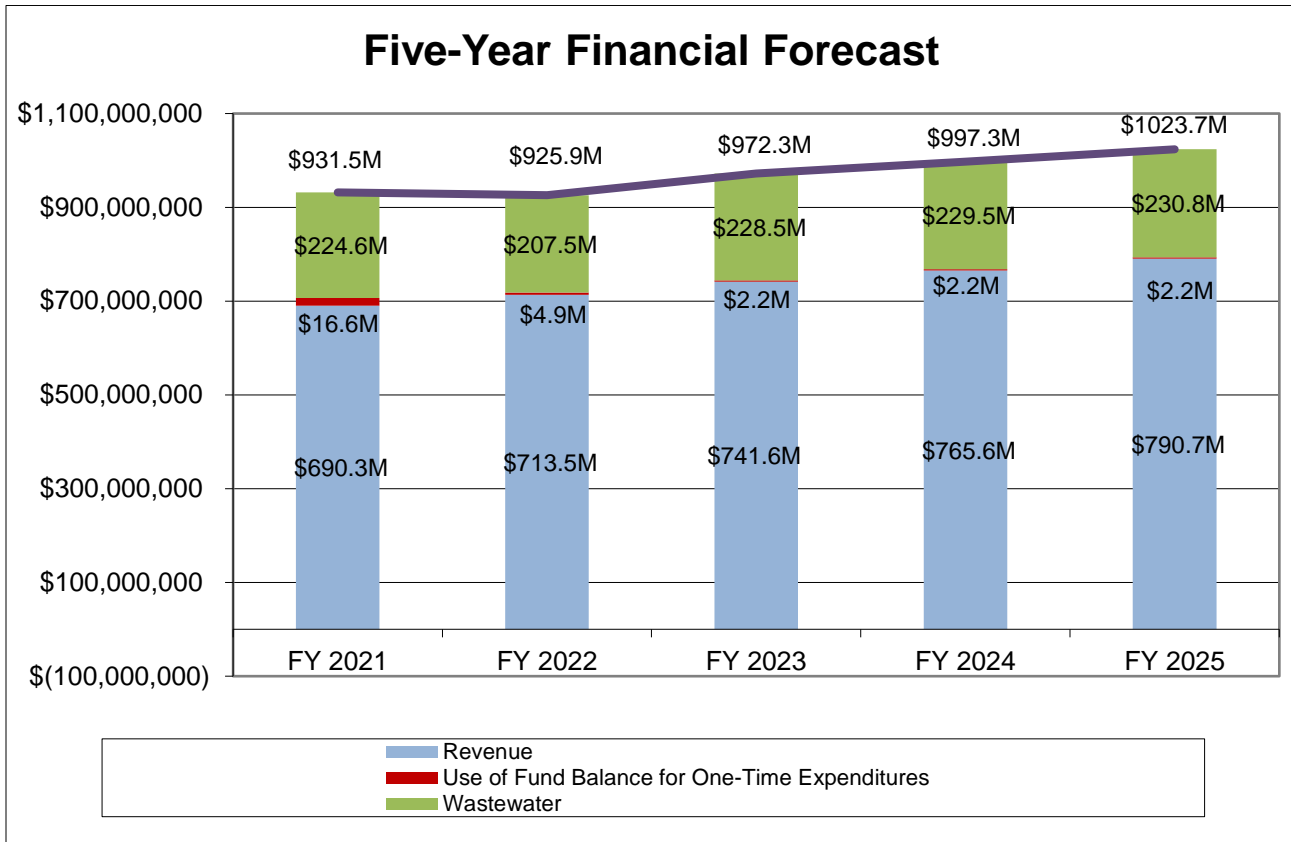
As we have mentioned, the County Taxing District funds are experiencing the largest revenue reductions. While Johnson County Park & Recreation District and Johnson County Library are seeing minimal impact to their general funds, JCPRD's Enterprise Fund had a significant revenue loss due to having to suspend operations. JCL and JCPRD also instituted substantial furloughs.

Regarding Johnson County 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. Projected revenue increases for FY 2021 over FY 2020 are down from a forecasted increase of 7.2% in last year's financial plan to an increase of 5.75% in this year's plan 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 Creek Wastewater Facility construction and start-up; debt service on capital projects, and personal services that have been included in the FY 2021 budget. Even with the increases, JCW rates remain among the lowest of the six major metropolitan area sewer providers.

Also included in the FY 2021 Budget is the FY 2021 - 2025 Capital Improvement Plan (CIP). The FY 2021 CIP is \$153.5 million. Excluding Stormwater, Wastewater and other projects that have dedicated funding sources, the FY 2021 CIP includes a total of \$25.3 million for various capital projects.

### ***Multi-Year Financial Forecast***

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 later in this message. Accordingly, below is the County's current Five-Year Financial Forecast under a constant mill levy.



### Projected Fund Balances for General Fund

Fiscal Year	Projected Ending Fund Balance (\$)	Projected Ending Fund Balance (%)
2021	\$104.0 million	28.9%
2022	\$101.0 million	26.9%
2023	\$101.0 million	26.0%
2024	\$101.0 million	25.0%
2025	\$101.0 million	24.2%

As a general guideline, the Board’s General Fund reserve policy calculation targets a reserve 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.

### ***Proven Performance***

Decisions to make financial investments in the county's future, by the Board and by voters, have led to the completion or near completion of major projects (one of the Board priorities) that will improve the lives of our residents in many ways.

Last year we celebrated the opening of the Lenexa City Center library branch as well as Meadowbrook Park. Major progress has been made on the expansion to the Tomahawk Wastewater Treatment Plant which will save us and our ratepayers approximately \$16 million a year in operational costs. Next month we will cut the ribbon on the county's first-ever Medical Examiner Facility, and in early 2021, our new courthouse will become the home of the county's criminal justice system.

We have referenced the 2020 Community Survey throughout the budget message, but this is a good time to reinforce that we saw increases in satisfaction with **all of the major services** we provide when you compare this year to last year. This included a five percent increase in our customer satisfaction index. We measured satisfaction before and during COVID-19 and in both time periods that even during a pandemic, we saw high marks across the board.

We should all be proud of that, as well as our continued ability to maintain our coveted triple AAA rating. We are one of only 40 counties out of 3,000 that has achieved this.

### ***Future Challenges and Opportunities***

Even without COVID-19, we faced many challenges going into FY 2021. You may remember that last year's budget message set the stage for next year and future challenges we are facing.

We currently have approximately 615,000 residents in our County, with about 100,000 residents 65 and over. Research from Wichita State University predicts that we will reach one million residents in just over 30 years from now. By 2029, our senior population is expected to double.

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

- Lower assessed valuation/potential softening of commercial market
- Hypothetical lease, future appeals and BOTA suspension of activity
- Sales tax revenue uncertainty
- Pressure on grants/fees/reimbursements – insufficient increases to keep up with costs
- Additional PPE and testing if CARES Act funds cannot be extended past 2020
- Public safety needs
- Economic concerns - Coronavirus impact, interest income, market volatility
- Airport business park



### ***Additional Priorities for One-Time Funding***

Potential one-time needs totaling more than \$31 million without identified funding:

- Nursing Center Facility and Land Acquisition (Evergreen Living Innovations)
- Airport Capital Needs
- Mental Health Fund Balance Restoration (to 10%)
- Med-Act Buildings (Lenexa & Olathe)
- National Elections in 2022 and 2024
- Technology
- Security
- Kitchen for the Meals on Wheels program
- 1 percent bonus

### ***CARES Act Funding***

The Coronavirus Aid, Relief and Economic Security (CARES) Act represents many things to our organization. Like other communities meeting the Act's population threshold of 500,000, Johnson County received a direct, formula-based allocation, \$116 million in our case, to provide relief from the impacts of COVID-19 on our organization and our community. Broad guidelines provide a framework for utilizing the funds. Guidance from the federal government has been on-going, as has the state's interpretation of the intent of their \$1 billion plus allocation. In other words, we have been navigating steadily changing advice and opinions regarding how we may use these funds.

With the funds needing to be expended by the end of the year, sorting out potential allocations to other entities within the County, such as the cities, will need to be made in the next few weeks. Recent federal guidance has provided some much-needed flexibility to the County. In addition to purchases of materials and services to combat the pandemic such as PPE and testing staff and kits, the use of these dollars for related payroll expenses attributable to the COVID-19 response and thus chargeable to the CARES Act funds has evolved. Staff hours that have been diverted to addressing the pandemic, whether leadership or direct service, can be charged to the CARES Act as well. This acknowledgement that our organization spent immeasurable time responding to the pandemic, as opposed to our normal responsibilities, is helpful in two regards. It allows us to legitimately charge significant staffing dollars to the CARES Act under the tight timeframe for expending the funds, and secondly, with the vast majority of those staff costs already funded in our current budget, the ability to charge those costs to the CARES Act funds rather than to their respective department/agency/office budgets will result in the originally budgeted dollars dropping to fund balance. This will enhance not only our ability to respond to the pandemic, but to continue to provide excellent services into the future as we deal with lingering economic impacts of COVID-19 on our revenues.

### ***A Catalyst for Change***

COVID-19 was the catalyst for dramatic change within our organization. Almost overnight, approximately a thousand county employees began working remotely. While some services had to be suspended such as libraries, park's enterprise activities, and court trials, the vast majority went on. In

person services were suspended in many areas moving many transactions online. Where that was not possible, the organization had to develop new safety protocols quickly to protect the residents we serve and our staff.

As you know, JocoNext is an initiative we began during the early stages of the pandemic in an effort to make a systematic, organization-wide assessment of how we responded to the pandemic and continued to provide services. Organizations everywhere had to respond, however, what we did is still noteworthy and is dramatically different than the traditional notion of a slow moving bureaucracy. It has been said before but bears repeating; I'm extremely proud of our organization and how we have lived our values, and our commitment to public service especially these past few months. I also want to ensure that we learn everything we can from the totality of our organization's experience during this pandemic so that we can redefine excellence moving forward.

### **Conclusion**

Developing this budget has been a long process, with a long way still to go. I know that as we progress through the budget process it is highly likely that we will have to make further adjustments to our projections, and our budget, for next year.

As tough as things have been, there is still much to be thankful for. In this time of challenge, it has been rewarding to see our policymakers, leadership and staff rise to the occasion.

We serve a wonderful community that deserves and expects the highest quality of services. We were honored and humbled by the response to the community survey this year. Meeting and exceeding expectations motivates us as public servants and is why we come to work every day.

I continually challenge myself, my team, and the organization to strive to better serve our community. That said, I also could not be prouder of them. This has been a tough, tough, year for everybody. At every turn, the organization has responded, adapted, and continued to provide stellar services to our community.

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 2021 Budget. Much time and effort went into its development.

Respectfully submitted,



Penny Postoak Ferguson  
County Manager