

Executive Summary

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Budget Message

October 31, 2016

Chairman Eilert and County Commissioners:

I am pleased to present the Johnson County operating budget and capital improvement program for FY 2017. The annual budget is the most important policy document for the Board of County Commissioners (Board) and sets the course for the organization on behalf of our citizens. This storyline for this year's budget development has been that of principally strong local revenue growth contrasted by a state government in fiscal turmoil. The primary question quickly became whether the County budget could handle the year-to-year challenges and absorb lost funding from the State.

Although the outlook was somewhat bleak initially, the foundation set last year by the Board, coupled with the thriving local economy, has been enough to bring the budget into balance. Despite mounting State cuts, this budget adheres to the Board's direction to maintain a constant mill levy while addressing growing demands for services. Ultimately, it allows the organization to keep pace with the community, to continue the good work started in last year's budget, and to maintain financial stability.

Last Local Control Budget

While there is much to feel good about in this budget, it is bittersweet knowing that this is the last year under local control. In May, the state legislature simultaneously moved up the property tax lid and refused to add key exclusions - leaving the County just one budget year away, FY 2018, from what could be quite a predicament.

The property tax lid was designed to limit the ability of the duly elected Board of County Commissioners to levy the amount of property tax they deem necessary to adequately fund significant portions of the County's operations. Vital exemptions from the 1989 property tax lid were not included in the new legislation, severely limiting the Board's ability to fund costs that are beyond their control and to provide needed services to the County's most vulnerable citizens. While the legislation does provide an option to exceed the lid through an election, it does so in a manner that is akin to a one-two punch. First, the timeline provided for an election *and* a budget process is far too short to thoughtfully review and consider the County's budget and initiate an election. Should the County wish to move forward with an election, an insufficient period of time would remain to ensure voters are adequately informed of frequently complex budget issues. In years such as this, where a property tax lid vote would have been necessitated by a host of issues, the challenge would be far greater yet. The challenge of effectively communicating multiple issues and responding to critics in a thoughtful and thorough manner represents the second punch. In years with excessive expenditure demands, or significant declines in revenues, it is easy to foresee a county budget under the confines of tax lid finding itself reeling, on the ropes, and headed for the canvas.

Taking Care of Business While We Still Can

A number of significant budget challenges have been addressed in the FY 2017 Budget:

Adequate compensation for the County's workforce, including a **3% merit pool**, has been funded, and an additional funding allocation for Civil Service employees of the Sheriff's Office was included to **keep their pay ranges and hire-in rates competitive** in the local market.

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, an increase in the **County's contribution of 18%** was necessary while **employees' costs are projected to go up by 36%** through a combination of premium and out-of-pocket increases.

The County's health insurance cost increases were largely offset by the State **decreasing the funding rate for KPERS** rather than increasing it, as originally projected.

The **Mental Health Center** has experienced a **multi-year deficit driven by cuts in state resources**. Since 2007, state cuts have grown and now total **\$14.5 million**. Johnson County is able to address the deficit in the short-term, but funding under the current restraints is unsustainable in the long term.

In addition to the Mental Health deficit, basic needs across the organization were addressed to meet demand in a number of areas. Staffing and funding bolstered the County's **investment in technology** for both the Department of Technology and Innovation and the JIMS Department. Additionally, crucial needs were addressed in **Health and Human Services** for Developmental Supports as well as Health and Environment.

Investments in capital and infrastructure: Funding to maintain the County's existing **capital infrastructure** was included in the FY 2017 Budget. Investments in roads, major asset replacements, and remodeling of existing buildings for better efficiency and utilization are just some of the **on-going maintenance** items funded. Other capital expenditures that will make Johnson County more efficient in the future include a new **Elections voting machine fleet** and investment in the **Fiber Master plan**.

Johnson County's vibrant economy provided the basis for the revenue growth necessary to meet the challenges of the FY 2017 Budget. Strong assessed valuation growth allowed budget to be balanced and maintain a constant mill levy - something that would not be possible under a property tax lid.

Approaching the 2017 Budget: A Longer Perspective

While the County has typically experienced strong economic and population growth in recent years, we have been challenged by reductions in state funding and the Great Recession. In addition to reductions in State funding to specific County functions in recent years, a number of State decisions have decreased funding to the County and increasingly shifted the burden for funding County government to both home and business owners. The impact has been significant. The estimated aggregate funding lost over the past 20 years from the five items below is \$337 million.

Local Ad Valorem Property Tax Reduction (LAVTR) - Goes back to the 1930's with current framework established in 1965. At that time, the local share of certain cigarette revenue stamp taxes and cereal malt beverage taxes were rolled into the State's General Fund, and a direct transfer was made into the LAVTR Fund to replace the loss of funds via payments to local governments. Payments to locals lagged below what statute required in the late 1990's, and dwindled each year until being entirely eliminated in 2004.

County City Revenue Sharing (CCRS) - Established in 1978 as part of an agreement between the State and local governments regarding a number of different taxes. In particular, the local share of cigarette and liquor enforcement tax revenues was exchanged for the establishment of CCRS. Like LAVTR, payments ran below statutory provisions by 5%-12% in the late 1990's and further dwindled until being entirely eliminated in 2004.

Special City-County Highway Fund (SCCHF) - This fund is comprised of both motor vehicle property tax and by motor fuels tax. While the motor fuels tax portion has been consistently transferred to local governments over the years, the motor vehicle property tax portion has not.

Machinery & Equipment Exemption (M & E Exemption) - In 2006, the Kansas legislature exempted new machinery and equipment from property taxes. The legislation included a "slider" formula, which would pay out some monies to local government over the course of several years to partially offset the impact of the legislation. Some slider monies were appropriated in 2008 and 2009 but then the payments were abandoned. The result of the legislation was less assessed valuation and corresponding ad valorem revenue for a given mill levy rate as well as a shift in burden to homeowners and commercial property owners.

Mortgage Registration Collection Fee (MRCF) - In 2014 for FY 2015, and at the urging of lobbyists, the legislature passed a bill to phase out the MRCF over a five-year period while providing a partial offset in the form of higher per page fees for documents filed in the Office of Records and Taxation (Register of Deeds) to be phased in over a four-year period. The result of the legislation was a significant loss in revenue that ostensibly shifts burden to again, homeowners and commercial property owners.

The table below summarizes the broad State funding shortfalls:

Item	2017 Shortfall	Mill Impact	Total Impact
LAVTR	5,186,588	0.5730	62,090,149
CCRS	8,806,848	0.9729	106,146,991
SCCHF	4,656,750	0.5144	43,278,107
M&E Exemption	18,908,612	2.0888	108,555,750
MRCF	7,900,000	0.8727	16,950,000
Total	45,458,798	5.0217	337,020,997

During the entirety of the Great Recession and the years following, the County budget was balanced with a constant mill levy despite assessed valuation flattening out and even dropping. As a result, the County collected less ad valorem in 2015 than it did in 2008, despite serving a growing population with less direct state funding and rising demands as many citizens also struggled economically. To balance budgets, the organization did a lot more than just tighten its belt. A series of short and longer-term cost-cutting strategies were employed as approximately 12% of the County's FTEs were cut over a five-year period in conjunction with \$46 million in on-going expenditure reductions. Employees saw merit raises reduced in several years and eliminated in others while being asked to do more with less. At a time when many in the community were hurting, the County responded by *decreasing* its taxing effort while striving to maintain service levels as much as possible.

2017 Budget Summary: By the Numbers

The FY 2017 Budget is \$944.1 million, comprised of \$734.9 million in expenditures and \$209.2 million in reserves.

A total of 3,886.99 FTEs is included in the FY 2017 Budget, including 16.9 new positions that are County tax support funded and 15.0 FTEs that are fee supported in Wastewater or within the Park and Recreation District. The total FTE count also reflects the elimination of 11.0 FTEs in Mental Health due to various State cuts.

The FY 2017 Budget includes \$7.5 million in ongoing additional resources from property tax support. Approximately \$4.5 million maintains Mental Health's existing services, while the remaining ongoing requests are spread throughout the organization in a number of departments and agencies to address inflationary increases and pent up demand. There are approximately \$1.6 million in one-time requests for additional resources with the bulk of that funding going to Public Works for overlays (\$1.1 million) and fleet purchases (\$300,000).

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 2017 Budget. The use of \$5.0 million in reserves to primarily fund one-time capital expenditures and spend down reserves in the Risk Management fund has been included in the FY 2017 Budget.

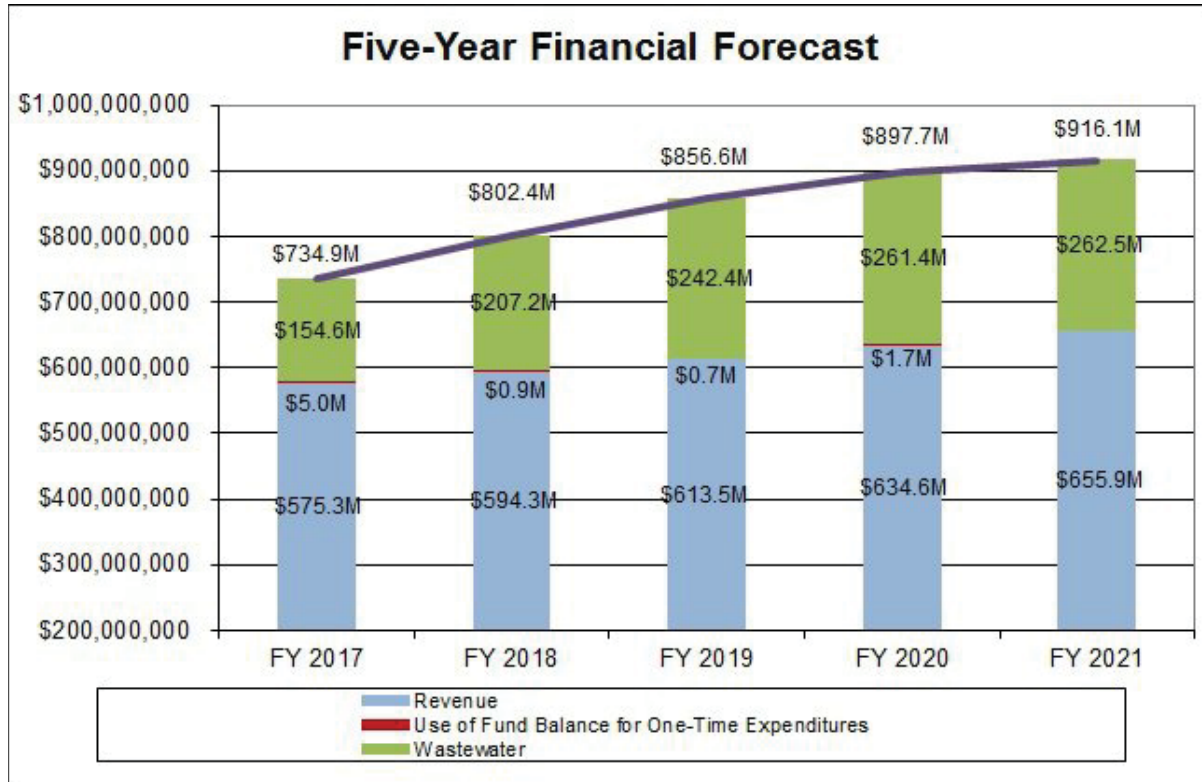
Wastewater customers receive a combined bill that includes user charges for Operations and Maintenance and a capital finance charge that funds debt service related to the JCW capital improvement plan. Revenues for FY 2017 are projected to increase 6.5% over FY 2016 based on charges going up in total by 6.5% as well. It should be noted that the 6.5% increase is in aggregate and that individual billing classes will rise by differing amounts. The need for revenue growth is driven primarily by inflationary pressures associated with materials and supplies, trash and sludge removal, natural gas, the inter-local agreement with Kansas City, Missouri, billing system software upgrades and for 2.0 FTEs included in the FY 2017 budget. Even with the increases, JCW rates remain among the lowest of the six major metropolitan area sewer providers.

Also included in the FY 2017 Budget is the FY 2017 - 2021 Capital Improvement Plan (CIP). The FY 2017 CIP is \$128.6 million. Excluding Stormwater, Wastewater and other projects that have dedicated funding sources, the FY 2017 CIP includes a total of \$29.3 million for various capital projects. Historically, staff attempts to align one-time revenues with one-time capital needs. Due to lack of excess General Fund reserves, only \$300,000 in one-time resources have been utilized to help finance the CIP. A portion of the County mill levy increase approved as part of the FY 2016 budget (approximately \$3.5 million) has been allocated to fund ongoing CIP. The mill levy increases previously noted for the Library and the Park District are reflected in the

CIP as well. 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 2017 - FY 2021 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 (%)
2017	\$71.2 million	23.6%
2018	\$71.2 million	23.0%
2019	\$71.2 million	22.3%
2020	\$70.0 million	21.2%
2021	\$72.8 million	21.2%

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

While the County's finances continue to be prudently managed, state cuts are, and will continue to, deeply impact the **County's most vulnerable populations**. A 4% Medicaid reduction announced on May 20th will result in additional cuts to the County's Health and Human Services departments and agencies. The Mental Health Center is bracing for a \$240,000 cut in their Medicaid fee-for-service revenue in the 2017 state fiscal year, impacting their ability to serve a population in need. Additionally, funding to our Human Services Department provided under the Senior Care Act is projected to be cut for the 2017 state fiscal year by as much as \$324,000. The Senior Care Act cuts are proposed to **disproportionately impact urban counties** and will strip funding from those programs that help keep our **senior citizens** independent while also avoiding the need for nursing home placements.

Additionally, while we are aware of some cuts as noted above, the County is braced for additional bad news as State reductions continue to be announced. Additional State funding reductions are anticipated for the **Mental Health Center**, our **Developmental Supports** agency and our Department of **Health and Environment**.

The County is bringing a proposal to the voters in November to build a new **Courthouse**. If the proposal is not successful, addressing the inadequacies of the current, undersized, aging, non-ADA compliant structure could exceed the cost of a new Courthouse and would put serious strain on future County budgets.

As I've noted already, balancing the FY 2017 Budget and meeting the needs of the community would not have been possible under the **property tax lid**. Continuing to provide high quality services that meet the expectations of our great community under the restraints of the property tax lid may well prove to be our **greatest future challenge**.

Conclusion

The citizens of Johnson County demand both good stewardship and quality services from county government. To that end, the 2017 budget reflects the values and expectations of our community. Johnson County government is entrusted to act in the interest of our citizens, and we are expected to succeed in our efforts to maintain quality services regardless of the obstacles we encounter. While we face fiscal constraints in the coming years, we are committed to maintaining both prudent fiscal management and quality service delivery. The 2017 budget has been constructed in an effort to meet these expectations and to ensure that Johnson County remains a place where people want to work and live.

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 2017 Budget. Much time and effort went into its development.

Respectfully submitted,



Hannes Zacharias
County Manager

A Brief Tour of the FY 2017 Budget

This section provides information on the organization of the FY 2017 Johnson County Budget and answers commonly asked questions.

How the Document Is Organized?

The FY 2017 Johnson County Budget document is organized into various sections, which highlight different information and areas of interest.

It is provided as a high level summary and resource that will address commonly asked questions and provide educational information for those who are new to the budget process.

Each section has a separate tab to assist the reader. Sections of the FY 2017 Johnson County Budget document are summarized below:

- **Executive Summary (Section A)**

The Executive Summary lays out for the reader the current budget situation, key areas affecting the budget, and strategic priorities. The Budget Message brings the entire budget picture together and provides an opportunity for staff to lay out where we are, how we got here, and what challenges lie ahead. Also included in this section is a Quick Reference Guide, which is provided to assist the reader in finding any information which is not included in the FY 2017 Johnson County Budget document.

- **County Profile (Section B)**

This section provides: various economic and demographic information regarding Johnson County, including factors such as population, education, and employment. In addition, an explanation of Johnson County's organizational structure is included in this section.

- **Budget Structure & Policies (Section C)**

This section is designed to provide the reader with a broad understanding of the financial and budget polices which govern Johnson County government. Additionally, this section includes information regarding the budget calendar, budget process, and basis of accounting and budgeting.

- **Budget Summary (Section D)**

This section provides a high level summary of the FY 2017 Johnson County Budget. It includes a quick overview of key budget components (FY 2017 Johnson County Budget at a Glance) and the FY 2017 Johnson County Budget by fund. In addition, this section includes detailed information on assessed valuation and mill levies.

- **Personnel & Compensation (Section E)**

This section provides information on FY 2017 Budgeted Full-time Equivalent (FTE) positions, including a listing of FTEs by agency. Also, this section contains information on the employee compensation package approved for FY 2017.

- **Multi-Year Budget Projection (Section F)**

This section forecasts estimated revenues and expenditures for FY 2016 through FY 2021, including a calculation of the amount of ad valorem tax revenue needed to balance the budget for each year. In addition, an explanation of the methodology and various assumptions used to create the projection is included.

- **Revenue Summary (Section G)**

This section provides an overview of various estimates of the County's major sources of revenue for FY 2017, including ad valorem taxes, sales taxes, motor vehicle taxes, and mortgage registration fees.

- **Capital Improvement Program (CIP) (Section H)**

This section provides an overview of the CIP, including: definition of a Capital Improvement Project (CIP), a calendar of the CIP process, details on the CIP process, how projects are prioritized and rated, the 2017-2021 rating results, the philosophy used by the CIP Review Team, and projects which are included in the FY 2017 Budget. Also included in this section is the total financial impact that the CIP has on the FY 2017 Johnson County Budget.

- **Debt Management (Section I)**

This section outlines Johnson County's existing debt policies and current debt situation as it applies to the FY 2017 Budget. A summary of State mandated debt limits is included as well as a discussion of how the level of outstanding debt issues impacts the County's financial position.

- **Strategic Programs (Section J)**

This section briefly discusses Johnson County's six strategic program areas and lists the County agencies and departments that make up each strategic program area. Additionally, this section lists the five agencies or departments in each program area with the largest budgeted expenditures in the FY 2017 Budget.

- **Agency Budget Information (Section K-P)**

These sections provide detailed information on each agency and department for the FY 2017 budget, including mission statements, budget highlights, agency goals and objectives, major services, requests for additional resources, and CIP project requests. Please note that budget amounts in the major services for each agency or department do not include cost allocation charges and may not add up to the total agency or department budget. Agencies have been grouped into sections by strategic program as follows:

- K - Support Services
- L - Records & Taxation
- M - Public Safety, Judicial & Emergency Services
- N - Infrastructure
- O - Health & Human Services
- P - Culture & Recreation

Please refer to the Table of Contents if you have a question about where to find a specific agency or department.

- **Glossary (Section Q)**

This section contains definitions of key terms found throughout the FY 2017 Johnson County Budget which pertains to both Johnson County specifically as well as budgeting and finance as a whole. A separate section lists a number of acronyms that appear in the FY 2017 Johnson County Budget and their corresponding definitions.

Where To Find Answers To Commonly Asked Questions:

- What portion of a Johnson County citizen's tax bill goes to the County?

Explanation: Of the total property taxes a citizen in Johnson County pays in 2016, 20% fund County expenditures. Education represents the largest portion of the tax bill at 56%. Cities and Townships represent another 16%, with Special Assessments, Special Districts and the State receiving the remaining 8%.

- How much are expenditures for FY 2017?

Location: Reference **FY 2017 Johnson County Budget at a Glance, Page D.2.**

- What is the dollar amount of the general fund reserve for FY 2017?

Explanation: Approximately \$72.8 million. Additional information can be found in the **FY 2017 Budget Message** and the **Multi-Year Budget Projection** section.

- Where is a calendar outlining the FY 2017 Budget process located?

Location: Reference **Budget Structure & Policies, Pages C.8.**

- How much does one (1) mill of property tax generate in dollars?

Explanation: \$9,041,635 - County Taxing District; \$7,478,717 - Library Taxing District.

- What is the mill levy for FY 2017?

Explanation: The FY 2017 mill levy is 26.595 mills. A further breakdown can be found in the **FY 2017 Johnson County Budget Summary, Page D.38.**

- What is the total assessed valuation for Johnson County?

Location: Reference **FY 2017 Johnson County Budget Summary, Page D.37.**

- What is the average appraised value for a home and a commercial property in Johnson County?

Explanation: The average value of a residential property as of February, 2016 was \$273,000. The average value of a commercial property as of February, 2016 was \$1,923,408.

- What is the average tax impact on a \$273,000 home? On a \$1,923,408 commercial business?

Location: Reference **FY 2017 Johnson County Budget at a Glance, Page D.3.**

- How many FTEs are included in the FY 2017 budget?

Explanation: The FY 2017 Johnson County Budget includes a maximum of 3,886.99 full-time equivalent (FTE) positions. Further information can be found in the **FY 2017 Johnson County Budget - Personnel & Compensation** section.

- How much is the average budgeted merit increase for FY 2017?

Explanation: The average budgeted merit increase for employees with competent to superior performance is 3.0% for FY 2017.

- What revenue growth assumptions were used for FY 2017?
Location: Reference **FY 2017 Johnson County Revenue Summary** section.
- What are the County's major revenue sources?
Location: Reference **FY 2017 Johnson County Revenue Summary** section.
- What is the total ad valorem tax revenue for Johnson County?
Location: Reference **FY 2017 Johnson County Revenue Summary, Page G.4.**
- What Are the Operating Impacts of the Approved CIP Projects?
Location: Reference **Capital Improvements Program Summary, Page H.4.**
- What new CIP projects are scheduled to receive funding in FY 2017?
Location: Reference **Capital Improvements Program Summary, Pages H.3-H.5.**
- What is the percentage of cash vs. debt for the Johnson County CIP?
Location: Reference **Johnson County Debt Management, Page I.6.**
- What is the level of outstanding debt in Johnson County?
Location: Reference **Johnson County Debt Management, Pages I.9-I.14.**
- What are Strategic Programs and how do they relate to the FY 2017 Johnson County Budget?
Location: Reference **FY 2017 Johnson County Budget by Strategic Program, Pages J.2-J.4.**
- What is cost allocation?
Location: Reference **Glossary, Page Q.9.**

Additional Information and Quick Reference Guide

Information regarding the contents of the FY 2017 Budget can be obtained by calling the Johnson County Office of Budget and Financial Planning at 913-715-0605 (fax 913-715-0558) from 8:00 a.m. to 5:00 p.m. (Central time), Monday through Friday.

Internet Access: Summary information on the FY 2017 Budget is available at the following address:
<http://www.jocogov.org>.

Reference copies of the budget document can be viewed at:

Central Resource Library
9875 West 87th Street
Overland Park, KS 66212
913-495-2400

Olathe Public Library
201 East Park
Olathe, KS 66061
913-764-2259

Budget and Financial Planning
111 South Cherry, Suite 2300
Olathe, KS 66061
913-715-0605

Other Johnson County Departments	Brief Description and Phone Number
AIMS	Provides mapping and geographical services 913-715-1600
Airport Commission	Air transportation and industrial real estate development 913-715-6000
Appraiser	Appraisal of County land and property 913-715-9000
Board of County Commissioners	Chief governing and policy-making body 913-715-0430
Budget and Financial Planning	Implementation and administration of annual budget and CIP 913-715-0605
Contractor Licensing	Provides testing and licensing for County building contractors 913-715-2233
Corrections	Supervision of juvenile and adult offenders 913-715-4501
County Manager	Manages County departments and services 913-715-0725
Developmental Supports	Developmental disabilities assistance 913-826-2626
District Attorney	Prosecution of law violators 913-715-3000
District Court Trustee	Enforcement of child support and maintenance 913-715-3600
District Courts	Forum for persons with disputes 913-715-3300
Election Office	Voter registration and election results 913-782-3441
Emergency Management & Communications	Dispatches responders for all fire and EMS calls; Normalization of government during disasters 913-826-1000; 913-782-3038
Facilities	Physical/environmental needs of County departments 913-715-1100
Facilities-Print Shop	Provides convenient printing needs for County departments 913-715-1385

Health & Environment	Health services, immunizations, disease control; Waste management, air control and septic systems 913-826-1200; 913-715-6900
Human Resources	Personnel training/issues 913-715-1400
Human Services	Monitors human services for all County residents and manages Community Development Block Grant (CDBG) funds 913-715-8800
Law Library	Legal resources and services for judges, attorneys and citizens 913-715-4154
Legal	Civil representation of County departments 913-715-1900
Library	Provides information and materials to enrich lives 913-826-4600
Med-Act	Emergency medical services 913-715-1950
Mental Health	Services for mental/emotional illness, substance abuse 913-831-2550
Motor Vehicle	Vehicle registration 913-826-1800
Museums	Collects and preserves County history 913-715-2550
Park and Recreation	Operates County parks and streamways 913-438-7275
Planning, Development & Codes	Zoning administration/code enforcement 913-715-2200
Public Works	Maintain and improve County roads and bridges 913-715-8300
Records and Tax Administration	Custodian/recorder of land records, legal descriptions and documents 913-715-0775
Records and Tax Administration-Archives and Records Management	Storage of County/historical documents 913-715-0400
Sheriff	Law enforcement and jail operation 913-791-5800
Technology and Innovation	Computer management/support 913-715-1500
Transportation	Countywide public transportation now run by the KCATA 913-715-8921
Treasury & Financial Management	Tax billing, collection and distribution; financial and procurement services for County departments 913-715-2600; 913-715-0525
Wastewater	Sanitary sewer service 913-715-8500

For further County information, contact the County Manager's office at 913-715-0725 or the County's Constituent Services at 913-715-0450. Visit Johnson County's web site at www.jocogov.org.