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Multi-year Budget Projection

This Section Includes:

Johnson County, Kansas Multi-year Budget Projection – October, 2013

Introduction

In June of 2013, the Board of County Commissioners (BOCC) reviewed multi-year budget projections of revenues and expenditures for FY 2013 through FY 2018. These projections included the County Manager's budget for FY 2014. Based on adjustments made to the County Manager's budget proposal by the Board in adopting the FY 2014 Budget, the projections of revenues and expenditures through FY 2018 have been modified and are presented in this document.

Projections for FY 2013 through FY 2018 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 2013 through FY 2018, including calculations of the amount of property tax revenue necessary to balance the budget in FY 2015 through FY 2018. 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 2014, the estimated delinquency rate used for budget projections was decreased from 2.40% to 2.10%)

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

Table #1: Assessed Valuation from FY 2004 to FY 2013 (County Taxing District only)

Fiscal Year	Total Assessed Valuation	$ Increase*	% Increase
2004	$6,481,292,971	$311,448,364	5.0%
2005	$6,803,214,025	$321,921,054	5.0%
2006	$7,178,491,041	$375,277,016	5.5%
2007	$7,733,096,457	$554,605,416	7.7%
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%)
		Average % Increase	**2.08%**

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

As noted in the table, the average increase in assessed valuation is 2.08% 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 2004 to FY 2013

Fiscal Year	Total Mill Levy	% Change	Total Budgeted Property Tax Revenue	% Change
2004	21.700	4.5%	$133.8 million	9.9%
2005	21.364	(1.5%)	$138.2 million	3.3%
2006	23.163	8.4%	$158.8 million	14.9%
2007	23.199	0.2%	$171.4 million	7.9%
2008	23.242	0.2%	$181.4 million	5.8%
2009	23.165	(0.3%)	$182.0 million	0.3%
2010	23.213	0.2%	$176.4 million	(3.1%)
2011	23.256	0.2%	$167.1 million	(5.3%)
2012	23.188	(0.3%)	$167.0 million	(0.1%)
2013	23.210	0.1%	$166.5 million	(0.3%)

In FY 2006, the County raised the mill levy 1.800 mills to partially address the structural budget deficit and fund the Adult Detention Center Phase II Expansion impact. Since 2006, the mill levy has remained relatively flat.

Mortgage Registration Fee Revenue

Mortgage registration fees are influenced by the housing market and interest rates, and, as a result, are a highly volatile source of revenue. Due to this volatility, the County has historically taken a conservative approach to budgeting for mortgage registration fee revenue.

Information on mortgage registration fee collections for FY 2003 to FY 2012 is presented below:

Table #3: Mortgage Registration Fee Revenue from FY 2003 to FY 2012

Fiscal Year	Actual Collections	% Increase (Decrease)
2003	$25,463,311	21.6%
2004	$19,398,695	(23.8%)
2005	$21,257,734	9.6%
2006	$18,043,795	(15.1%)
2007	$18,631,995	3.3%
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	37.81%

Over the past ten years, this revenue source had remained relatively constant at $18 million through 2007, but then in 2008, the revenue dropped to 1999 levels due to the downturn in the housing market. On a yearly basis, it has been extremely difficult to predict this revenue source with swings from 37% increases to 28% decreases. The projections remain conservative due to revenue fluctuations. This revenue is budgeted to increase in FY 2013 and FY 2014 from the FY 2012 actual revenue.

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 April 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 2014	FY 2015 through FY 2018
Assessed Valuation*	1.97%	2.3% - 4.0%
Sales Taxes	3.0%	3.8% - 3.0%
Interest on Delinquent Taxes	1.6%	(42.9%) - 0.0%
Motor Vehicle Taxes	1.6%	2.0%
Mortgage Registration Fees	2.9%	2015 – 1.4%, 2016 – 1.4%, 2017 – 1.4%, 2018 – 0.0%
Recording Fees	0.0%	0.0% - 2.8%

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

Due to the flattening out of the economy and housing market, most revenue projections have been estimated to show signs of recovery with slight increases beginning in FY 2014 and continuing through FY 2018. 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 2014 through FY 2018. These projections assume: 1) minimal increases to service delivery in FY 2014 through FY 2018, and 2) no changes in legislation will occur which impact County expenditures. The projections are summarized in the following table.

Table #5: Projections for Operating Expenditures

Expenditure Item	FY 2014	FY 2015 - FY 2018
Salaries – percentage growth	3.0%	3.0%-4.0%
Health Insurance Program – percentage growth	3.0%	3.0%-4.0%
Supplemental Retirement – County match percentage	3.0%	3.0%
Other Fringe Benefits	6.6%	7.5%
Contractual and Other Miscellaneous Items	$1.0 M	$1.0 M

Expenditure Assumptions – Capital Improvement Program (CIP)

Staff has prepared a set of CIP projections for FY 2014 through FY 2018. These projections are presented in Table #6 below.

Table #6: Projections for CIP Expenditures

CIP Item	FY 2014	FY 2015 through FY 2018
CARS Program	$12.9 M	$13.2 M - $13.9 M
Bridges, Roads, and Culverts Program	$1.9 M	$1.9 M
On-going Capital Projects*	$1.85 M	$1.85 M average each year
Park and Recreation MAP 2020	Park General Fund mill levy of 1.737 mills	Park General Fund mill levy of 1.536 mills annually
Library Capital Replacement plan	$0.3 M	$0.4 M
Transit Bus Replacement	$1.2 M	$2.2 M - 2016, $1.0 M - 2017

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

The CIP projections do not include funding in FY 2015 through FY 2018 for the following projects:

- Comprehensive Arterial Road Network Plan (CARNP)
- Courthouse Replacement
- New Monticello Library Branch – Phase II for Building/Operating

Impact on Total County Budget

The total estimated expenditure amount for FY 2014, excluding reserves, is $664.6 million. This represents a decrease of $5.1 million, or 0.8%, when compared to the FY 2013 budgeted expenditure amount of $669.7 million. The total estimated expenditure amount is projected to increase to $700 million by FY 2018.

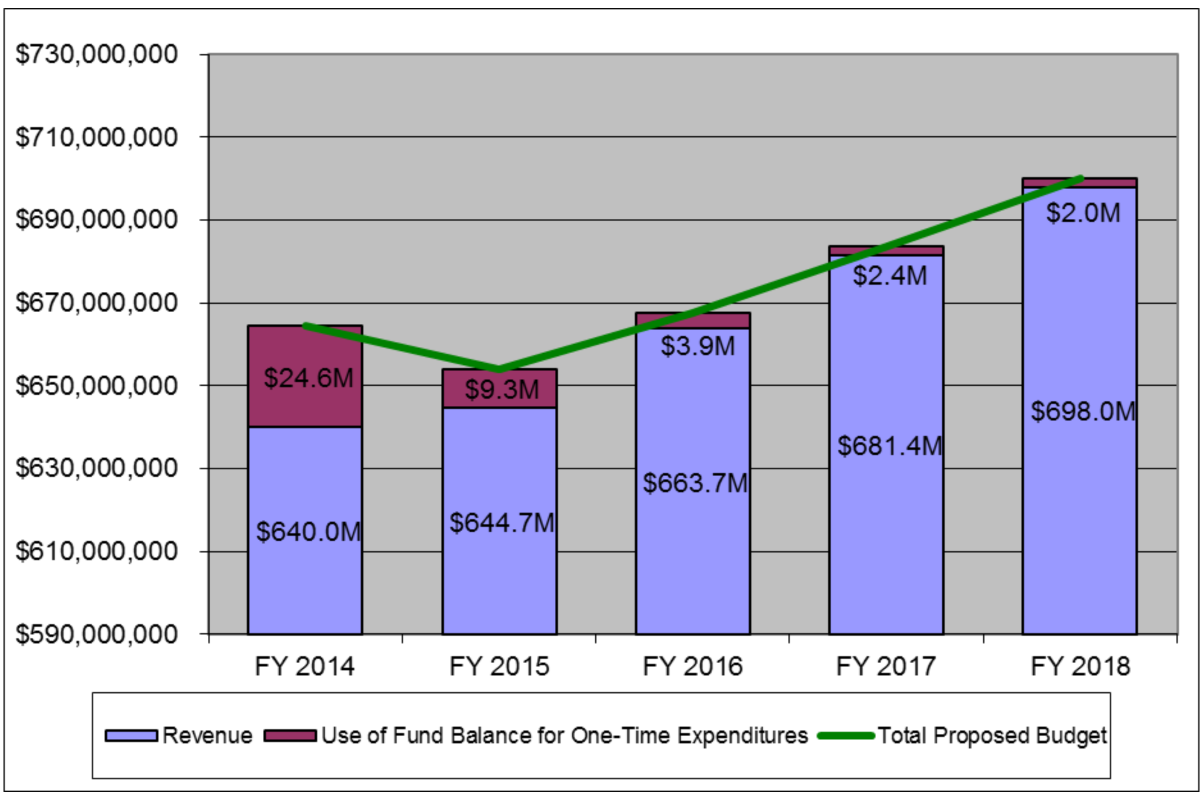
Projections for assessed valuation (County taxing district), property tax revenue, and mill levies are presented in the following table.

Table #7: Projected Property Tax Revenue and Mill Levies for FY 2014 – FY 2018

Fiscal Year	County Taxing District Assessed Valuation	Property Tax Revenue	Total Mill Levy	Mill Levy Change
2014	$7.65 billion	$169.8 million	23.210 mills	0.000 mills
2015	$7.82 billion	$173.7 million	23.210 mills	0.000 mills
2016	$8.04 billion	$178.9 million	23.210 mills	0.000 mills
2017	$8.32 billion	$185.2 million	23.210 mills	0.000 mills
2018	$8.65 billion	$192.8 million	23.210 mills	0.000 mills

In FY 2014 through FY 2018, the mill levy is projected to remain flat with property tax revenues increasing in FY 2014 through FY 2018.

The graph below reflects the total budget, use of fund balance for one-time expenditures and other revenue. The graph illustrates a balanced five-year forecast with a flat mill levy of 23.210 mills.



General Fund Reserve Levels

Projections for the General Fund reserve for FY 2014 through FY 2018 are presented in the following table.

Table #8: Projected General Fund Reserve

Fiscal Year	Projected General Fund Reserve ($)	Projected General Fund Reserve (%)*
2014	$70.1 million	27.2%
2015	$62.5 million	23.7%
2016	$59.5 million	21.7%
2017	$58.1 million	20.5%
2018	$57.1 million	20.0%

*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. In keeping with past Board direction, the multi-year budget projection gradually draws down the General Fund balance reserve. As indicated in the previous table, the County is projected to comply with the current reserve policy in FY 2014 through FY 2018.

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 the current revenue and expenditure assumptions. If these assumptions change, the County will be faced with expenditure reductions or revenue enhancements to maintain a balanced five year model. In addition, a number of key decisions on strategic issues are pending and could significantly alter future financial projections.

Overall, the County is now 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.