JOHNSON COUNTY
KANSAS

May 12, 2022

Chairman Eilert and County Commissioners,

It is my privilege and honor to present the Johnson County proposed operating budget and Capital Improvement Program for Fiscal Year (FY) 2023. The budget is both a policy and a financial planning document that serves as a compass to guide our organization in meeting the goals and objectives of the Board while delivering the best possible services to our community, which is our overarching goal.

We find ourselves in a moment of cautious optimism as we look forward to FY 2023. The COVID-19 pandemic has abated for now and there is hope that it will remain in an endemic phase. A sense of normalcy is returning to daily life. However, in other ways, there is a sense of uncertainty. Experiencing serious inflation and significant interest rate increases for the first time in many years, the war in Ukraine and the possibility that COVID-19 could become more significant in our lives once again makes life feel a bit unsettled.

The economy has come roaring back from the shutdown during the early phases of the pandemic and continues at a breathtaking pace. We remain in a housing market boom, with bidding wars for home sales now the norm. We are seeing double-digit property valuation growth…the highest levels seen here in 20 years. Sales and use tax continue to grow well above historic trends and projections. With interest rates trending up, investment interest is on the rise as well. At the same time, however, there are signs that a downturn could be looming. To help curb inflation, the Federal Reserve is expected to deliver a series of aggressive interest rate increases over the coming months. This will likely slow the economy.

At the onset of the pandemic when the economy was temporarily shut down, we cut approximately $25 million, quickly and strategically. We braced for the worst, and when the economy opened up, found ourselves with even stronger reserves, reinforced by federal COVID-19 funding. This has enabled us to withstand potential future downturns to the economy as well as provide funding for one-time capital needs.

As we come out of the pandemic, we are well positioned to handle both the opportunities and the challenges that have been emerging. This is in large part due to our strong financial management, culture of high performance, a spirit of innovation and collaboration, and a dedication to our community. These characteristics of our organization all existed pre-pandemic and were strengthened due to all we have experienced since March 2020. In addition to our financial stewardship, our community's satisfaction continues to be amongst the top in the country, as evidenced in our recent survey.

Addressing our workforce market pressures along with our community's property tax pressures

Every year, we approach the proposed budget with challenges on the forefront of our minds. Those challenges change from year to year and are based on many factors. While we always have the budgetary goal of aligning our resources with the priorities of the Board and the community, this year we are looking at several challenges, with two emerging as the priorities…addressing our workforce market pressures along with our community's property tax pressures.

Johnson County has been at or beyond what is considered by economists to be full employment for a number of years. However, over the past year or two, the unemployment rate has dropped significantly beyond that to levels not seen in this century. Attracting and retaining the best possible employee workforce to serve the residents of Johnson County has long been a priority, but I am not sure it has ever been quite this critical.

Additionally, Johnson County continues to experience a hot housing market, creating a higher value of our properties. This is another extremely significant issue that needs to be addressed in the FY 2023 budget: the impact of significant increases in appraised values to many Johnson County homeowners.

We will dive into these challenges, as well as other pressures, throughout this message so that detail can provide context for decisions made in the proposed budget. I am proud to say our leadership, workforce, culture and our sound financial management allowed us to meet these priority areas with strategic and thoughtful solutions, plus we accomplished much more.

The economic landscape

We find ourselves in challenging and uncertain economic times, with a combination of good and not-so-good news. All of us are feeling the pressures of inflation whether we are filling up our gas tank, buying groceries, or making bigger purchases such as a vehicle or a home. The county has a careful eye on how the federal government will adjust interest rates and what impact that will have on our revenue streams. Right now, those revenue streams are doing well.

Johnson County's housing market trends have led to a 10% growth in assessed valuation. The fewer-than-expected appeals made on property values in 2022 shows that residents understand the realities of the housing market Johnson County continues to experience.

Sales tax has been increasing in our state. Sales tax and use tax have been difficult to estimate with the pandemic. From 2016 to 2019, sales tax growth averaged .9% and use tax averaged 4%, for a combined average of 1.4%. In 2020, sales tax was down 3.6% while use tax was up 20%, which made sense due to less people shopping in stores and more people shopping online during the pandemic. As we navigated through the pandemic we assumed sales and use tax would shift back to normal. However, in 2021 sales tax was up 16% and use tax was up 25% for a combined increase of 18%. At this point, we are assuming there has been a shift in the base collections and projecting these levels to be sustainable.

Another factor is the second round of federal funding our organization has received to respond to the pandemic. We were awarded more than $117 million in American Rescue Plan Act (ARPA) funding. While these funds will ease some of the pressure on pandemic response and recovery and lead to community investment, when combined with the increases in property valuation and sales tax, these economic indicators create pressure on the FY 2023 budget. Specifically, there is pressure to control property tax increases while weighing the needs of our organization so we can best serve our community's growing population, coupled with pressures on our workforce unlike we have ever seen.

Also note that a recommended spending plan for the ARPA funds is forthcoming and there will be an opportunity and flexibility to adjust one-time funding based on the board's related policy choices before finalizing the FY 2023 budget.

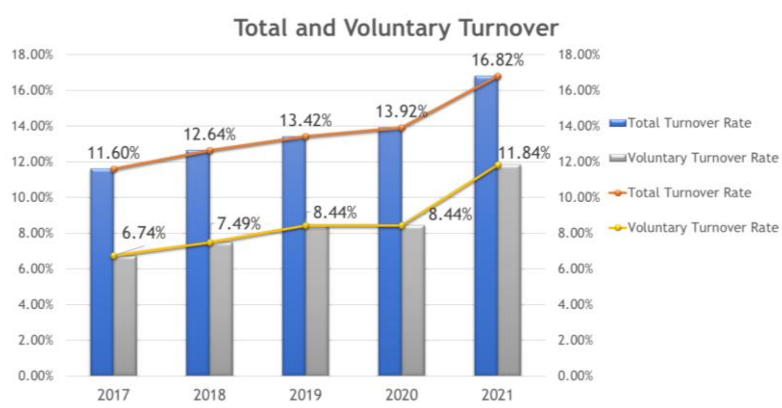
Workforce market pressures

Just like nationally and regionally we have significant pressures on our workforce in terms of recruitment, retention and compensation. These pressures exist across all areas of our organization, all categories and all pay grades.

The nation, as well as our community, continue to find ourselves in the Great Resignation. In 2021, according to the U.S. Bureau of Labor Statistics, more than 47 million Americans voluntarily quit their jobs.. Employees report wanting better pay, benefits and perks along with a new sense of purpose and meaningful interactions.

In the public sector, a November/December 2021 study by the Mission Square Research Institute indicates 52% of state and local workers are considering leaving their jobs voluntarily, due to COVID-19, for a change in jobs, retiring or leaving the workforce entirely. The study also says that 62% of employees believe public employers can retain more employees by improving salaries, 50% suggested offering or increasing bonuses, and 38% said public employers should show more appreciation of employees and their work.

Our organization has experienced a significant increase in our voluntary turnover rate. At the end of 2021, we were at 11.84%. That compares to 8.44% in 2020 and 2019.



In addition to employees leaving our organization for other job opportunities, as the Baby Boomer generation gets closer to retirement age, our projections show our organization will be impacted by the number of seasoned employees who will be retiring over the coming years.

Not only are we losing more employees compared to recent years, but the data shows that fewer people are looking for employment. Unemployment was very low in Johnson County, at 2.4%, in 2019, before the pandemic, but has since dropped even further, to 1.7% at the end of 2021. This is a staggering number. It is two and a half to three times lower than full employment, defined as 4% to 5% unemployment. The unemployment rate was 2.5% in the Metro area and 3.7% nationwide at the end of 2021. With the high turnover rates coupled with drastically low unemployment, we are facing workforce pressures unlike we have seen in recent decades, if ever.

While we have bonuses and leave tools, due to the current labor market, we continue to struggle to recruit and retain the workforce we need to serve our community and its ongoing increasing population. We often need to offer higher salaries to incoming employees. When we bring in new employees at a higher salary, that creates pay compression for our existing employees. Peers who are hired in just a few years behind an existing employee quickly catch up to their salary, or even leapfrog them.

After careful consideration, staff has developed a strategy to enhance pay and benefits beyond what we have done in years past. **This proposed solution includes addressing pay compression in FY 2022, followed by a market adjustment, a merit pool and an increase in the county's supplemental retirement matching program for FY 2023.** (Detail on these proposals are in the next section.) These proposals are designed to keep the county as competitive as possible in the current job market. We need a high-quality workforce to maintain our service delivery. In our 2022 Community Survey, residents told us that 98% of them are satisfied or highly-satisfied with Johnson County as a place to live, and our services play a role in that satisfaction.

While this proposal is significantly greater than the compensation increases in previous budgets, it is critical for the Board, and the public, to understand that this may not turn out to be enough. We are not alone in adding increases to FY 2022 beyond what was initially budgeted; and this situation could very well repeat itself in FY 2023.

The approach for 2023: a complete package that relieves pressures and achieves BOCC and community priorities

In drafting the county manager's proposed FY 2023 budget, we have come up with an approach that achieves many things. We are able to relieve some of the workforce pressures explained in the previous section, fulfill a portion of the Requests for Additional Resources which align with the BOCC priorities and the feedback we received in the 2022 Community Survey, fund the 2023 capital improvement projects, keep an adequate reserve that contributes to us maintaining the coveted Triple AAA bond rating, set aside funds for the potential worst case revenue loss regarding the "Dark Store Theory" cases, continue to provide our programs and services and significantly reduce the mill levy for what would be the fifth mill levy reduction in six years.

I want to highlight here how my proposed budget addresses our workforce pressures.

- In 2022, we will be seeking an investment of the equivalent of a 2 percent pool of our total salaries to address issues with pay compression. While we have addressed compression on a case-by-case or group-by-group basis in recent years, this will be a large push to finish out that effort so that we will have our salary structure largely where it needs to be going into FY 2023. In anticipation of that investment, we have built funding into our baseline assumptions for the FY 2023 budget.
- 3 percent merit pool for individual 2022 performance (ranging from 0-5%).
- 2 percent market increase to help prevent future compression issues and to be competitive in the market.
- 1 percent increase to the county's match to supplemental retirement (raising the maximum match from 3 to 4 percent).

Even with the proposed pay and benefit increases for our workforce, the proposed budget includes a mill levy reduction, which if approved would be the fifth in six years, and much larger than those in previous years. After careful consideration including analyzing the impacts to the five-year forecast, I am **proposing a mill levy reduction in all three taxing districts, County, Library, and the Park and Recreation District equaling a full mill in total** (0.82 mills for the County taxing District, 0.10 mills for Johnson County Library and 0.08 mills for Johnson County Park and Recreation District). If approved, this mill levy reduction would represent a **three to fourfold larger decrease** than has been accomplished in recent budgets.

As stated earlier, even after achieving our top two priorities of workforce retention and recruitment as well as lowering the mill levy, **I am recommending a few new priority positions and projects which align with your priorities, as well as those of our community.**

Priorities of our Board and Community

It is important to note that, as we do every year, we align the proposed budget with the Board's priorities: completing existing projects, protecting our vulnerable populations, optimizing the funding available for transit and focusing on innovation.

We also factored in the priorities voiced to us in the Community Survey. Examples of community priorities include the following:

- Residents consistently give high marks in the community survey about **public safety services** in Johnson County…94% reported an overall feeling of safety in the county. This is an area of government where it is crucial to invest.
- In the 2022 community survey, when asked "what services do residents feel are the most important for the county to provide?" the top answers were **Emergency Medical/Ambulance Services, Public Health, the Election Office and Johnson County Park and Recreation District**.

- In the next 10-20 years, residents felt the most critical roles for the government include **health and human services, public safety/law enforcement and maintaining quality leadership.**
- The highest-priority services when you factor in both satisfaction and priority of investment are **aging and human services, mental health services** and **public health**.

Supporting Board and Community priorities with Requests for Additional Resources and Capital Improvement Program

Our priority is to fund Requests for Additional Resources (RARs) and our Capital Improvement Program (CIP) where a lack of increased funding would directly link to reduced service levels. We also made sure to maintain or add funding in areas that align with your Board priorities and Community Survey results mentioned above. Some examples include:

- **Public safety and criminal justice:**
  - Adding 7 Sheriff's Office positions for **added safety and security.**
  - Two additional positions in the Department of Emergency Services to answer **9-1-1- calls and dispatch first responders.**
  - Funding for a **future new MED-ACT station** in Olathe to better serve the county's growing population.
  - An additional **victim advocate** for the District Attorney's Office to help address a backlog in cases.

- **Health and human services:**
  - A new Housing Coordinator to address the issues of **housing insecurity and affordability.**
  - Three additional staff for the Mental Health Center including a new **clinical position for the Community Behavioral Health Team** (serves clients of Johnson County Mental Health and Johnson County Developmental Supports).
  - A **population health and health equity** program manager for the Department of Health and Environment.
  - A medicolegal **death investigator** for the Medical Examiner's Office.

- **Parks and libraries:**
  - Two additional clerk positions for Johnson County Library to **increase services at the libraries.**
  - A **natural resources technician** for Johnson County Park and Recreation District.

- **Other important county service areas:**
  - **Election Management System upgrade and ballot on-demand printers** (both required due to new Kansas legislation).
  - Funding to **update the zoning regulations** for the unincorporated area.
  - An additional **project engineer** for Johnson County Wastewater.

FY 2023 Budget by the numbers

The FY 2023 Budget is $1.64 billion, comprised of $1.15 billion in expenditures and $488.1 million in reserves, and is based on a total mill levy reduction of 1.000 mills, from 25.568 mills to 24.568 mills. The proposed mill levy is 17.744 mills for the County, a reduction of .82 mills, 3.808 mills for the Library, a reduction of .10 mills, and 3.016 mills for the Park and Recreation District, a reduction of .08 mills.

A total of 4,173.74 FTEs is included in the FY 2023 Budget. This is a net increase of 37.26 FTEs from the FY 2022 budget of 4,136.48 FTEs. There are 23.28 new FTEs proposed in the FY 2023 Budget. In the County Taxing District there are 15.28 new positions that are tax support funded and 4.0 that are funded with fees. The remaining difference is a result of activity outside the budget process. A total of 47.25 were added outside the budget cycle; comprised of (1.0) for a Housing Coordinator, (3.0) for the Department of Health & Environment, (2.0) for Developmental Supports, (1.0) for Aging and Human Services, (2.0) for the Sheriff's Office, (5) for the new Transit division within Public Works and 33.25 for the Mental Health Center for new services and various grant initiatives. Conversely, a total of 33.82 FTEs were removed outside the budget cycle, with the majority comprised of Park and Recreation Enterprise Fund positions.

The FY 2023 Budget includes $4.5 million in ongoing additional resources and approximately $38.7 million in one-time expenses to address increased demands, inflationary pressures, and one-time needs. With the high level of reserves the county is estimating, this is a prudent use for the organization. Of the $38.7 million in reserves, $20.9 million is in the County's General Fund (ending 2023 at 42.4%).

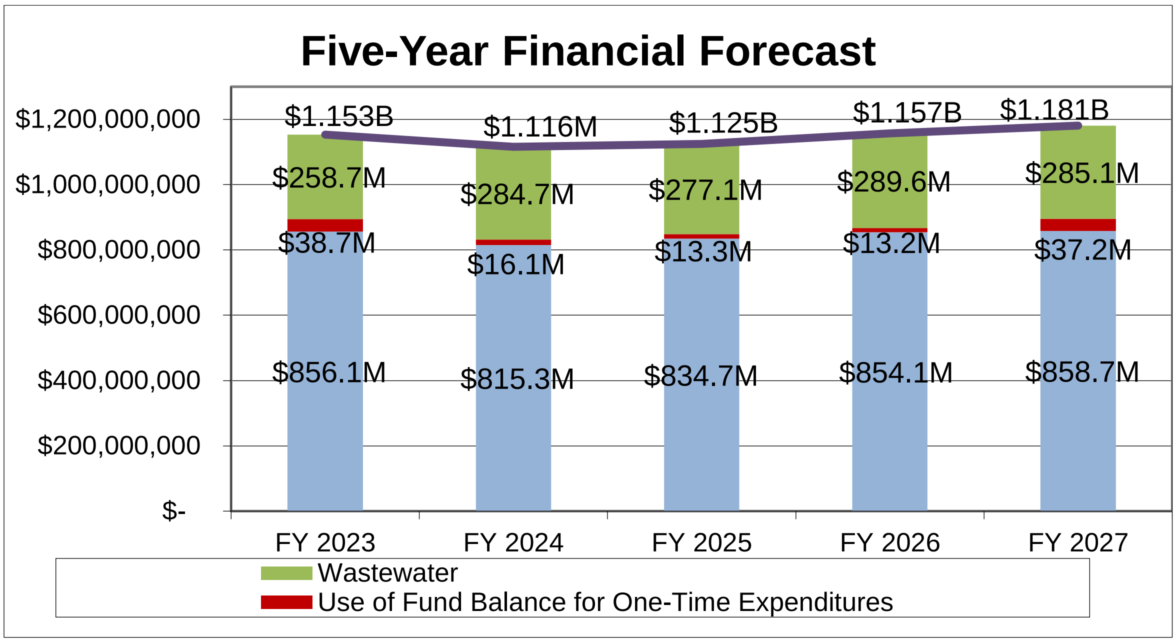
Regarding Johnson County Wastewater (JCW), customers receive a combined bill that includes user charges for Operations and Maintenance (O&M) and a Capital Finance Charge that funds debt service related to the JCW capital improvement program. The proposed rate increase of 5% is needed to cover increasing operating and capital costs for FY 2023 and is the same that was projected in last year's model. 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 debt service on capital projects including Nelson Wastewater Treatment Plant, inflationary costs, increased personal service costs and capital outlay. With Tomahawk being fully operational, this will allow JCW to reduce the treatment service being provided by Kansas City substantially. Even with the increases, JCW rates remain among the lowest of the six major metropolitan area sewer providers.

On May 2, 2022, the County entered into a Water Infrastructure Finance and Innovation Act (WIFIA) credit agreement at 3.01% for up to $281,260,000 with the United States Environmental Protection Agency (EPA), a direct borrowing/placement, to fund part of the Wastewater Improvements at the Nelson Wastewater Treatment Plant and related work at Turkey Creek Wastewater Treatment Plant, which is expected to cost approximately $574 million.

Also included in the FY 2023 Budget is the FY 2023 - 2027 Capital Improvement Program (CIP). The FY 2023 CIP is $264.1 million. Excluding Stormwater, Wastewater and other projects that have dedicated funding sources, the FY 2023 CIP includes a total of $42.7 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 Wastewater plant expansions currently underway, and others known to be on the horizon. This five-year forecast includes on-going expenditure increases ranging from $1.0-$8.0 million per year that are anticipated with inflationary increases. It also includes $9.0 million annually for one-time expenditures and projects that address future needs of the county. With positive assessed valuation and sales tax growth, and sound financial management, the five-year forecast is balanced matching on-going revenue with on-going expenditures. Accordingly, below is the county's current Five-Year Financial Forecast with a 1.000 mill levy rollback in FY 2023, and a constant mill levy for FY 2024-FY 2027.



Projected fund balances for General Fund

Fiscal Year	Projected Ending Fund Balance ($)	Projected Ending Fund Balance (%)	Revised Est. Ending Balance with Adjustments*
2023	$197.1 million	42.4%	33.9%
2024	$188.1 million	44.8%	35.5%
2025	$179.1 million	41.6%	32.5%
2026	$170.1 million	38.3%	29.4%
2027	$143.5 million	33.1%	28.0%

**Adjustments include reducing Auxiliary Fund ($29.7m) and Public Safety Sales Tax III ($31.7m), and increasing ARPA estimate ($22m)*

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 slightly above 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.

Additional potential uses for one-time funding (unfunded)

The table below lists additional potential estimated one-time expenditures. Some, such as the additional costs associated with presidential elections, are routine, while others, like the Home Delivered Meals Kitchen, will be future policy choices. As stated earlier, there will be opportunities to consider ARPA funding for some of these items based on the Board's future policy decisions.

Small New Century Building Renovation for AHS and MNH	$7.7M
Airport ($2.5M for 5 years)	$12.5M
Nursing Center	$15.0M
Elections Office and Parking Improvements	$6.5M
Presidential Election	$2.5M
Home-Delivered Meals Options	$7.0 - $17.0M
New Crisis Intervention Center Partnership	TBD
Total	$51.2 - $61.2M

Strategic goals progress, future opportunities and upcoming challenges

Leadership and staff work together to meet the challenges we face, even during a pandemic when we had not faced similar challenges in our lifetime. Thankfully, as a high performing organization that prioritizes collaboration, innovation, creativity and problem solving, we not only make it through the most complex challenges, but we consistently make progress on the Board's priorities with a focus on serving our community. We were so pleased with the results of the 2022 Community Survey, as the community voiced such high satisfaction rates, higher than the national average and other large communities.

Even with the pandemic, we were able to complete major capital projects such as the Johnson County Courthouse, several Park and Library projects as part of their strategic plans, and most recently the Tomahawk Creek Wastewater Treatment Facility, and all were completed on time and on budget. Some of these projects include innovations which will save residents millions of dollars. Johnson County Wastewater saved $250 million by using our auxiliary treatment for wet weather flows instead of building large storage tanks. JCW's upcoming project at the Nelson Wastewater Treatment Facility is in its early stages, but off to a great start with participation in the EPA's Water Infrastructure Finance and Innovation Act (WIFIA) loan program which will save the county $80 million.

Serving vulnerable populations is another BOCC and community priority. We continue to serve our aging population, along with those who have a mental health challenge or an intellectual or developmental disability. The extra infusion of $500,000 for Aging and Human Services (added in the 2021 and 2022 budgets) is allowing more Johnson County older adults to remain in their homes instead of institutionalized settings. More than 30 new Mental Health FTEs (due to BOCC and grant funding) are allowing people to be served by mental health professionals in the community in innovative ways.

With the Board's recent authorization to bring the day-to-day management of transit back in-house, we look forward to implementing and managing $15.2 million in new transit pilot programs, funded with Federal Transit Administration (FTA) COVID relief grants, which represents the largest single investment in transit in Johnson County's history.

We have some exciting opportunities ahead. Economic development is coming to the New Century Commerce Center, expected to bring more than 2,500 new, permanent jobs over 10 years. For the first time we will officially honor the holiday of Juneteenth with our own observance in which the community can participate, as well as adding the day to our calendar of standard, fixed holidays. A partnership with the City of Olathe will add more amenities to the new green space where the former courthouse used to be. As we emerge from the pandemic, we will take the innovations we developed that allowed us to continue to provide nearly all of our services as we build on our culture to continuously seek to make improvements.

With the future opportunities come challenges. One of those is working on long-term solutions for those who are housing insecure or homeless. We have a Board committee who is working on this issue. Due to the complexity of the landscape and the many internal and external stakeholders who touch this issue, the Board recently approved the new position of a Housing Coordinator. We look forward to filling this important role and continuing to work with the community on this important issue.

Another challenge we are working on and will continue to work on is how to best utilize the county buildings we have moving forward. One thing we learned from the pandemic is that some county work can be done remotely. Harnessing the technologies and processes we have developed for appropriate remote work in our organization could mean a change in future needs for space. We always want to be good stewards of resources, so work will continue with our Strategic Facilities Master Plan and we will make the best recommendations we can for your consideration on any future changes to county buildings and facilities.

Finally, many of the challenges we consider present challenges will also be future challenges. We anticipate ongoing workforce market pressures, a potential recession, significant work on capital projects to be impacted by construction inflation, an increasing population translating into an increasing need for our services and continued pressure on the mill levy due to property valuations to be ongoing issues for our organization.

Conclusion

This budget has carefully considered the needs of our community and organization as well as our financial position and outlook as we look forward toward 2023 and beyond. It reflects a well thought out plan to serve our residents, be good stewards, and position our organization for the future.

I am proud of our employees and the contributions they make daily. I am amazed by what they have done these past few years; the innovative leadership I saw from all levels of the organization, the resiliency of their commitment to our residents, and the sacrifices they were willing to make. This is a great organization to work for and our employees drive and sustain our culture. This is why retaining and recruiting high quality employees is paramount and why compensation is a priority in this budget.

We are here to serve the community. We are very cognizant of the cumulative effect of reappraisal, especially on those with fixed and modest incomes. The proposed mill levy reduction of a full mill comes after careful thought and analysis. It is achievable at this time and can be done while addressing compensation and the highest service delivery needs of our organization. After all we have been through, it feels good to be able to put forward a proposed budget that accomplishes so much.

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 2023 Budget. Much time and effort went into its development.

Respectfully submitted,

Penny Postoak Ferguson

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County Manager