<u>Johnson County, Kansas Multi-year Budget Projection - May 2022</u>

Introduction

Staff has updated the multi-year budget projections to include the County Manager's proposed budget for FY 2023. Projections for FY 2022 through FY 2027 are based on historical trends and existing County services. Staff had been conservative with earlier projections following COVID, however, revised projections have assumed stronger growth in 2022 based on increasing revenue. The County's projections will be updated periodically for changes in policy, legislation, and the economy.

Methodology

The financial projections include estimated revenues and expenditures for FY 2022 through FY 2027, including calculations of the amount of property tax revenue necessary to balance the budget in FY 2023 through FY 2027. 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.

<u>Assessed Valuation</u>
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 2023, the estimated delinquency rate used for budget projections is 2.10%)

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

Table #1: Assessed Valuation from FY 2013 to FY 2022 (County Taxing District only)

Fiscal Year	Total Assessed Valuation	$ Increase*	% Increase
2013	$7,520,503,387,000	$(31,482,178,000)	(0.42)%
2014	$7,630,978,170,000	$110,474,783,000	1.47%
2015	$8,084,290,606,000	$453,312,436,000	5.94%
2016	$8,596,593,490,000	$512,302,884,000	6.34%
2017	$9,229,880,308,000	$633,286,818,000	7.37%
2018	$9,858,473,397,000	$628,593,089,000	6.81%
2019	$10,558,374,635,000	$699,901,238,000	7.10%
2020	$11,150,320,050,000	$591,945,415,000	5.61%
2021	$11,733,829,400,000	$583,509,350,000	5.23%
2022	$12,260,371,273,000	$526,541,873,000	4.49%
		Average % Increase	**4.99%**

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

As noted in the table, the average increase in assessed valuation is 4.99% 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 2013 to FY 2022

Fiscal Year	Total Mill Levy	% Change	Total Property Tax Revenue	% Change
2013	23.210	0.1%	$168,320,608	0.2%
2014	23.247	0.2%	$170,843,754	1.5%
2015	23.270	0.1%	$180,141,184	5.4%
2016	26.595	14.3%	$218,891,153	21.5%
2017	26.607	—%	$234,527,808	7.1%
2018	26.351	(1.0)%	$248,093,703	5.8%
2019	26.013	(1.3)%	$260,935,194	5.2%
2020	26.030	0.1%	$275,083,280	5.4%
2021	25.797	(0.9)%	$285,641,536	3.8%
2022	25.568	(0.9)%	$298,329,281	4.4%

In 2016, the mill levy increased 3.325 for Park and Recreation, Library, State revenue reductions, and general operations. From 2017 to 2022, the mill levy was reduced by a combined total of 1.039 mills.

Revenue Assumptions

Revenues are estimated using a conservative approach to avoid budget shortfalls during the fiscal year. The County's Revenue Estimating Committee meets during the months of February through June to review and modify revenue estimates for the County's major revenue sources. FY 2020 and FY 2021 were turbulent years with the impact of COVID-19. However, beginning in FY 2022, revenue estimates assume a rebound in the economy and strong growth in revenues. The current growth projections for the key major revenue sources are presented in the following table.

Table #4: Percentage Growth Projections for Major Revenues

Revenue Source	FY 2022	FY 2023 through FY 2027
Assessed Valuation*	4.49%	9.7% - 4.1%
Sales Taxes	2.0%	2.0%
Use Taxes	4.0%	4.0%
Interest on Delinquent Taxes	$2.5 million	$2.5 - $2.0 million
Motor Vehicle Taxes	3.0%	3.0%
Recording Fees	$6.0 million	$6.0 million

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

Most revenue projections are estimated to show increases in FY 2023 and continue through FY 2027. The County will continue to closely monitor economic impacts on the County's major sources of revenue.

Expenditure Assumptions - Operating Budget

Staff has prepared a set of operating expenditure growth estimates for FY 2023 through FY 2027. These projections assume: 1) 0.820 mill levy reduction for the County Taxing District, 0.080 mill levy reduction for the Park & Recreation Taxing District, and 0.100 mill levy reduction for the Library Taxing District, and 2) minimal increases to service delivery in FY 2023 through FY 2027. The expenditure projections are summarized in the following table.

Table #5: Projections for Operating Expenditures

Expenditure Item	FY 2022	FY 2023 - FY 2026
Salaries - Merit Increase	3.0%	3.0%
Salaries - Market Increase	—%	2.0%
Salaries - Compression	2.0%	—%
Health Insurance Program - percentage growth	0.0%	4.0% - 6.0%
Supplemental Retirement - County match percentage	3.0%	4.0%
Other Fringe Benefits	20.0%	20.0%
On-going Contractual and Miscellaneous Items	$4.0 M	$4.5M - $8.0M

Expenditure Assumptions - Capital Improvement Program (CIP)

Staff has prepared a set of CIP projections for FY 2023 through FY 2027. These projections are presented in Table #6 below.

Table #6: Projections for CIP Expenditures

CIP Item	FY 2022	FY 2023 through FY 2026
CARS Program	$16.9 M	$17.2M - 18.1M
Bridges, Roads, and Culverts Program	$2.4 M	$1.9 M
On-going Capital Projects*	$6.5 M	$6.7
Park and Recreation Strategic Master Plan	0.726 mills	0.646 mills
Library 20 Year Master Plan	0.750 mills	0.752 mills
Transit Bus Replacement	$2.8 M	$2.8 M - $4.6 M

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

Impact on Total County Budget

The total expenditure amount for FY 2023, excluding reserves, is $1.153 billion. This represents an increase of $150.5 million, or 15.0%, when compared to the FY 2022 budgeted expenditure amount of $1.003 million. The majority of the increase is due to rising costs for personal services and contractual services, increasing debt service for significant Wastewater Treatment Plant projects, grant funding, and one-time expenditures for CIP. The total estimated expenditure amount is projected to increase to $1.181 billion by FY 2027 primarily due to increasing salary and benefits..

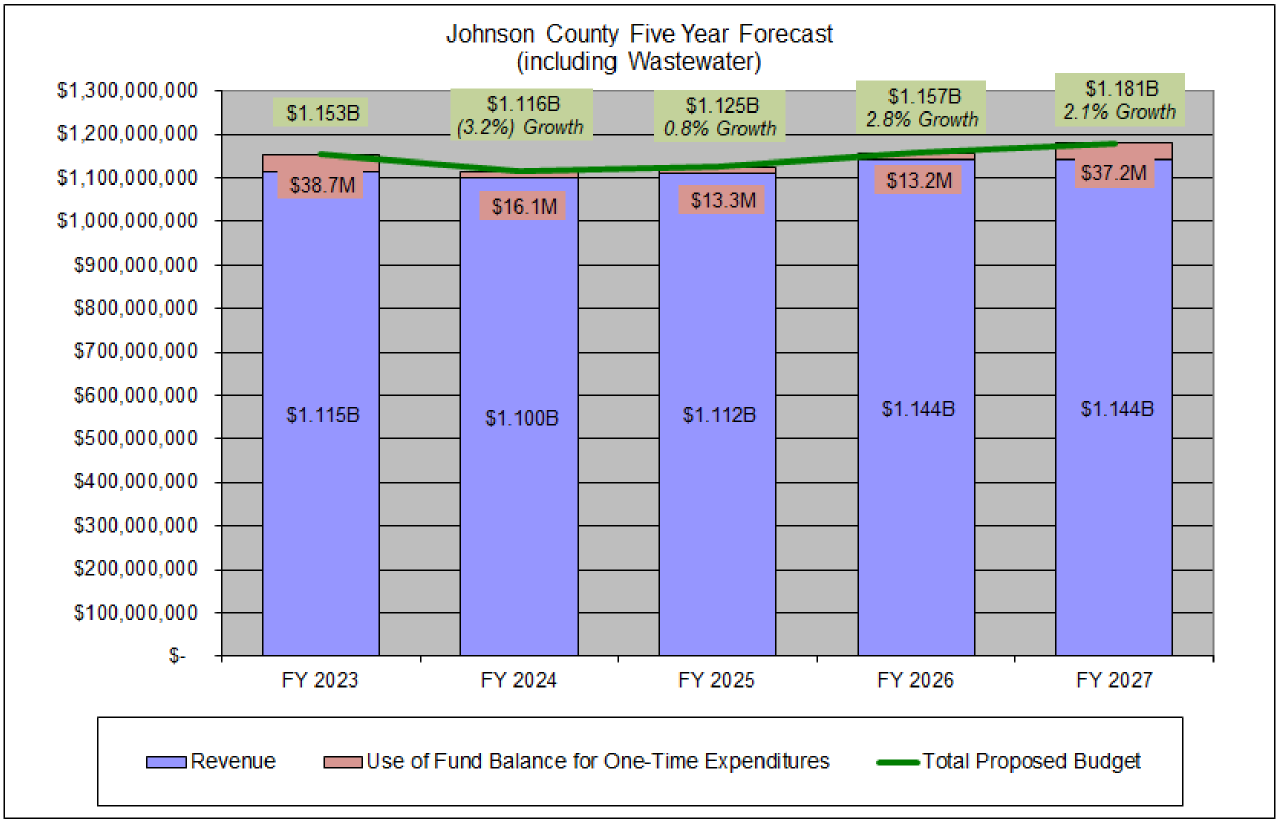
Projections for assessed valuation (County taxing district), property tax revenue, and mill levies are presented in the following table.

Table #7: Projected Property Tax Revenue and Mill Levies for FY 2023 - FY 2027

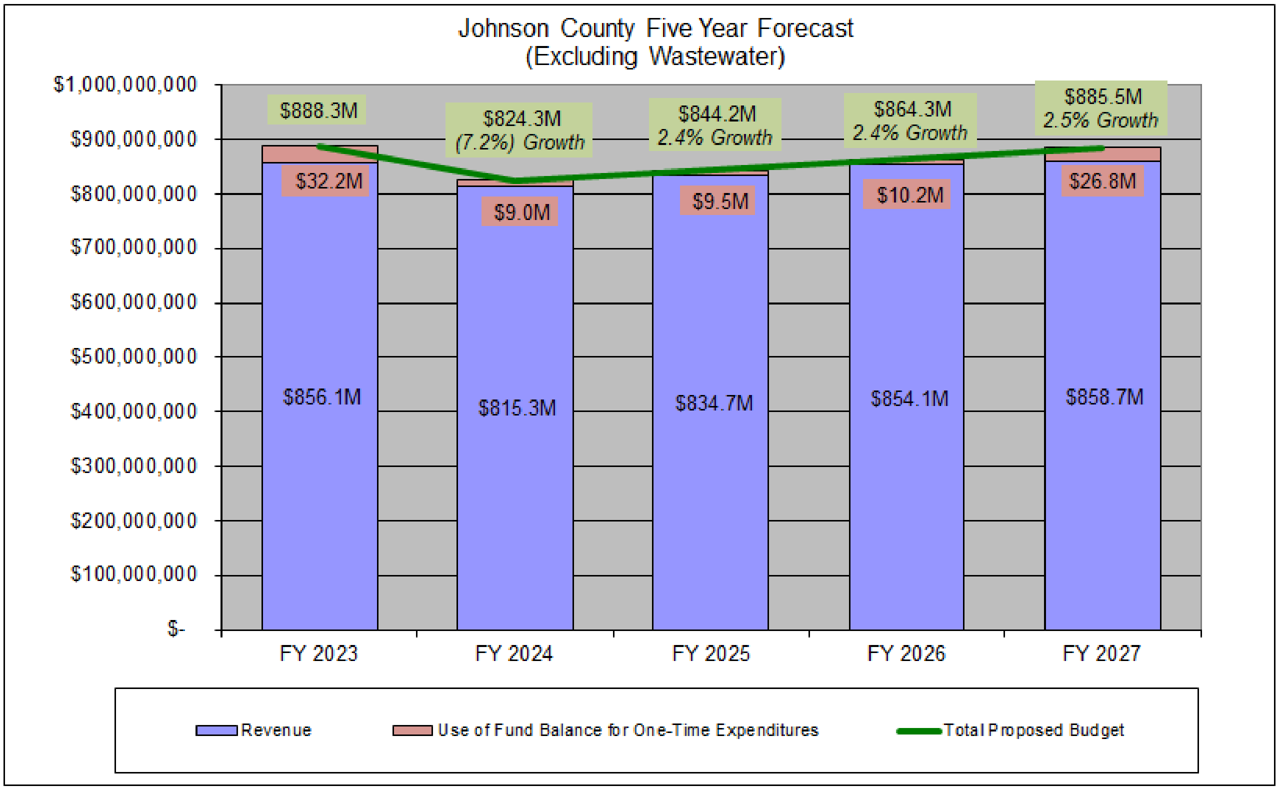
Fiscal Year	County Taxing District Assessed Valuation	Property Tax Revenue	Total Mill Levy	Mill Levy Change
2023	$13.4 billion	$314.5 million	24.568 mills	(1.000) mills
2024	$14.1 billion	$328.9 million	24.568 mills	0.000 mills
2025	$14.6 billion	$342.2 million	24.568 mills	0.000 mills
2026	$15.2 billion	$356.2 million	24.568 mills	0.000 mills
2027	$15.8 billion	$370.9 million	24.568 mills	0.000 mills

The Budget includes a reduced mill levy of 1.000 mills for FY 2023. With changes in appeals between August and October when values are finalized, the County is anticipating some fluctuation in the final amount of the mill levy. In FY 2024 through FY 2027, the mill levy is projected to remain flat.

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



Wastewater will have large anticipated expenditures due to issuing debt for the Wastewater Nelson project. The graph below shows the County's budget projections excluding Wastewater, removing those variances.



General Fund Reserve Levels

Projections for the General Fund reserve for FY 2023 through FY 2027 are presented in the following table.

Table #8: Projected General Fund Reserve

Fiscal Year	Projected General Fund Reserve ($)	Projected General Fund Reserve (%)*
2023	$197.1 million	42.4%
2024	$188.1 million	44.8%
2025	$179.1 million	41.6%
2026	$170.1 million	38.3%
2027	$143.5 million	33.1%

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

Moody's Investors Service has assigned an Aaa rating with the issuance of the Johnson County's $41.5 million General Obligation Internal Improvement Bonds and approximately $6.8 million in Public Building Commission's (PBC) Lease Purchase Revenue bonds. When rating the County's debt, Moody's Investors Service commented that the Aaa rating reflects the excellent general obligation credit characteristics of Johnson County, which includes:

- County financial management is strong as seen by the ability to proactively and prudently managed its expenditures and its healthy financial reserves are projected to remain ahead of formal policy of at least 20-25% over the five-year forecast.
- Johnson County's credit profile benefits from a very large tax base that serves as a major employment center in the Kansas City metropolitan area, and strong resident income and wealth levels. The County serves as the economic engine for the state is and is positioned to remain in expansion mode due to strength of the underlying economy and steady demand for residential and commercial property.

Standard and Poor's Rating Services and Fitch Ratings also assigned the County its AAA rating with a stable outlook. Standard & Poor's opinion reflected that the County has a growing, diversified local economy and recent market growth supports major revenue stream growth. This coupled with very strong fiscal management has allowed for the continuance of strong budgetary performance and budgetary flexibility and liquidity. The County's strong debt and contingent liability reflects its management of significant development and growth in service demands.

On August 13, 2020, 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 BOCC policy, the annual calculation for the County's General Fund 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). Additional information regarding the County's reserve policies may be found in the financial policies section of this book as well as at this link https://www.jocogov.org/dept/budget-and-financial-planning/financial-policies/reserves.

As part of the revised General Fund reserve policy adopted on August 13, 2020, a portion of the General Funds will be assigned to be an "Auxiliary Fund." The Auxiliary Fund will provide increased stability for the Health Care Fund by committing a portion of the General Fund reserves to be held for increased claims costs. The maximum amount established for the Auxiliary Fund portion of the General Fund will be set at

$29.7 million for FY 2023.

The County's General Fund has increased in FY 2020 and FY 2021. This is a result of unanticipated revenues, conservative departmental spending, budget reductions during the pandemic an additional federal funding from the pandemic. As indicated in the previous table, the County is projected to comply with the current reserve policy in FY 2023 through FY 2027.

Long-term and Unfunded Liabilities

Public Employee Retirement System

The County and the Johnson County Park & Recreation District participate in the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F). Both are part of a cost-sharing, multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq*. The Kansas Public Employees Retirement System is a fiduciary providing retirement benefits, disability income benefits, survivor benefits to plan members and their beneficiaries. It is governed by a 9-member Board of Trustees for over 295,000 members across 1,500 employers with assets over $16 billion. Kansas law establishes and amends benefit provisions. KPERS and KP&F issue a publicly available joint financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

K.S.A. 74-4919 and K.S.A. 74-49,210 established the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member employee contribution rate at 6% of covered salary for all members.

K.S.A. 74-4975 establishes the KP&F member-employee contribution rate at 7.15% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the KPERS employer contribution rates. The KPERS employer rate established for the fiscal year ended December 31, 2020 was 8.61%.

On July 1, 2006, legislation went into effect requiring governmental agencies to pay a KPERS employer contribution rate on certain KPERS retirees who work after retirement (House Substitute for SB 270). Recent legislation has changed working-after-retirement rules for both employers and members if a retiree returns to KPERS employer. Employer will make contribution on all retiree compensation. The contribution rate varies depending on certain circumstances.

The KP&F employer rates established for fiscal year 2020 is 21.93% for participating emergency medical staff and sheriff. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. Contribution amounts are equal to the contractually required contributions for each year as set by State Statute.

In accordance with current Government Accounting Standards Board (GASB) statements, the County is requires recognition of a liability equal to the County's proportionate share of net pension liability for the pension plans provided to County employees, which is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The County's proportionate shares of the pension costs and the County's net pension liability for KPERS and KP&F for the past three years are as follows:

	KPERS		KP&F	
	Proportionate Share of Pension Costs	Net Pension Liability	Proportionate Share of Pension Costs	Net Pension Liability
2020	8.069%	$139,894,139	9.010%	$111,106,564
2019	8.058	112,594,008	9.134	92,449,168
2018	7.962	110,972,192	9.587	92,248,210

Other Post-Employment Benefits

The Government Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), establishing new accounting and financial reporting requirements related to post-employment healthcare and other non-pension benefits (referred to as Other Postemployment Benefits or "OPEB").

The County sponsors a single-employer defined benefit healthcare plan that provides healthcare benefits to retirees including medical, dental, and vision coverage. Retiree health coverage is provided for under Kansas Statute 12-5040. Retirees who retire with at least ten years of cumulative service with the County and commence retirement or disability benefits under the KPERS or KP&F are eligible for benefits. This coverage may also extend to the retiree's family. Retirees are eligible to remain on the County's group health plan, but the County does not assist with premium payments. The only cost to the County comes from the implicit rate subsidy. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

For more information regarding liabilities with respect to the County, please reference County's Annual Comprehensive Financial Report for fiscal year ended December 31, 2020, available at the following link: https://www.jocogov.org/department/financial-management-and-administration/accounting-and-reports

Questions for the Board

The Multi-year Budget Projection is based on a number of assumptions which continue to change as time passes. Some of the variables in the financial projections are controlled by the Board, while others cannot be controlled and are virtually impossible to predict. Overall, the Multi-year Budget Projection should be viewed as a tool to illustrate the impact of policy alternatives and to highlight potential fiscal problems in future years.

The five year forecast shows a balanced budget with no mill levy increases. If these assumptions change, the County will be faced with expenditure reductions or revenue enhancements to maintain a balanced five year model. In addition, key decisions on strategic issues or possible state legislation could alter future financial projections.

Overall, the County is faced with the following policy questions:

1. ***What services will the County provide?***
2. ***Who is the best provider of service?***
3. ***What level of service will be provided to the community?***
4. ***What is an acceptable level of cost for each County service?***
5. ***How will the County finance the cost of services?***

Staff will continue to monitor and update the financial projections on a periodic basis as policy decisions are made and more current information is available.