



County Administrator's Office

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2018 Unified Government Proposed Budget County Administrator's Budget Message

MAYOR HOLLAND AND UNIFIED GOVERNMENT COMMISSIONERS

As we celebrate the 20th anniversary of voters approving the consolidation of the city and county governments to form the Unified Government, I am pleased to present a budget which maintains our community momentum and again reduces property taxes.

The 2018 budget I am recommending cuts the KCK property tax rate by 4.8%. That's on top of a 4.6% reduction last year. In 1996, as the movement to form the Unified Government was underway, the owner of a \$100,000 house paid \$1,115 in city/county property tax. 20 years later in 2018, the owner of a \$100,000 house will pay \$905 in Unified Government property tax. That's a reduction of \$210, or nearly 19% less.

This budget uses \$4.1 million of the \$12.4 million in STAR Bond revenues to accomplish the property tax reduction. The STAR Bond revenues, generated by the bonds used to build Village West paying off five years early, also allow the Unified Government to increase public safety spending, launch the Stabilize, Occupy and Revitalize (SOAR) blight reduction effort, and pay for a number of other community services.

The Proposed 2018 Budget is built on the Strategic Plan and Goals set by the Commission as determined through retreats, the Citizen Survey, listening tours with thousands of citizens and operational studies.

BUDGET OVERVIEW

As a result of prudent policy decisions, support from Unified Government (UG) governing body, employees and the community, and a growing economy, the UG's financial condition remains stable. With cautious optimism and the theme of fiscal discipline, I present the Amended 2017/2018 Proposed Budget.

Total budgeted resources in the coming fiscal year will be sufficient to support total budgeted expenditures of \$357.9 million. The budget also maintains the Commission’s long-standing funding priorities by allocating over half of the budget to direct costs for public safety and maintenance. The 2018 UG overall budget is 4.0% higher than the 2017 amended budget.

Over the next few years, the UG will continue to see modest increases in its General Funds net resources. At the same time, we anticipate growth in employee pension and health benefit costs. While we have significant challenges ahead, this proposed budget provides a sensible and sustainable combination of funding for maintaining and, in a modest way, improving on the current level of services, while investing strategically for the UG’s future.

CONSOLIDATED GENERAL FUND OVERVIEW				
<i>(\$s in thousands)</i>	2016 ACTUALS (per CAFR)	2017 AMENDED BUDGET	2018 PROPOSED BUDGET	% Change 2018 v. 2017
Beginning Fund Balance	\$ 21,129	\$ 19,279	\$ 19,046	
Revenues	192,596	203,946	209,162	2.6%
Other Financing Sources	2,438	11,976	10,293	-14.1%
Subtotal: Sources	195,034	215,922	219,455	1.6%
Expenditures	192,293	203,262	207,554	2.1%
Other Financing Uses	4,591	12,893	12,134	-5.9%
Subtotal: Uses	196,885	216,155	219,688	1.6%
Net Operating Performance	(1,850)	(233)	(234)	
Ending Fund Balance	\$ 19,279	\$ 19,046	\$ 18,812	
Reserve Target - % of Expenditures	10.0%	9.4%	9.1%	

Consistent with the theme of fiscal discipline, the majority of service level enhancements included in the proposed budget are devoted to the most pressing issues facing our community: public safety, road and street infrastructure investment and blight reduction. I look forward to working with the Commission, the organization, and the community to meet the fiscal challenges that lie ahead.

In this message, I will highlight the following:

- 2017 and 2018 Fiscal Outlook
- Current Economic Update
- Key Budget Assumptions
- Discussion of Unmet Needs
- Major City and County Initiatives

FISCAL OUTLOOK

Looking ahead to 2018, staff anticipates that the national economy will continue to grow at a moderate pace although concerns remain of an economic market correction in the coming few years. Although we anticipate our revenue growth will continue through the next several years, we project increasing budgetary pressure as employee retirements expected in the near-term may bring higher pension and other accrued leave benefit costs. Based on preliminary information, higher pension contribution costs in the next five years are anticipated to grow by 4%-6%. These two retirement items of higher contributions and accrued leave benefit payouts total an increase of about \$2.5 million annually across UG departments.

Consistent with the UG’s sustainable budgeting principles, we will be limiting any proposed service enhancements or staffing increases for 2017/2018 to levels that can be supported on

an ongoing basis. We will also recommend setting aside additional reserves in future years to help maintain services to the community as we adjust to the changes in our cost structure.

Although we continue to make up for previous position reductions and streets and facilities maintenance that was deferred during the economic downturn, our ability to improve on the current level of services and invest in the UG's future will depend on continued revenue growth and sustained fiscal discipline by the UG's collective leadership.

Property and sales taxes are the UG's most significant revenue sources.

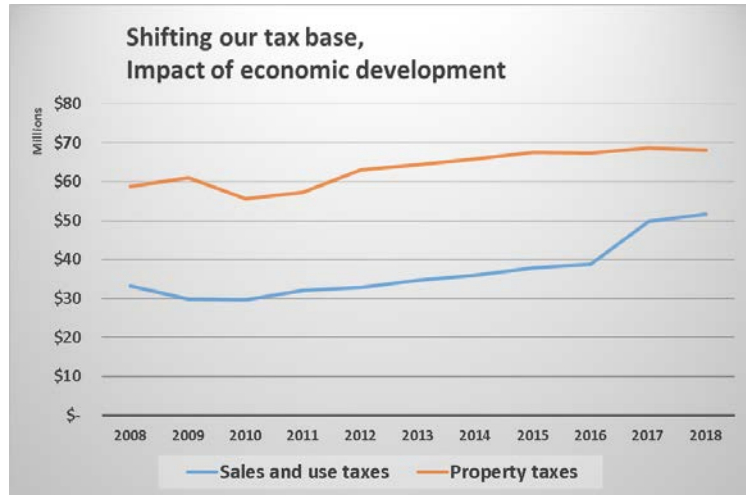
- **Property tax revenues**, both ad valorem and personal property, are estimated to total \$68.7 million in 2017, and staff projects those revenues will decrease to \$68.1 million in 2018, or (1.0%). This 2018 decrease is due to the recommendation to reduce the property tax mill rate for the City General Fund down from 41.875 mills to 39.875 mills, or a total reduction of two mills. Similarly to the 2018 proposal, a two mill reduction was adopted by the Commission as part of the 2017 original budget. The 2018 property tax revenue reduction is also due to a 12% decline in the value of utility-owned properties within the County and a decline of 6% in the value of personal property.

The UG's 2018 property tax revenues are based on assessed property values as of January 1, 2017. Under Kansas statutes, assessed values of all real property adjust with the market values of homes, businesses, personal property and utilities, but for tax purposes are appraised at 11.5% of their full market value for residential properties and 25% for businesses properties. By State law, the appraisal market value adjustment are required to be conducted every three years. Two additional factors are contributing to the projected growth in residential and commercial property tax revenue: first, the local real estate market continued to perform well in 2017, with strong sales activity and prices continuing to climb; and second, new construction activity is adding value to the tax roll. As mentioned earlier, these gains were offset by a 12% decline in the value of utility-owned properties within the County and a decline of 6% in the value of personal property.

- **Sales tax revenue** are estimated to total \$49.8 million in 2017 increasing to \$51.7 million in 2018, an increase of 3.8%. The 2017 estimate includes the first-time increase of \$9.4 million deposited to the City and County General Funds due to the early pay-off of the Village West STAR district bonds, which is also reflected in the 2018 estimate. The STAR revenue total of \$12.4 million is allocated with \$9.4 million to the City and County General Funds, \$1.8 million to the Dedicated Sales Tax Fund and \$1.2 million to the Emergency Medical Services Fund. The largest contributors to sales tax growth is from the business and retail sectors.

Reduction of the property tax mill levies by four mills during 2017 and 2018 combined with the additional \$9.4 million in STAR revenue allocated to the City and County General Funds has resulted in a shifting our tax base towards a greater reliance on sales tax revenues. Sales tax revenue in 2018 is 25% of total General Fund revenues compared with 20% in 2016.

Correspondingly, ad valorem and personal property tax revenue in 2018 declined to 33% of the total compared with 35% in 2016. This tax base shift is a direct result of the impact of economic development activity first undertaken during the early years of the UG consolidation. This tax base shift provides property tax relief to residents of our County.



- **Budgetary Uncertainty Reserve Policy**, adopted in 2012, was achieved at the close of 2016 having met its target of 10% of Consolidated General Fund expenditures or \$19.2 million. The Government Finance Officers Association of the United States and Canada has a recommended practice that local governments maintain reserves at two months of expenditures, or about 16%. The UG's reserve level falls short of this recommended practice but will seek to achieve this level of reserve in future years. The 2018 Consolidated General Fund budget anticipates ending the fiscal year with \$18.8 million in fund balance, or 9.1% of total expenditures.

ECONOMIC UPDATE

The key national economic indicators are mixed. Following strong performance in Gross Domestic Product the third quarter of 2016 (3.5% increase from the previous quarter), GDP growth slowed over the following two quarters, with an advance estimate of 0.7% for the first quarter of 2017. Conversely, the seasonally-adjusted national unemployment rate has remained under 5.0% throughout the past year; declining slightly in May 2017 to 4.3%. The strong labor market seems to be fueling positive consumer sentiment even as the economy cools. According to Lynn Franco, Director of The Conference Board Consumer Research Center, "consumers remain confident that the economy will continue to expand in the months ahead."

The press release from the most recent meeting of the Federal Reserve Open Market Committee on June 14, 2017, notes that the "labor market has continued to strengthen and that economic activity has been rising moderately so far this year. Job gains have moderated but have been solid, on average, since the beginning of the year, and the unemployment rate has declined. Household spending has picked up in recent months, and business fixed investment has continued to expand... In view of realized and expected labor market

conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 1 to 1-1/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.” GDP is expected to grow in the 2.5% range through the end of 2017, and sees the unemployment rate improving just slightly from its current level. The determinants of inflation – employment and wage growth, industrial capacity utilization, and energy prices – are all projected to remain relatively low during the forecast period.

KEY BUDGET ASSUMPTIONS

Based on the data we have at this time and economic forecasts from a range of sources, we are making the following key assumptions for the Amended 2017/2018 Proposed budget:

1. The local economy will continue to expand during 2018, resulting in total Consolidated General Fund resources (revenues and transfers in) increasing by a modest 1.6% over estimated resources in 2017. This increase is especially lower than expected because of the recommendation to reduce the property tax mill rate for the City General Fund down by two mills and reductions in valuation for utility-owned property and personal property. Similarly a two mill reduction was adopted by the Commission as part of the 2017 original budget.
2. Total Consolidated General Fund use of resources (expenditures and transfers out) is proposed to be 1.6% more than the amended budget for 2017.
3. The costs of the 2018 proposed budget for the Consolidated General Fund will be covered by projected resources, along with the modest use of reserves of \$234,000 to balance the budget.
4. As the UG is currently engaged in a collective bargaining process with its labor groups, the 2018 proposed budget includes a placeholder salary adjustment of 2.0% to base salaries.
5. Total expenditures in both the 2017 and 2018 proposed budget each include a savings assumption of \$4.0 million (approximately 1.8% of total budgeted 2018 Consolidated General Fund expenditures and transfers out) to reflect the UG’s historical experience of under-spending total allocated resources, primarily due to salary savings from vacant positions. In addition, there is also a reserve of \$775,000 to provide for unanticipated appropriations to ensure sufficient expenditure authority for such items as legal settlements, contracted inmate beds, and emergency facility repairs.
6. The 2018 proposed budget includes CMIP funding for streets, sidewalks, and facilities maintenance, equipment replacement, parks and street capital repair and replacement. These projects are funding with a mix of available cash resources and the issuance of long-term general obligation debt.

UNMET NEEDS

As we begin to face the fiscal challenge of rising retirement costs, we continue to grapple with increasing needs for public safety staffing and the growing cost of maintaining the Unified Government’s infrastructure. The majority of our public infrastructure was constructed many years ago and now requires either an increased level or increased frequency of repairs, compounded by not having had adequate resources to spend on maintenance in the past.

Moreover as Wyandotte County continues to grow, additional infrastructure is added that must be maintained, further stretching the UG's limited maintenance resources. Finally, new requirements and service level demands result in increased costs. Some of these requirements are voluntary, such as the UG's commitment to reducing blight through implementation of the SOAR program; while other enhancements are regulatory required, such as the Environmental Protection Agency required upgrades to the sewer treatment system that continues to move the County toward greater environmental sustainability. Other maintenance requirements, which are regulatory in nature, have increased dramatically over the last few years and have added significant costs to UG operations.

Although the challenge to adequately fund ongoing maintenance of our infrastructure is a major concern, the UG is working to address pressing needs in other areas of the organization and the community as well. The 2018 proposed budget includes allocations to increase our investment in street repair and rehabilitation and public safety equipment and facilities. In future years, the UG's funding needs will include additional public safety equipment, upgrades to maintain compliance with the Americans with Disabilities Act, and technology investments that improve the UG's fiber infrastructure providing greater data access for the public and ensuring emergency communications functionality. These examples serve as a reminder that any additional resources generated by the General Fund in the coming years are not really surpluses. Instead, they provide a means to begin to chip away at the list of unmet needs and deferred maintenance that has developed over the years.

MAJOR UNIFIED GOVERNMENT INITIATIVES

Although the UG's current fiscal situation is challenging, affecting the breadth and depth of services offered to the community, there are many important initiatives currently underway. These initiatives are important elements of our sales tax diversification strategy and investments in the community's future positioning the UG well for long-term growth and stability.

The Proposed 2018 Budget launches a number of important initiatives and improvements in services.

Public Safety initiatives include:

- Police Body and Vehicle Cameras
- 30 new Police Vehicles
- Upgraded 911 communications consoles
- New fire station construction and renovation of existing stations
- 9 new fire trucks and other vehicles
- Construction of a modern Juvenile Justice Center
- Completion of jail improvements including double bunking of inmates

SOAR Blight Reduction initiative include:

- Increased spending for demolition of abandoned and unsafe structure
- Increased spending to increase mowing and property maintenance
- Stronger enforcement of building and safety codes

Innovation and Technology initiatives include:

- A new 311 Customer Service application
- Launch of an upgraded, more user-friendly Unified Government website
- Advancements in computer software and programs

Community Infrastructure initiatives include:

- Improvements to the sewer system
- ADA curb and sidewalk replacements
- New equipment to improve pothole and street repairs
- Several important street improvement projects including Leavenworth and Hutton Roads
- Additionally, in order to meet the requirements imposed by the Environmental Protection Agency, I am recommending a six percent rate increase to our water pollution control fees for 2018.

CONCLUSION

The Unified Government prides itself on being a lean organization, making the most of the resources entrusted to us. The prolonged recession forced us to make hard choices about which services we will provide to the community, and how we will provide them. Fiscal discipline and wise stewardship over many years have made it possible for us to take a balanced approach as we have strategically restored service levels. Those same traits will serve us well as we begin to address the new set of fiscal challenges.

The strong support of the community for creating the Unified Government, building Village West and implementing the dedicated Public Safety and Infrastructure Sales Tax, are important reasons the community is positioned to provide the high quality services citizens expect and improve them in the future.

I would like to thank the Mayor, Commissioners and UG staff for the strong partnership that has us well positioned to move forward with confidence.



Douglas G. Bach
County Administrator