



# Multi-year Budget Projection

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## **Johnson County, Kansas Multi-year Budget Projection – October, 2008**

### ***Introduction***

In June of 2008, the Board of County Commissioners (BOCC) reviewed multi-year budget projections of revenues and expenditures for FY 2008 through FY 2013. These projections included the County Manager's proposed budget for FY 2009. Based on adjustments made to the County Manager's budget proposal by the Board in adopting the FY 2009 Budget, the projections of revenues and expenditures through FY 2013 have been modified and are presented in this document.

Projections for FY 2009 through FY 2013 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 2008 through FY 2013, including calculations of the amount of property tax revenue necessary to balance the budget in FY 2010 through FY 2013. 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:

$$\text{Property Tax Revenue} = \text{Assessed Valuation}/1000 * \text{Mill Levy} * (1 - \text{Delinquency Rate})$$

(For FY 2008, the estimated delinquency rate used for budget projections was 2.40%)

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

**Table #1: Assessed Valuation from FY 1999 to FY 2008 (County Taxing District only)**

<u>Fiscal Year</u>	<u>Total Assessed Valuation</u>	<u>\$ Increase*</u>	<u>% Increase</u>
1999	\$4,294,383,945	\$474,355,010	12.4%
2000	\$4,849,449,401	\$555,065,456	12.9%
2001	\$5,482,711,314	\$633,261,913	13.1%
2002	\$5,951,066,419	\$468,355,105	8.5%
2003	\$6,169,844,607	\$218,778,188	3.7%
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%
		<b>Average % Increase</b>	<b>7.94%</b>

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

As noted in the table, the average increase in assessed valuation is 7.94% 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 1999 to FY 2008**

<u>Fiscal Year</u>	<u>Total Mill Levy</u>	<u>% Change</u>	<u>Total Budgeted Property Tax Revenue</u>	<u>% Change</u>
1999	24.660	(5.2%)	\$94.4 million	7.2%
2000	25.866	4.9%	\$113.3 million	20.0%
2001	24.626	(4.8%)	\$122.5 million	8.1%
2002	24.867	1.0%	\$135.3 million	10.4%
2003	20.771	(16.5%)	\$121.8 million	(10.0%)
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%

In FY 2003, the County implemented a new user fee model to finance Wastewater operations and maintenance activities. This replaced the property tax levy (mill levy) for Wastewater operations and maintenance, which was 4.181 mills (\$18.3 million in revenue) for the FY 2002 Budget. As a result, the property tax levy decreased by 4.096 mills, or approximately 16%, in FY 2003. 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.

Mortgage Registration Fee Revenue

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

Information on mortgage registration fee collections for FY 1998 to FY 2007 is presented below:

**Table #3: Mortgage Registration Fee Revenue from FY 1998 to FY 2007**

<u>Fiscal Year</u>	<u>Actual Collections</u>	<u>% Increase (Decrease)</u>
1998	\$13,931,095	47.5%
1999	\$13,768,370	(1.2%)
2000	\$11,577,685	(15.9%)
2001	\$15,801,210	36.5%
2002	\$20,944,115	32.5%
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%

Over the past ten years, this revenue source has increased substantially overall. On a yearly basis, however, it has been extremely difficult to predict with percentage increases of 22% and decreases of 24% over the past five years. Collections for FY 2006 decreased due to the increase in interest rates, and the increasing volatility in the housing market. FY 2007 collections have increased slightly by 3.3%. The projections still remain conservative due to revenue fluctuations such as the largest yearly decrease (\$6.1 million) in FY 2004. This revenue is expected to decrease in FY 2008 and FY 2009 due to the slowing economy and the unstable housing market.

***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. The current growth projections for the key major revenue sources are presented in the table below.

**Table #4: Percentage Growth Projections for Major Revenues**

<u>Revenue Source</u>	<u>FY 2009</u>	<u>FY 2010 through FY 2013</u>
Assessed Valuation*	1.0%	0.1% - 3.0%
Sales Taxes	2%	2%
Interest on Delinquent Taxes	0%	0%
Motor Vehicle Taxes	0.2%	3%
Mortgage Registration Fees	2.7%	3.5% - 0.6%
Recording Fees	0%	0%

\*The delinquency rate for property taxes has been assumed to be 2.4% in all years.

Due to the slowing economy and housing market, revenue projections have been estimated to only increase slightly. 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 2009 through FY 2013. These projections assume: 1) the continuation of existing services in FY 2009 through FY 2013, 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**

<b>Expenditure Item</b>	<b>FY 2009</b>	<b>FY 2010 - FY 2013</b>
Salaries – percentage growth	3%	3%
Health Insurance Program – percentage growth	10%	20%– 10%
Supplemental Retirement – County match percentage	3%	3.5% – 5.0%
Other Fringe Benefits	10%	7.5%
Contractual and Other Miscellaneous Items	Base budget assumption was 0% increase; some increases were approved by the Board as requests for additional resources (RARs)	0% increase

***Expenditure Assumptions – Capital Improvement Program (CIP)***

Staff has prepared a set of CIP projections for FY 2009 through FY 2013. These projections are presented in Table #6 below.

**Table #6: Projections for CIP Expenditures**

<b>CIP Item</b>	<b>FY 2009</b>	<b>FY 2010 through FY 2013</b>
CARS Program	\$15.4 million	\$15.4 million each year
Bridges, Roads, and Culverts Program	\$2.3 million	2010 - \$2.4 million; \$100,000 annual increase in 2011 through 2013
On-going Capital Projects*	\$2.4 million	\$2.4 million average each year
Park and Recreation MAP 2020	Park General Fund mill levy of 1.946 mills	Park General Fund mill levy of 1.946 mills annually
Sheriff Crime Lab	\$30.3 million	N/A
Sheriff OADC Expansion	\$24.8 million	N/A
Transit Bus Replacement	\$2.0 million	N/A
Parks Okun Fieldhouse Expansion	\$1.0 million	N/A

\*These projects include ECC Public Safety Communications, Facilities Capital Replacement Plan, Information Technology Infrastructure Maintenance, Med-Act Advanced Communications, Emergency Communications Center (ECC) Public Safety Communications, and Elections Voting Equipment Replacement.

The CIP projections do not include funding in FY 2010 through FY 2013 for the following projects:

- Comprehensive Arterial Road Network Plan (CARNP)
- Strategic Facilities Master Plan (which includes a Courthouse expansion, as well as a second jail expansion, and numerous other projects)
- Expansion of the Shawnee Library

**Impact on Total County Budget**

The total estimated expenditure amount for FY 2009, excluding reserves, is \$628.8 million. This represents a decrease of \$8.2 million, or 1.3 %, when compared to the FY 2008 budgeted expenditure amount of \$637.0 million. The total estimated expenditure amount is projected to increase to \$700.0 million by FY 2013.

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

**Table #7: Projected Property Tax Revenue and Mill Levies for FY 2009 – FY 2013**

<b>Fiscal Year</b>	<b>County Taxing District Assessed Valuation</b>	<b>Property Tax Revenue</b>	<b>Total Mill Levy</b>	<b>Mill Levy Change</b>
2009	\$8.25 billion	\$182.0 million	23.114 mills	-0.128 mills
2010	\$8.25 billion	\$195.4 million	24.791 mills	1.677 mills
2011	\$8.41 billion	\$213.2 million	26.509 mills	1.718 mills
2012	\$8.67 billion	\$229.1 million	27.643 mills	1.134 mills
2013	\$8.93 billion	\$241.1 million	28.334 mills	0.691 mills

In FY 2010 through FY 2013, both the mill levy and property tax revenue are projected to increase if the following assumptions are accurate:

- The continuation of growth in the County’s assessed valuation.
- The continuation of existing County services.
- Annual funding of \$3.0 million for requests for additional resources/CIP operating impacts in FY 2010 through FY 2013.
- No new sources of revenue will be received by the County in FY 2010 through FY 2013.

**General Fund Reserve Levels**

Projections for the General Fund reserve for FY 2009 through FY 2013 are presented in the following table.

**Table #8: Projected General Fund Reserve**

<b>Fiscal Year</b>	<b>Projected General Fund Reserve (\$)</b>	<b>Projected General Fund Reserve (%)*</b>
2009	\$46.8 million	19.8%
2010	\$65.3 million	24.3%
2011	\$65.1 million	22.7%
2012	\$64.8 million	21.4%
2013	\$64.6 million	20.3%

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

It is important to note that Standard & Poor's has established the following benchmark ratios for general obligation bond issuers in regard to the percentage of General Fund reserves:

➤ Strong	15% or greater
➤ Adequate	5% to 15%
➤ Low	0% to 5%

In December of 2002, 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.
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 10% and 15% of estimated annual General Fund net revenues (total General Fund revenues, excluding intrafund transfers and General Fund cost allocation). As indicated in the previous table, the County is projected to comply with the current reserve policy in FY 2009 through FY 2013.

At this point, the County plans to maintain the projected General Fund reserve balance at a level of approximately 20% for FY 2009 in order to cushion the impact of potential revenue volatility, including future budgetary actions at the State level.

#### ***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.

Unless the Board implements policy changes, the County will be faced with property tax rate increases for the foreseeable future. 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.