



July 12, 2018

Citizens of the Unified Government
 Honorable Mayor and
 Honorable Members of the Board of Commissioners:



Douglas G. Bach
 County Administrator

Presented for consideration is the Proposed 2019 Budget of \$376.4 million for the Unified Government (UG) of Wyandotte County and Kansas City, Kansas, which represents a 3.3% increase over the requested 2018 Amended Budget. This business plan positions the community to realize opportunities for our future and remain competitive in our region. Thanks to the leadership of the Board of Commissioners and the cooperation of employee labor groups, the Unified Government has achieved a sustainable outlook for our General Fund operating budget. In addition, prior year economic factors have allowed us to reach our operating reserve policy goal that can be relied upon in economic down times. Each member of the entire organization can be proud of the role played in making this happen.

The 2019 budget I am recommending cuts the City property tax rate by 5%. That’s on top of an 8.8% reduction over the last two years. At the time of the Unified Government consolidation in 1996, an owner of a \$100,000 house paid \$1,116 in city/county property tax. Over 20 years later in 2019, an owner of a \$100,000 house will pay \$884 in UG property tax. That’s a reduction of \$232, or nearly 21% less taxes.

This budget uses \$6.2 million of the \$12.4 million in STAR sales tax revenues received from the Village West shopping area to provide property tax relief, \$4.2 million for capital projects, and \$2.0 million for operational new programs initiatives. These STAR sales tax revenues allow the Unified Government to increase public safety spending, launch the Stabilize, Occupy and Revitalize (SOAR) blight reduction effort, increase street and road maintenance, and enhance a number of other community services.

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This budget message will highlight the following:

- Strategic Goals for Future Prosperity
- Additional Budget Initiatives
- Regional Economic Conditions
- Budget Overview
- Fiscal Outlook
- Discussion of Unmet Needs
- Long Term Financial Forecast & Financial Policies

Strategic Goals for Future Prosperity

The UG Commission priorities are the focus for the Proposed 2019 Budget. These priorities include:

- Reduce the property tax mill rate for the 3rd straight year
- Align the budget with the Commission's Strategic Plan
- Lower our reliance on debt and lease-financing for capital improvements and equipment acquisitions

Prior to the budget process commencing, the Commission established its goals for the community through discussions at strategic retreats and from the 2,600 respondents to the Citizen Survey conducted in the fall of 2017. In response to the Commission direction, each UG department worked to align its budget requests with the Commission's priorities and goals. This budget contains the following initiatives aimed at achieving the Commission's strategic goals:

Neighborhood Focused

- **Mowing** – Over \$726,000 in additional funds is proposed to augment mowing operations throughout the City.
- **Securing vacant structures** – The 2018/2019 budgets include a total of \$280,000 towards better securing through boarding identified vacant structures that pose a public safety risk and detract from the beauty of our community neighborhoods.

- **Demolition** – Abandoned properties and unfit structures have been identified for demolition, of which 65 of these properties were demolished during 2017. Utilizing \$2 million of dedicated debt financing and some \$750,000 in cash-funding for each year, 121 properties are planned for demolition in 2018 and 121 properties in 2019.

- **Rehabbing vacant properties** - The 2018/2019 budgets include a plan to shift a portion of \$75,000 annual Land Bank budget towards a program that facilitates growth in private-sector investment for rehabilitating vacant properties, with the goal is to see quality rehabilitation and occupancy of 50 or more derelict homes.

- **Park Drive neighborhood revitalization (NRSA)** – This **2018** initiative includes Community Development (CD) funds of \$381,000 designated for infrastructure improvements such as streets, curbs, ADA sidewalks and park improvements. In addition, \$780,000 in the CD 2019 for park improvements primarily at City Park.

- **Strawberry Hill initiative** – A focused neighborhood improvement and quality of life initiative seeking to capitalize on the unique opportunities identified in this area.

- **Choice Neighborhood Grant** – Matching grant funding of \$530,000 for this program leveraging approximately \$1.3 million for neighborhood improvements in Juniper Gardens area.

- **Strong Towns** – The UG is joining a new movement that is challenging every American to fundamentally rethink how cities are built and shining a spotlight on an approach that will make cities truly prosperous.

Economic Development

- **Downtown grocery store** – An initial agreement has been reached with a cooperative grocer to operate a downtown grocery store at 5th and Minnesota Avenue with total development project costs estimated at \$6 million.

- **Turner Diagonal** – Commercial, residential and industrial development projects are under review in the Turner Diagonal area north of I-70, including a new multi-family apartment complex called Turner Vista.
- **American Royal** – A new development for the headquarters of the American Royal is underway that will offer opportunities for youth and adults to compete in livestock and horse shows and ProRodeo in a modern arena, along with an agricultural education building.
- **Continued soccer growth in the US** - According to data by Statista, Major League Soccer (MLS) ranked 3rd in average-per-game attendance out of the five major sports in North America during 2016-2017. The MLS attracted an average of 21,692 spectators into the many stadiums affiliated with the League. Only the NFL and MLB ranked higher than the MLS. Further, a 2017 Gallup Poll saw soccer at its highest popularity point in the US, with 7% of Americans saying it is their favorite sport.



U.S. Soccer National Training & Coaching Development Center

Kansas City is positioned to be a leader in the soccer sports industry with the 2018 opening of the \$80 million U.S. Soccer National Training and Coaching Development Center named Pinnacle. The development houses the elite athlete training and performance analytics campus and national youth soccer development programs, as well as soccer officials training.

- **KU Hospital expansion** - The University of Kansas Medical Center and the University of Kansas

Health System are continuing to undergo major expansion construction projects that will ultimately enhance their ability to provide health care services. Additionally, University of Kansas Health System plans to open a mental and behavioral health center in downtown Kansas City, Kansas in the former Region 6 EPA building at 901 North 5th Street, with planned renovation costs totaling an estimated \$61 million.

- **Investment in Public Safety and Neighborhood Infrastructure** - On August 7, 2018, voters will have the opportunity to renew the 3/8th cent general sale and use tax measure that generates over \$10 million annually to support public safety and neighborhood infrastructure operations, equipment and capital projects.

The Unified Government *mission* is to deliver high quality, efficient services and be a resource to our residents; to be innovative, inspired public servants focused on the community’s wants and needs.

The **Strategic Goals** are:

- reduce blight
- increase safety and perception of safety
- increase community health
- increase economic prosperity for all citizens
- improve customer service and communication
- increase community cohesion

These goals are intended to guide management actions throughout the Government organization. The goals of management are to see that necessary and desired services are provided in an efficient and effective manner and that planning and continued improvement take place to provide for the community's future prosperity.

Additional Budget Initiatives

The amount listed by each initiative below indicates **new** program funding and/or capital or special project costs for that area of operation in the

Amended 2018 or Proposed 2019 Budget. Only a few of the major projects or programs are noted.

Streets \$20.5 million

Major projects include reconstruction and improvements of **Leavenworth Road from 63rd to 78th Streets**. This project is a continuation of the major work completed on Leavenworth Road which started at 38th Street. Design and engineering of **Minnesota Avenue from 6th to 7th Streets** to integrate and connect the improvements and appearance previously completed on Minnesota Avenue from 7th Street to 8th Street. Other planned street projects in the 2019 Budget include: safety improvements at Parallel Parkway and K-7 Highway; Redesign of the intersection at 131st & Leavenworth Road; and Safe Routes to Schools projects.

Mowing and Property Maintenance \$3.3 million

In addition to securing vacant structures and demolishing unrepairable structures, the 2018/2019 budget calls for increased mowing funds and the Choice Neighborhood Grant as previously discussed.

Transit \$428,000

The budget includes funding for a **Regional Fare Collection System** to improve Transit Services and new equipment for Meals on Wheels to ensure home bound seniors continue to receive daily meals.

Water Pollution Control \$142 million

The 2019 Proposed Budget includes a **5% Sewer Rate Increase** required to meet the mandatory Environmental Protection Agency requirements to repair aging sewers and funding to implement the **Kaw Point Biosolids Project**, that will make handling wastewater sludge more environmentally sound.

Customer Service \$157,000

The **MyResource Connection** is a regional collaborative with Johnson County that will make important information available to health service providers. Cost savings are expected to exceed initial costs to start the system. Funding included for the **KCK Police Athletic League program**, a non-profit organization, to provide after school and summer programs for children and teens.

Community Engagement \$250,000

The **Central Avenue Area Plan** continues community work in this area of KCK, along with the innovative **Strong Towns** initiative discussed previously.

Public Safety – Police \$1.8 million

The budget funds **Mandatory Tasers** for all KCK Police Officers in Operations that will offer a less lethal option than firearms. The budget pays for a forensic scientist to work with the **Johnson County Forensic Lab** that cooperates with KCK Police in solving shootings and other violent crimes.

Public Safety \$1.6 million

This funding will assist the Wyandotte County District Attorney in upgrading record-keeping with electronic imaging, as well as software upgrades. Also included are **Security Camera Upgrade/Replacements** and **Radio Encryption Software and Equipment**.

Public Safety – Fire \$3.1 million

The budget purchases **2 Pumpers and 1 Fire Quint**, as well as **Laundry Equipment, Lockers and Bunker Gear** for the KCK Fire Department.

Parks and Recreation \$1.5 million

Funding is included for **Replacement of Playground Equipment** and **City Park Improvements**.

Regional Economic Conditions

The economic outlook for Wyandotte County and Kansas City, Kansas remains positive, with most indicators anticipated to improve in 2019.

COMMERCIAL DEVELOPMENT

The County boasts a diversity of over 8,000 businesses supporting an employment base of over 93,000 employed. Major employers include:

- University of Kansas Hospital/ Medical Center
- Amazon Fulfillment Center
- General Motors
- BNSF Railroad
- Cerner Corporation
- Associated Wholesale Grocers

JOB CREATION AND UNEMPLOYMENT

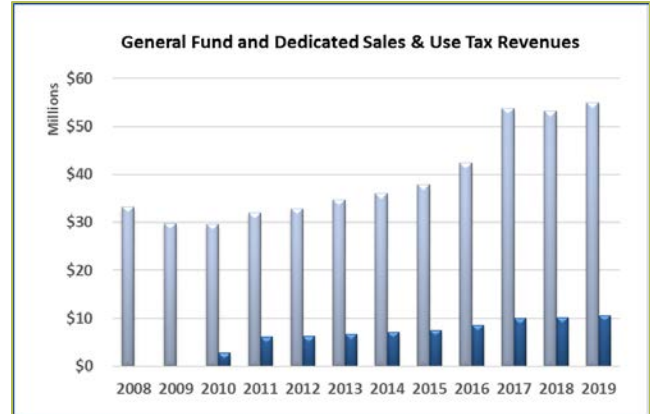
The County is a major economic, employment, industrial, educational and medical services center for the region. Employment in Wyandotte County is concentrated in five sectors: services, government, retail trade, transportations/warehousing, and manufacturing. Kansas City, Kansas is the 2nd largest rail center in the US and an important hub of the transcontinental rail system, providing both freight and passenger service. All major cities of the nation can be reached in less than 120 hours and many within 72 hours. The County is served by seven railroads, providing approximately 92 freight movements a day.

The job market in the County is improving. Total number of jobs in the County were 93,106 in the 4th quarter of 2017 compared with 91,806 in the 4th quarter of 2016. The largest employment sector in 2017 was services with 33% of the total jobs, followed by 16.5% for government jobs, 14% for retail and restaurant jobs, 12% for transportation/warehousing, and 11.5% for manufacturing.

The Bureau of Labor Statistics unemployment rate for 2017 in Kansas was 3.6% compared with 4.4% nationally. The unemployment rate for the County was 5.2% in 2017, down from the 2016 rate of 5.7% and from the recession high of 10.7% in 2009. The May 2018 unemployment rate stands at 4.8%, consistent with the same period in 2017, although is higher than the unemployment rate of 3.3% in Kansas and 3.6% nationally.

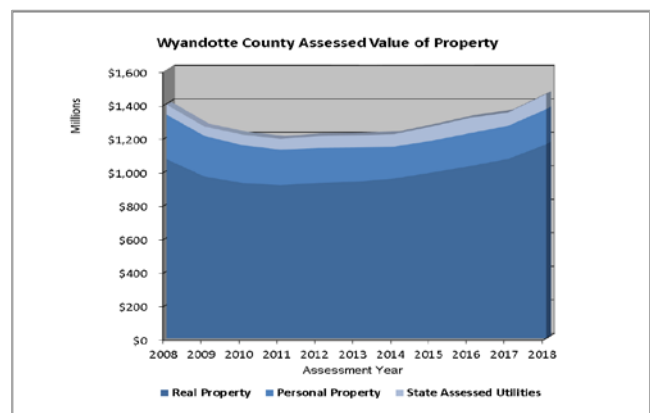
PERSONAL INCOME / CONSUMER SPENDING

The U.S. Bureau of Economic Analysis report shows that County personal income grew by 1.4% in 2017 to \$30,722. Consumer spending continues to increase. The County’s retail sales receipts have steadily grown since 2013 totaling \$2.2 billion in 2017. Sales and use tax revenue for the General Fund and Dedicated Sales Tax Fund are anticipated to total \$63.4 million during 2018 and increase by 3.5% in 2019 to a total of \$65.6 million.



NEW HOUSING STARTS & CONSTRUCTION

Total construction values totaled \$172.4 million in 2017, down from a decade high of \$293 million in 2016. Through May of 2018, total construction value is at \$111.8 million or 17.7% higher than in May 2017. New residential construction value increased for the third straight year in 2017, totaling \$48.2 million or a 3.0% increase. Residential single-family building permits increased by 22.6% in 2017 and 59.7% in 2016. Through May of 2018, single-family building permits are at 75 compared to 182 for the same period in 2017. Residential permits are expected to continue at a comparatively moderate pace in 2018.



PROPERTY VALUES

The local real estate market has steadily increased back to the 2008 assessment year valuation of \$1.395 billion prior to the 2009 recession. For 2018 Wyandotte County’s assessed value is estimated at \$1.45 billion, a 7.9% increase over the 2017 assessed value and a 22% increase since the 2011 decade low.

POPULATION & SCHOOL DISTRICT EXPANSION

The number of residents and county-wide school enrollment was up in 2017. County population estimated by the US Department of Commerce, Bureau of Census was at 165,288 in 2017, up from 164,418 in 2016. Kansas City, Kansas resident population estimate was 152,938 in 2017, up 4.9% compared to the 2010 US Census count of 145,786.

School district enrollment in Kansas City, Kansas USD #500, Turner USD #202, Piper USD #203 and Bonner Springs USD #204 totaled 31,578 in 2017 compared to 30,826 in 2016, or a 2.4% increase. Additionally, the Kansas City, Kansas USD #500 gained voter approval in 2016 for a \$235 million bond issue to fund new school buildings and renovate existing facilities throughout Kansas City, Kansas.

Budget Overview

As a result of prudent policy decisions, support from Unified Government governing body, employees and the community, and a growing economy, the UG's financial condition remains stable. The 2019 Proposed Budget is presented with cautious optimism emphasizing the need for fiscal discipline.

UG-Wide Proposed 2019

Total budgeted resources in the coming fiscal year will be sufficient to support total UG-wide 2019 proposed budgeted expenditures of \$376.4 million. The budget also maintains the Commission's long-standing funding priorities by allocating over half of the budget for public safety. The 2019 UG overall budgeted expenditures are a modest 3.3% higher than the amended 2018 budget. Estimated 2019 revenues are 2.6% higher than the amended 2018 budget revenue estimates.

All UG funds net cost increases over the 2018 amended budget of \$12.0 million are offset by \$9.0 million in net estimated additional revenue over the amended 2018 revenue estimates.

Changes in Revenue Estimates - Of the UG-Wide total \$359.4 million in 2019 revenue estimates, the largest by far is tax revenue totaling \$247.7 million or 69%. This is followed by charges for services at \$61.6 million or 17%. Proposed 2019 revenues are projected to increase by \$9.0 million or 2.6% over the 2018 amended revenue estimates, of which \$7.5 million is in the tax revenue category to account for economically-driven increases in sales and use tax revenues, franchise fees and property tax revenues in the various funds whose property tax mill rates were not reduced. An additional \$2.1 million in charges for services is estimated related to rate increases for sewer utility charges and refuse collection services. A portion of these increases are offset by a \$500,000 reduction in estimated fines and fees in various operating areas.

Changes in Expenditures - The 2019 proposed budget includes \$4.2 million to support a 2% cost of living compensation adjustment for most UG employees and 3% for law enforcement sworn personnel, increased funding of \$1.3 million for anticipated employee health care benefit costs, and \$1.8 million in additional employer pension contributions for the 0.4% increase in the KPERs non-safety retirement contribution rate and the 2.0% increase for KPERs/KP&F public safety rate. Additionally, \$3.7 million increase is budgeted to meet debt service obligations, \$4.2 million increase in cash-funded sewer capital projects, offset by a \$3.4 million reduction in 2019 in Special Asset Fund expenditures as a result of higher one-time development project plans in the prior year.

Planned Use of Reserve Balances - Estimated 2019 revenues across all UG funds total \$359.4 million with planned use of fund balances of \$17.0 million to support various one-time, non-reoccurring expenses. The largest planned use of fund balances is \$6.8 million in the Sewer Fund primarily for an additional level of cash-funded capital infrastructure investments. The second largest is \$1.96 million in the City General Fund, discussed in more detail in the following sections. The third largest planned use of fund balance is the Tourism and Convention Fund at \$1.8 million to support one-time tourism-enhancing development opportunities.

UG-Wide Amended 2018

Total UG-wide amended 2018 budget expenditure proposal of \$364.4 million are greater than the original 2018 adopted budget of \$357.9 million, or a modest increase of 1.8%.

Changes in Revenue Estimates - Of the UG-Wide total \$350.4 million in 2018 amended revenue estimates, the largest category by far is tax revenue totaling \$240.2 million or 69%. This is followed by charges for services at \$59.5 million or 17.0%. Amended 2018 revenue estimates are projected to increase by \$7.85 million over the original 2018 budget estimates or 2.3%, of which \$4 million is in the tax revenue category for unanticipated increases in motor vehicle registration revenues, BPU electric franchise payments, and sales and use tax receipt increases. An additional \$2 million in intergovernmental revenues are reflected in the amended budget due to a change in budgeting procedure for grants and other revenues from other governmental entities.

Changes in Expenditures - The increase in 2018 amended budget expenditures of \$6.5 million is offset by an increase of \$7.85 million in 2018 estimated revenue. The largest increases between original and amended 2018 expenditures are \$2.28 million in the City General Fund, \$3.45 million in the County General Fund, and an increase of \$1.44 million in the Sewer Enterprise Fund, offset by various reductions in other funds. Changes in the General Funds' expenditures is provided in the following sections.

Planned Use of Reserve Balances - Estimated 2018 revenues across all UG funds total \$350.4 million with planned use of fund balances of \$14.0 million to support various one-time, non-reoccurring expenses. The largest planned use of fund balances of \$4.5 million is in the Sewer Fund, primarily for cash-funded capital infrastructure investments. The second largest is \$4.25 million in the Special Asset Fund to provide incentives for various potential economic development projects currently under review. The third largest is the County General Fund

of \$1.575 million to fund various one-time items discussed in more detail in the following sections.

City General Fund – Proposed 2019

The Unified Government has three *general* operating funds, City General Fund, County General Fund and Parks General Fund, which combined comprise of 62% of the total UG-wide proposed budget for 2019. Due to their substantial size, a summary of the two largest general fund budgets is provided as follows.

The City General Fund, with total proposed 2019 expenditures of \$160.8 million, is the largest operating fund of the Unified Government. The budget maintains the Commission's long-standing funding priorities by allocating over half, or 57%, of the budget for public safety. The 2019 City General Fund proposed budgeted expenditures are a modest 2.9% higher than the requested 2018 amended budget. Estimated 2019 revenues are 1.2% higher than the amended 2018 budget revenue estimates.

GENERAL FUND - CITY

| | FY 2018 ORIGINAL BUDGET | FY 2018 AMENDED BUDGET | FY 2019 PROPOSED BUDGET |
|---------------------------------------|-------------------------|------------------------|-------------------------|
| Revenues | 151,241,872 | 154,705,656 | 156,630,921 |
| Transfers-In | 2,256,000 | 2,256,000 | 2,256,000 |
| Subtotal: Sources | 153,497,872 | 156,961,656 | 158,886,921 |
| Expenditures | 153,491,219 | 155,533,992 | 160,144,856 |
| Transfers-Out | 515,000 | 750,000 | 705,000 |
| Subtotal: Uses | 154,006,219 | 156,283,992 | 160,849,856 |
| Net Change in Fund Balance | (508,347) | 677,664 | (1,962,935) |
| Cash Basis Ending Fund Balance | \$ 20,147,039 | \$ 21,333,050 | \$ 19,370,115 |
| CAFR Ending Fund Balance | \$ 28,875,073 | \$ 30,061,084 | \$ 28,098,149 |
| 17% Target Reserve → | 18.7% | 19.2% | 17.5% |

The 2019 proposed \$4.57 million increase in expenditures compared to amended 2018 is partially offset by an additional \$1.92 million in revenues. Resources of \$1.96 million from fund balance are utilized to close the net between proposed 2019 revenues and expenditures.

Changes in Revenue Estimates - Of the City General Fund total \$158.9 million in 2019 revenue estimates,

tax revenue totals \$136.6 million or 86%. This is followed by charges for services at \$10.9 million or 7% of the total. Proposed 2019 revenues are projected to increase by \$1.9 million or 1.2% over the 2018 amended revenue estimates, of which \$2.1 million is in the tax revenue category to account for a reduction of property tax revenue offset by economically-driven increases of 4.0% in sales and use tax revenues (excluding STAR revenues) and combined franchise tax revenue increases of 3.0%. Sales and use tax revenue estimate (excluding STAR revenue) in 2019 totals \$39.2 million, or an additional \$1.5 million compared to 2018 amended estimates. STAR retail sales tax revenue from the Village West area totals \$8.2 million and remains flat with any increase collections above the “base” pledged for Series 2015 “Soccer” STAR bonds debt service payments.

The ad valorem property tax revenue estimate for the 2019 City General Fund is a decline 2.8% from \$23.3 million in amended 2018 to \$22.6 million in proposed 2019, or a reduction of \$650,000. Even though assessed value of property in Kansas City, Kansas was certified by the UG Clerk to increase by 8.0%, the 2019 proposed budget reduces the City General Fund property tax mill rate from 23.167 for 2018 to 21.167 for the 2019 budget, resulting in a revenue reduction of \$2.3 million. When factoring in 2019 growth in assessed value and delinquency rate of 7.0%, the net revenue reduction compared with 2018 amended estimates is \$340,000. Additionally, an anticipated refund for 2015 appealed property taxes to Hollywood Casino results in another reduction of \$360,000. This level of Hollywood Casino refunds for prior year appealed taxes is anticipated to be paid out annually through 2023.

Changes in Expenditures - 2019 proposed budget has \$4.56 million in expenditures above the amended 2018 budget, of which \$3.95 million are increases in personnel costs for compensation increases to support a 2% cost of living adjustment for most UG City General Fund employees and 3% for law enforcement personnel, as well as increases for health care benefits and pension contributions. Additions of \$1.16 million in contractual services and \$890,000 in commodities to support anticipated

inflationary increases are offset by reductions of \$1.1 million cash-funded capital projects and \$530,000 in grants due to higher levels of one-time spending in the amended 2018 budgets for these two categories.

Planned Use of Reserve Balances – A total of \$1.96 million in fund balance resources is planned to be utilized for the proposed 2019 budget, which is estimated to result in slightly exceeding the target operating reserve of two-months of operating expenditures and transfers out, or 17%. City General Fund financial performance during 2017 added \$6.65 million to the cash-basis fund balance. The City General Fund ended 2017 with a reserve of approximately 21% of expenditures and transfers on a CAFR modified accrual basis. The 2019 Proposed budget utilizes prior year financial gains in reserves while still achieving the reserve target. While the UG has significant challenges ahead, this proposed budget provides a sensible and sustainable combination of funding for maintaining and improving the current level of services and investing in street and road maintenance and aging equipment replacement, while investing strategically for the UG’s future.

City General Fund – Amended 2018

Total amended 2018 expenditure increases of \$2.28 million over the original 2018 budget in the City General Fund are more than offset by \$3.46 million in additional estimated revenues, with an estimated net increase to fund balance at the end of 2018 of \$678,000.

Changes in Revenue Estimates - Revenue estimate increases include \$1.1 million in additional sales tax revenue and \$858,000 in motor vehicle registrations based on year-to-date actual performance, along with a \$3.7 million upward adjustment in the BPU electric PILOT franchise tax payment under-budgeted in the original estimate. These revenue estimate increases are offset by reductions in various other sources including a \$618,500 decrease in the annual appropriation for debt reserve required by various bond covenants.

Changes in Expenditures - City General Fund increases between original and amended 2018

expenditures of \$2.2 million include a one-time \$530,000 Choice Neighborhood’s Grant match transfer, capital outlay additions of \$1.15 million some of which shifts equipment acquisitions from lease-financing to cash-funded, an additional \$600,000 to reflect changes in employee labor agreement adjustments, a \$440,000 increase in commodities based on year-to-date data, offset by a \$618,500 decrease in the annual appropriation for debt reserve required by various bond covenants.

County General Fund – Proposed 2019

The County General Fund, with total proposed 2019 expenditures of \$63.9 million, is the second largest operating fund of the Unified Government. The budget maintains the Commission’s long-standing funding priorities by allocating over half, or 55%, of the budget for public safety. The 2019 County General Fund budgeted expenditures are a modest 2.0% higher than the 2018 amended budget. Estimated 2019 revenues are 3.7% higher than the amended 2018 budget revenue estimates.

| GENERAL FUND - COUNTY | | | |
|---------------------------------------|-------------------------|------------------------|-------------------------|
| | FY 2018 ORIGINAL BUDGET | FY 2018 AMENDED BUDGET | FY 2019 PROPOSED BUDGET |
| Revenues | 59,613,427 | 61,103,699 | 63,337,090 |
| Transfers-In | 0 | 0 | 0 |
| Subtotal: Sources | 59,613,427 | 61,103,699 | 63,337,090 |
| Expenditures | 58,871,973 | 60,818,729 | 62,571,900 |
| Transfers-Out | 360,000 | 1,860,000 | 1,360,000 |
| Subtotal: Uses | 59,231,973 | 62,678,729 | 63,931,900 |
| Net Change in Fund Balance | 381,454 | (1,575,030) | (594,810) |
| Cash Basis Ending Fund Balance | \$ 6,124,805 | \$ 4,168,321 | \$ 3,573,511 |
| CAFR Ending Fund Balance | \$ 11,088,851 | \$ 9,132,367 | \$ 8,537,557 |
| 17% Target Reserve | 18.7% | 14.6% | 13.4% |

The 2019 proposed \$1.25 million increase in expenditures compared to amended 2018 is more than offset by an additional \$2.2 million revenues. Resources of \$594,000 from fund balance are utilized to close the net between proposed 2019 revenues and expenditures.

Changes in Revenue Estimates - Property taxes of \$37.5 million are 59% of the \$63.3 million in total 2019 revenue estimates. This estimate increases by \$2.3 million over amended 2018 with the property tax mill rate remaining constant at 31.0825. The increase is due to a 7.9% increase in assessed value offset by a 6.5% delinquency collection factor and an anticipated \$457,000 refund to Hollywood Casino for 2015 appealed taxes. This level of Hollywood Casino refunds for prior year appealed taxes is anticipated to be paid out annually through 2023.

2019 is the first year in which the mortgage registration tax will no longer be collected, per state legislations. This revenue source generated \$1.5 million in 2015 but has been diminishing since as the State Legislature phased this fee out.

Changes in Expenditures – The 2019 proposed budget has \$1.25 million in expenditures above the amended 2018 budget, of which \$1.5 million are increases in personnel costs for compensation increases to support a 2% cost of living adjustment for most UG County General Fund employees and 3% for law enforcement personnel, as well as increases for health care benefits and pension contributions. Other cost categories propose funding consistent with the 2018 amended budget except for a \$500,000 reduction in transfers-out which was a one-time increase in 2018 to contribute additional revenues to the Worker’s Compensation Fund to support anticipated claims resulting the recent deaths of two Sheriff officers. Both the Amended 2018 and proposed expenditure budgets include \$500,000 in unanticipated costs for the Schlitterbahn Task Force prosecution which are not expected to be re-occurring costs in 2020.

Planned Use of Reserve Balances – A total of \$595,000 in fund balance resources is planned to be utilized for the proposed 2019 budget, which is estimated to result in fund balance reserve level of 13.4% of total expenditures and transfers-out, falling short of the target operating reserve of two-months of operating expenditures and transfers out, or 17%. County General Fund financial performance during 2017 added \$1.1 million to the cash-basis fund balance. The County General Fund ended 2017 with

a reserve of approximately 18% of expenditures and transfers on a CAFR modified accrual basis. The 2019 proposed budget utilizes prior year financial gains in reserves along with reserves to meet unanticipated obligations that are of a one-time nature, such as the \$500,000 workers' compensation 2018 special contribution and \$1.0 million in unanticipated 2018/2019 costs for the Schlitterbahn Task Force prosecution. Future year cost containment and improved revenue performance will be required to bring the County General Fund back up to the two-months of expenditures reserve levels.

County General Fund – Amended 2018

Total amended 2018 expenditure increases of \$3.45 million over the original 2018 budget in the County General Fund are partially offset by \$1.5 million in additional estimated revenues, with an estimated net decrease to fund balance at the end of 2018 of \$1.575 million.

Changes in Revenue Estimates – Estimated increases in 2018 amended revenues totaling \$1.5 million are in the fines and fees category based on improved year-to-date revenue performance such as higher register of deeds fees and the full-year cost adjustment for the Hollywood Casino hotel penalty per the development agreement.

Changes in Expenditures – Of the increase \$3.45 million in the County General Fund, \$2.2 million are in additional salary and benefit costs in both the District Attorney's budget and for Sheriff's Office overtime, \$500,000 in one-time costs for the Schlitterbahn Task Force prosecution costs, and \$500,000 for anticipated additional workers' compensation claims to support anticipated claims resulting the recent deaths of two Sheriff officers.

Planned Use of Reserve Balances – A total of \$1.575 million in fund balance resources is planned to be utilized for the amended 2018 budget, which is estimated to result in fund balance reserve level of 14% of total expenditures and transfers-out, missing the target operating reserve of two-months of operating expenditures and transfers out, or 17%.

City and County General Fund Summary Note

Over the next few years, the UG expects to continue to see modest increases in its General Fund resources. This is not to say that future financial challenges do not lie ahead. The future revenue expectations could be impacted by economic trends, such as rising interest rates and potential inflationary pressures. At the same time, growth is anticipated in employee salaries to remain competitive with other local governments. Funding pension and health care benefit cost increases over the future will certainly require fiscal discipline and measured choices. Last but not least, deferred infrastructure maintenance for street maintenance, replacement of aging public safety equipment, and public parks and buildings must be among the items included in any final funding plan. Strategic financial planning will ensure the organization maintains resources to continue to deliver core services to residents.

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.

Fiscal Outlook

Looking ahead to 2019, management 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. Consistent with the UG's sustainable budgeting principles, we recommend limited proposed 2019 service enhancements or staffing increases to only levels that can be supported on an ongoing basis.

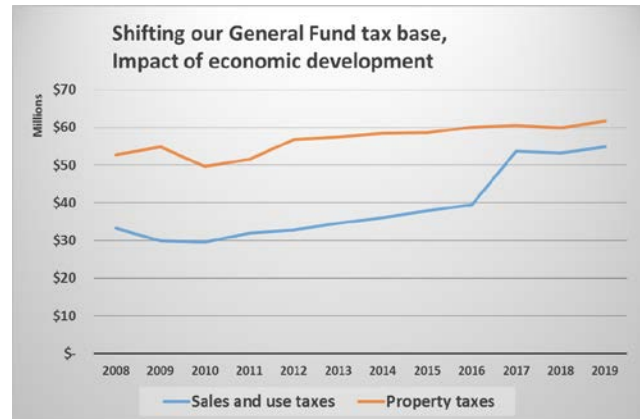
Although we continue to restore service levels and streets and facilities maintenance that was deferred during the economic downturn, our ability to improve on the current level of services and invest in the UG’s future will depend on sustained fiscal discipline by the UG’s collective leadership and continued revenue growth.

Property and sales taxes are the UG’s most significant revenue sources. Ad valorem property tax revenues across all UG funds are estimated to total \$86.6 million in 2018, and estimated to increase to \$90.1 million in 2019, or a 4% revenue increase. This 2019 increase is due to the net of improved property values less the recommendation to reduce the property tax mill rate for Kansas City, Kansas from 40.003 mills to 38.003 mills, or a total reduction of two-mills. Similar to this 2019 proposal, a two-mill reduction was adopted by the Commission as part of both the 2017 and 2018 budgets.

The UG’s 2019 property tax revenue estimate is based on assessed property values as of January 1, 2018. 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 is required to be conducted every three years. Two factors contributing to the projected growth in residential and commercial property tax revenue: first, the local real estate market continued to perform well in 2018, with strong sales activity and prices continuing to climb; and second, new construction activity continues to add value to the tax roll.

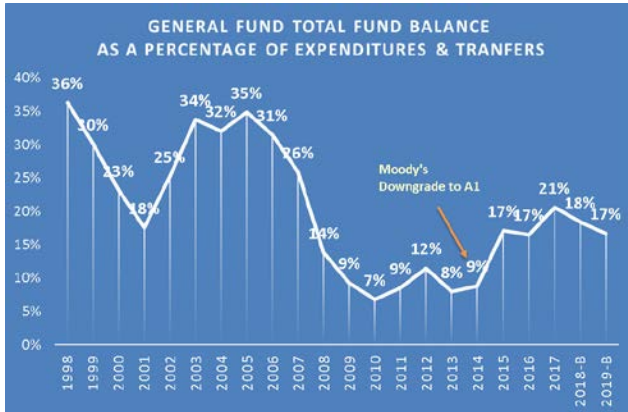
Sales tax revenue across all UG funds are estimated to total \$70.5 million in 2018 increasing to \$73.0 million in 2019, an increase of 3.5%. These estimates include the \$12.4 million STAR revenue resulting from the pay-off of the Village West STAR district bonds, of which is allocated with \$9.4 million 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 six mills during 2017 through 2019 combined with the additional \$9.4 million in STAR revenue allocated to the City and County General Funds has resulted in a shifting of our tax base towards a greater reliance on sales tax revenues. Sales tax revenue in 2019 is 29% of total General Fund revenues compared with 20% in 2016. Correspondingly, ad valorem and personal property tax revenue in 2019 declined to 32% of the total compared with 35% in 2016. As the graph illustrates above, this tax base shift is a direct result of the impact of economic development first undertaken during the early years of UG consolidation. The tax base shift provides property tax relief to residents of our County.

The existing Budgetary Uncertainty Reserve Policy, adopted in 2012, was achieved at the close of fiscal year 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 (GFOA) has a recommended practice that local governments maintain reserves at two-months of expenditures, or about 17%, to ensure the UG has sufficient resources should the economy reverse course or to cover unanticipated expenditures. This budget document includes a proposed revision to the General Fund reserve policy, approved by the Economic Development and Finance Standing Committee, that follows the GFOA recommended practices.



The Consolidated General Fund budget anticipates ending the 2019 fiscal year with \$37.0 million in total fund balance, or two-months (17%) of total expenditures and transfers. The planned use of fund balances in 2018 and 2019 are programmed for unanticipated expenditures and one-time items. Management is fully committed to remaining in compliance with the General Fund operating reserve policy, approved by the Economic Development and Finance Committee, by taking strategic financial actions in future years to maintain the operating reserve and/or accumulate resources to achieve the additional one-month for an emergency reserve.

Discussion of 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 UG’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 2019 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.

Long-Term Financial Forecast & Financial Policies

Formal financial policies, as well as operating practices, enabled the Government to provide core services to our residents and employees. Formal policies exist in areas such as balanced budgets, revenue diversification, use of one-time and unpredictable revenues, operating expenditures, reserves, investments and debt. The Government’s budgetary and financial policies are provided in the Appendices section of this document.

The Government has a five-year long-range capital planning process that is updated each year and helps drive annual capital funding decisions, as well

as periodic general obligation bond issuances for larger investments. For the General Funds and Sewer operations, revenues are forecasted out for ten years to account for planned changes to existing revenues, such as sunseting revenues, and to project any future deficits between revenues and expenditures.

Following prudent financial policies and procedures builds community trust. In April 2010, Kansas City, Kansas voters approved a measure to allow the City to impose a 3/8th cent general sale and use tax on purchases made in the City. This Dedicated Sales Tax measure generates over \$10 million in annual revenue to support public safety and neighborhood infrastructure operations, equipment and capital projects. This tax will expire July 2020 and voters will have the opportunity to renew the tax on August 7, 2018. If this sales tax, which has a large percentage paid from visitors from outside Wyandotte County, is not renewed, our revenue structure will be more reliant on property taxes.

Conclusion

Through the years, the Government has adapted and changed as necessary to address our economic circumstances and community needs. With the leadership of the Commission and the extraordinary efforts of our employees, this has been possible. I am extremely proud to be part of this organization and to see the measures taken to achieve financial sustainability begin to pay off while recognizing the organization continues to face certain fiscal challenges. Future challenges including the expiration of Dedicated Sales tax, increasing employee benefit costs and deferred capital infrastructure maintenance will be met with transparency and actions consistent with the traditions and culture of this organization.

I would like to acknowledge and thank all the employees who have worked so tirelessly in these efforts. Although our job is not over, I have every confidence in the ability of the Government to successfully address whatever future challenges we face. I would also like to express deep appreciation

to the Mayor and Board of Commissioners for their leadership, support and responsiveness to the financial concerns of the Government.

We look forward to providing continued quality service to the community. I am proud to be working alongside such a dedicated and committed group of individuals. Thank you for your continued support of our organization.

Respectfully submitted,



Douglas G. Bach
County Administrator