



June 27, 2019

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 2020 Budget. This budget started with key objectives dictated by the adopted Commission goals for the community. The budget is designed to improve critical infrastructure; increase operational efficiency and effectiveness; improve appearance and safety in neighborhoods; target investment to drive future growth; and support long-term fiscal sustainability.

These goals are being accomplished with no increase in the property tax rate.

The Proposed 2020 Budget I am recommending follows three consecutive years of property tax reductions. The 2019 Budget reduced the property tax rate by 5% which was added to an 8% reduction since 2016. At the time of the Unified Consolidation in 1997, the owner of a \$100,000 house paid \$1,116 in city/county property tax. More than 20 years later, an owner of a \$100,000 house will pay \$943 in Unified Government property tax. That’s 15% less in property taxes.

Without these recent mill rate reductions, the UG tax bill for KCK residents of a \$100,000 home tax bill would be \$1,013, instead of \$943, a savings of \$70.00 every year. It is important to note that the City’s property tax mill is only one component of the total property tax bill that includes Schools, Community College, Library and County tax mills.

This budget message will highlight the following: Strategic Goals for Future Prosperity, Budget Initiatives, Regional Economic Conditions, Budget Overview, Fiscal Outlook, Discussion of Unmet Needs, and Long-Term Financial Forecast & Financial Policies.

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Strategic Goals for Future Prosperity

The UG Commission priorities are the focus for the Proposed 2020 Budget. These priorities include:

- Improving appearance and safety in neighborhoods
- No increased mill rate
- Improve critical infrastructure
- Targeted investments to drive future revenue growth
- Long-term fiscal sustainability
- Increase operational efficiency and effectiveness

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.

Budget Initiatives

This budget includes initiatives aimed at achieving the Commission’s strategic goals:

Investing in Public Safety

- **Dedicated Public Safety Officers** – Over 1,105 public safety, dispatchers, firefighters and other peace officers are on-duty to keep residents safe and our violent crime rates low, decreasing by 11% last years. KCK has one of the highest solve rates for murders in the region.
- **Building Security** – Over \$1.5 million is included in this budget to augment security in the courthouse and city hall based on a consultant study. The safety of our residents conducting business in UG facilities, employees and judges is vitally important.

- **Community Connect Intel Unit** – Technology advancements create opportunities for efficiency and this project pulls it all together. Video surveillance from across the county can be consolidated and shared to achieve a safer environment for residents and police.
- **Fire Truck Lease Turn-In Program** – Acquisition of 4 fire pumpers and 2 aerials through an cost effective program that allows us to lease fire apparatuses for only the period in which the assets are most useful, and for only those stations that have the highest level of service calls.
- **Other related capital investments in public safety** – dispatch center upgrades, repurpose juvenile pod to adult jail space, and the courthouse fire alarm system.

Improving Streets

The UG is committed to improving streets within our community.

- **Repair and Maintenance** – The 2020 budget includes \$9 million for preservation and maintenance of streets



- **Leavenworth Road 78th to 63rd** – Project is \$11.5 million and is a continuation of the improvements for the Leavenworth Road Corridor.
- **Minnesota Ave 6th to 7th** – Integrate and connect the improvements and appearance from the previously completed improvements on Minnesota from 7th to 8th street.

- **Other street projects** – 131st & Leavenworth Road, 7th & Central, Fairfax Industrial, I-70 & Turner Diagonal Interchange.

Economic Development

- **I-70 & Turner Diagonal Interchange** – The reconstruction of the interchange into a diverging diamond structure. This project has a Better Utilizing Investment to Leverage Development (BUILD) grant from the US Department of transportation. This configuration would eliminate several of the extra ramps needed and would make this interchange more efficient for traffic flow and future development.



- **Minnesota Avenue Streetscape** – \$1.1 million is proposed to accelerate urban revitalization in downtown Kansas City, Kansas. Elements of the project include curb and gutter, sidewalk, planting areas, road surface, stormwater, and parking.

Protecting Neighborhoods and Business

- **Army Corp Argentine/Armourdale/Central Industrial District Levee Raise Project** – Joint project with the Army Corp of Engineers, KCMO and Kaw Valley Drainage District for necessary improvements to the levees. This project is part of a \$453 million federal funding program.

- **Turkey Creek Wingwall Repair Project** – Stabilization of the Kaw River bank due to wingwall failure along Turkey Creek.

Enhancing Systems and Providing Solutions for the Future

The 2020 Proposed budget includes a 5% sewer rate increase to meet the mandatory Environmental Protection Agency requirements to repair aging sewers and to implement other projects.

- **Wolcott Treatment Plant Expansion** – Replacement of the temporary treatment plant that has reached its capacity to serve western Wyandotte County.



- **Kaw Point Biosolids Project** – Rehabilitate current structures and install new equipment to restore the digestion process allow for the handling of sludge which is currently landfilled, which is not cost efficient and will likely not be an option in the near future.



Community Improvement

- **Blight Remediation** – Continued funding to enhance of the quality of life by improving the physical, social, and economic conditions of the environment. The SOAR initiative is a 5-year plan that addresses vacant and abandoned homes, property maintenance, loose dogs, mowing frequency, graffiti, and more.



- **Trail Network Development** – Development and implementation of a more robust trails network that will allow for connection points to neighboring community through the use of sidewalk improvements, on-street trails/bike paths, off-road trails, and other mixed-use forms of trails.



- **Online Park Facility and Program Reservations** – \$125,000 for the implementation of new software that will allow customers to register for recreation programs online and make the entire

process more efficient for all parties involved, including giving access to the recreation system to Parks & Recreation staff at the Community Centers to facilitate better customer service.

- **Unified Government Improvements** - Investment in the hardscape and landscape to improve the appearance of UG facilities and grounds. \$413,000 is specific to addressing the issue of lack of parking at the Annex, a location that is heavily trafficked by visitors of the Treasurer’s office and Appraiser’s office, in addition to the parking needs for staff and UG owned vehicles.



- **Park Improvements** – \$700,000 in Community Development Block Grant funds is proposed to renovate the infrastructure of City and Regan Park. These improvements include building three ADA accessible restrooms, a drainage system, creating shade structures, and developing an ADA compliant entrance to the City Park Ballfields. There is additional funding proposed to address park restroom improvements per the 2017 Parks Master Plan recommendation.



Improving Customer Service & Communication

The budget proposes \$450,000 for the following list of programs and projects to enhance customer service and communications with our residents:

- **Online Building Permitting and Payments**
- **Online Building Plan Submissions**
- **Online Rental Housing Registrations**
- **Online Occupational Licensing Registrations**
- **Field Case Entry for permits inspectors and related employees**
- **311 Closed Loop on Property Code Cases**
- **Right of Way Management Program**

Innovation & Productivity

The following is a list of projects in this proposed budget aimed at improving the organizations' productivity through innovative technology approaches:

- **ERP Upgrades & Enhancements**
- **District Attorney's Digitizing & Archiving**
- **Human Resources Applicant Tracking**
- **Clerk's Records Management Inventory System**
- **Progression Towards A Cost Effective UG Phone System**
- **Cloud Storage and Software site Migration Initiatives**
- **Appraiser Online Portal**
- **GIS LANDWEB Portal Application Replacement**

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.

Regional Economic Conditions

The economic outlook for Wyandotte County and Kansas City, Kansas remains positive, with most indicators anticipated to improve in 2020, however sales tax revenues started declining in 2018 in comparison to the previous year's collection and this continues to be a concern as we anticipate collections in 2020.

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, and
- Small to large employers in the Fairfax and Armordale areas

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.

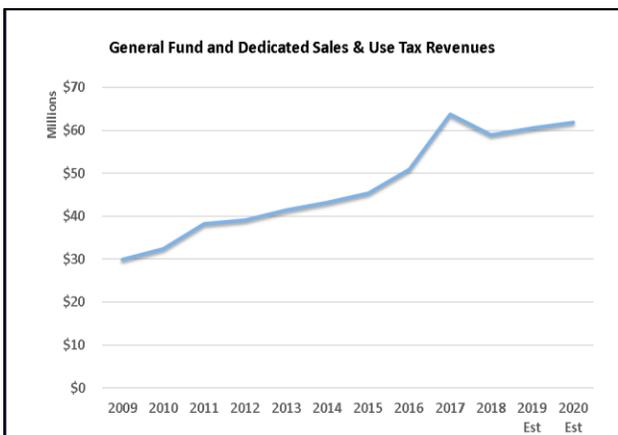
The job market in the County is holding steady. Total number of jobs in the County were 92,020 in the 4th quarter of 2018 compared with 93,106 in the 4th

quarter of 2017. The largest employment sector in 2018 was services with 32% of the total jobs, followed by 17% for government jobs, 14% for retail and restaurant jobs, 12% for transportation/warehousing, and 11% for manufacturing.

The Bureau of Labor Statistics unemployment rate for 2018 in Kansas was 3.4% compared with 3.9% nationally. The unemployment rate for the County was 4.8% in 2018, down from the 2017 rate of 5.2% and from the recession high of 10.7% in 2009. The April 2019 unemployment rate stands at 4.1%, lower during the same period in 2018 (4.4%), although is higher than the unemployment rate of 3.1% in Kansas and 3.7% nationally.

PERSONAL INCOME / CONSUMER SPENDING

The U.S. Bureau of Economic Analysis report shows that County per capita personal income grew by 5.2% in 2017 to \$32,085. Consumer spending saw a reduction in the last half of 2018. The County’s retail sales receipts have increased 10% over the last five years and total \$2.3 billion in 2018. Sales and use tax revenue for the General Fund and Dedicated Sales Tax Fund are anticipated to total \$59.6 million during 2019 and increase by a modest 2.1% in 2020 to a total of \$60.9 million.



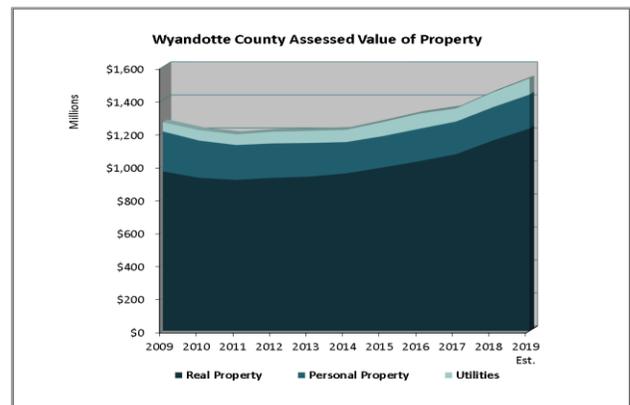
NEW HOUSING STARTS & CONSTRUCTION

Total construction values totaled \$246.6 million in 2018, down from a decade high of \$293 million in 2016. Through April of 2019, total construction value is at \$111.3 million or 4.7% higher for the same period in 2018. New residential construction value

dipped in 2018, totaling \$33.3 million or a 31% decrease from 2017. Residential single-family building permits totaled 159 in 2018, down 38% from 2017. Through April of 2019, single-family building permits are at 39 compared to 63 for the same period in 2018. Residential permits are expected to continue at a comparatively moderate pace in 2019.

PROPERTY VALUES

The local real estate market has steadily surpassed the 2009 assessment year valuation of \$1.264 billion during the great recession. For 2019 (2020 budget) Wyandotte County’s assessed value is estimated at \$1.53 billion, a 5.8% increase over the 2018 assessed value and a 28% increase since the 2011 decade low.



POPULATION & SCHOOL DISTRICT EXPANSION

The number of residents and county-wide school enrollment was steady in 2018. County population estimated by the US Department of Commerce, Bureau of Census was at 165,324 in 2018, steady from 2017 estimate of 165,313. Kansas City, Kansas resident population estimate was 152,958 in 2018, 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, Bonner Springs USD #204 and Catholic schools totaled 31,436 in 2018 compared to 31,578 in 2017, or a slight decrease of 0.4%. Additionally, the Kansas City, Kansas USD #500 has been actively involved in capital construction projects funded by a 2016 voter approved \$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 2020 Proposed Budget is presented with caution concerning mixed macroeconomic indicators and emphasizes the need for fiscal discipline.

UG-Wide Proposed 2020

Total budgeted resources in the coming fiscal year will be enough to support total UG-wide 2020 proposed budgeted expenditures of \$394.8 million. The 2020 UG overall budgeted expenditures are 3.4% higher than the amended 2019 budget. Estimated 2020 revenues of \$368.9 million are 2.3% higher than the amended 2019 budget revenue estimates.

All UG funds net cost increases over the 2019 amended budget of \$13.0 million are offset by \$8.4 million in net estimated additional revenue over the amended 2019 revenue estimates.

Changes in Revenue Estimates - Of the UG-Wide total \$368.9 million in 2020 revenue estimates, the largest by far is tax revenue totaling \$253.7 million or 68%. This is followed by charges for services at \$64.6 million or 18%. Proposed 2020 revenues are projected to increase by \$8.4 million or 2.3% over the 2019 amended revenue estimates, of which \$5.4 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 held at 2019 rate levels. An additional \$2.2 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 reductions in estimated fines and fees in various operating areas.

Changes in Expenditures - The 2020 proposed budget includes \$3.7 million to support a 2% cost of living compensation adjustment for most UG employees and sworn personnel, increased funding of \$2.2 million for anticipated employee health care benefit costs, and a \$300,000 reduction in employer pension contributions due to the 2.8% decrease in the KPERs non-safety retirement employer contribution rate and the 0.9% decrease for KPERs/KP&F public safety contribution rate. Additionally, a \$1.8 million increase is budgeted in cash-funded sewer capital projects.

Planned Use of Reserve Balances - Estimated 2020 revenues across all UG funds total \$368.9 million with planned use of fund balances of \$25.9 million to support various one-time, non-reoccurring expenses. The largest planned use of fund balances is \$15.5 million in the Sewer Fund primarily for an additional level of cash-funded capital infrastructure investments and payment of refunding debt obligations. The second largest is \$2.9 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 \$1.6 million to support one-time tourism-enhancing development opportunities.

UG-Wide Amended 2019

Total UG-wide amended 2019 budget expenditure proposal of \$381.8 million are greater than the original 2019 adopted budget of \$376.4 million, or a modest increase of 1.4%.

Changes in Revenue Estimates - Of the UG-Wide total \$360.5 million in 2019 amended revenue estimates, the largest category by far is tax revenue totaling \$248.3 million or 69%. This is followed by charges for services at \$61.7 million or 17.0%. Amended 2019 revenue estimates are projected to increase by \$1.0 million over the original 2019 budget estimates or 0.3%. Sales tax revenue estimates were reduced due to a substantial decline in receipts for the last half of 2018. A \$1.0 million increase is included for BPU electric franchise payments based on year-to-date transactions that reflect the BPU's 4% rate increase beginning in April 2018.

Changes in Expenditures - The increase in 2019 amended budget expenditures is \$5.4 million. The largest increases between original and amended 2019 expenditures are \$1.6 million in the City Bond and Interest Fund, \$1.4 million in the Sewer Enterprise Fund, \$700,000 in the County General Fund, and \$500,000 in the Emergency Medical Services Fund. These increases were offset by various additions and reductions in other funds. Changes in the General Funds’ expenditures are provided in the following sections.

Planned Use of Reserve Balances - Estimated 2019 revenues across all UG funds total \$360.5 million with planned use of fund balances of \$21.3 million to support various one-time, non-reoccurring expenses. The largest planned use of fund balances of \$8.2 million is in the Sewer Fund, primarily for cash-funded capital infrastructure investments. The second largest is \$2.6 million in the City General Fund for various new initiatives, \$2.3 million in the City Bond and Interest Fund for debt obligations, and \$1.6 million in the Tourism and Convention Fund to provide for various tourism related projects.

City General Fund – Proposed 2020

The Unified Government has three *general* operating funds, City General Fund, County General Fund and Parks General Fund, which combined comprise of 60% of the total UG-wide proposed budget for 2020. 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 2020 expenditures of \$163.5 million, is the largest operating fund of the Unified Government. The 2020 City General Fund proposed budgeted expenditures are a modest 1.7% higher than the requested 2019 amended budget. Estimated 2020 revenues are 1.6% higher than the amended 2019 budget revenue estimates.

The 2020 proposed \$2.8 million increase in expenditures compared to amended 2019 is partially offset by an additional \$2.6 million in revenues. Resources of \$2.9 million from fund balance are

utilized to close the net between proposed 2020 revenues and expenditures.

Changes in Revenue Estimates - Of the City General Fund total \$160.6 million in 2020 revenue estimates, tax revenue totals \$136.8 million or 85%. This is followed by charges for services at \$11.9 million or 7.4% of the total. Proposed 2020 revenues are projected to increase by \$2.6 million or 1.6% over the 2019 amended revenue estimates, of which \$2.1 million is in the tax revenue category to account for an increase of property tax revenue , sales and use tax revenues (excluding STAR revenues) and combined franchise tax revenue increases.

GENERAL FUND - CITY			
	FY 2019 ORIGINAL BUDGET	FY 2019 AMENDED BUDGET	FY 2020 PROPOSED BUDGET
Revenues	156,630,921	155,834,971	158,363,391
Transfers-In	2,256,000	2,256,000	2,256,000
Subtotal: Sources	158,886,921	158,090,971	160,619,391
Expenditures	160,144,856	160,132,432	162,814,634
Transfers-Out	705,000	605,000	710,000
Subtotal: Uses	160,849,856	160,737,432	163,524,634
Net Change in Fund Balance	(1,962,935)	(2,646,461)	(2,905,243)
Cash Basis Ending Fund Balance	\$ 19,370,116	\$ 17,643,141	\$ 14,737,898
CAFR Ending Fund Balance	\$ 28,098,150	\$ 28,982,533	\$ 26,077,290
17% Target Reserve	18.6%	19.2%	17.0%

Sales and use tax revenue estimate (excluding STAR revenue) in 2020 totals \$35.6 million, or an additional \$1.2 million compared to 2019 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, which includes delinquent payments, for the 2020 City General Fund is an increase of 4.1% from \$24.2 million in amended 2019 to \$25.25 million in proposed 2020, or an increase of \$1.0 million. Even

though assessed value of property in Kansas City, Kansas was certified by the UG Clerk to increase by 5.6% and the 2020 proposed budget maintains the City General Fund property tax mill rate at the 21.167 same as the 2019 budget, this revenue only grows by 4.1% due to the anticipated reduction in assessed value of Hollywood Casino, one of the UG's top property taxpayers.

When factoring in 2019 growth in assessed value and a lower delinquency rate of 5.70%, the net increase in this revenue compared with 2019 amended estimates is \$1.0 million. Additionally, an anticipated refund for 2015-2018 appealed property taxes to Hollywood Casino results in another reduction of \$243,000. This level of Hollywood Casino refunds for prior year appealed taxes is tentatively planned to be paid out annually through 2021.

Changes in Expenditures - 2020 proposed budget has \$2.8 million in expenditures above the amended 2019 budget, of which \$2.0 million are for personnel costs for compensation increases to support a 2% cost of living adjustment for most UG City General Fund employees and sworn law enforcement personnel, as well as, increases for health care benefits and pension contributions. Additions in contractual services and capital outlay to support anticipated inflationary increases are offset by reductions in commodities and grants due to higher levels of one-time spending compared to the amended 2019 budgets for these categories.

Planned Use of Reserve Balances – A total of \$2.9 million in fund balance resources is planned to be utilized for the proposed 2020 budget, which is estimated to satisfy the target operating reserve of two-months of operating expenditures and transfers out, or 17%. City General Fund performance during 2018 reduced the cash-basis fund balance by slightly over \$300,000. The City General Fund ended 2018 with a reserve of approximately 22% of expenditures and transfers on a CAFR modified accrual basis.

The UG has significant challenges ahead in identifying and examining services that have the potential to be reallocated or provided more efficiently. The governing body is committed to

developing a plan that is sensible and sustainable through a 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 2019

Total amended 2019 expenditures decreased by \$112,000 over the original 2019 budget in the City General Fund, in conjunction with a reduction of \$800,000 in estimated revenues, nets a decrease to fund balance at the end of 2019 of \$2.6 million.

Changes in Revenue Estimates – Sales tax revenue estimates decreased \$1.8 million in the amended 2019 budget due to a decline in sales tax receipts in the second half of 2018. The BPU electric PILOT franchise tax payment was under-budgeted in the original estimate, which resulted in an increase of \$1.1 million for 2019 amended budget. These revenue estimate increases are offset by reductions in various other sources.

Changes in Expenditures - City General Fund expenditure budget slightly decreased by \$112,000 between original and amended 2019 expenditures.

County General Fund – Proposed 2020

The County General Fund, with total proposed 2020 expenditures of \$66.8 million, is the second largest operating fund of the Unified Government. The 2020 County General Fund budgeted expenditures are a modest 3.4% higher than the 2019 amended budget. Estimated 2019 revenues are 2.8% higher than the amended 2019 budget revenue estimates.

GENERAL FUND - COUNTY			
	FY 2019 ORIGINAL BUDGET	FY 2019 AMENDED BUDGET	FY 2020 PROPOSED BUDGET
Beg. Fund Balance	\$ 4,168,321	\$ 5,912,563	\$ 5,688,207
Revenues	63,337,090	64,449,511	66,277,968
Transfers-In	0	0	0
Subtotal: Sources	63,337,090	64,449,511	66,277,968
Expenditures	62,571,900	63,313,867	65,322,495
Transfers-Out	1,360,000	1,360,000	1,560,000
Subtotal: Uses	63,931,900	64,673,867	66,882,495
Net Change in Fund Balance	(594,810)	(224,356)	(604,527)
Cash Basis Ending Fund Balance	\$ 3,573,511	\$ 5,688,207	\$ 5,083,680
CAFR Ending Fund Balance	\$ 8,537,557	\$ 7,373,487	\$ 6,768,960
17% Target Reserve	13.4%	11.4%	10.1%

The 2020 proposed \$2.2 million increase in expenditures compared to amended 2019 is offset by an additional \$1.8 million in revenues. Resources of \$604,000 from fund balance are utilized to close the net between proposed 2020 revenues and expenditures.

Changes in Revenue Estimates - Property taxes and delinquent payments of \$40.97 million are 62% of the \$66.2 million in total 2020 revenue estimates. This estimate increases by \$1.8 million over amended 2019 with the property tax mill rate remaining constant at 31.187. The increase is due to a 6.0% increase in assessed value offset by a lower 5.7% delinquency collection factor and an anticipated \$347,000 refund to Hollywood Casino for 2015-2018 appealed taxes. This level of Hollywood Casino refunds for prior year appealed taxes is anticipated to be paid out annually through 2021.

Changes in Expenditures – The 2020 proposed budget has \$2.2 million in expenditures above the amended 2019 budget, of which \$1.7 million are for personnel costs for compensation increases to support a 2% cost of living adjustment for most UG County General Fund employees and law enforcement personnel, as well as increases for health care benefits and pension contributions. Other cost categories propose funding consistent with the 2019 amended budget.

Planned Use of Reserve Balances – A total of \$604,000 in fund balance resources – is planned to be utilized for the proposed 2020 budget, which is estimated to result in fund balance reserve level of 10.1% 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 2018 added \$169,000 to the cash-basis fund balance. The County General Fund ended 2018 with a reserve of approximately 12% of expenditures and transfers on a CAFR modified accrual basis.

The 2020 proposed budget utilizes prior year financial gains in reserves to meet unanticipated obligations that are of a one-time nature. 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 2019

Total amended 2019 expenditure increases of \$700,000 over the original 2019 budget in the County General Fund are partially offset by \$1.1 million in additional estimated revenues, with an estimated net decrease to fund balance at the end of 2019 of \$224,000.

Changes in Revenue Estimates – Estimated increases in 2019 amended revenues totaling \$1.1 million are in the fines and fees category based on improved year-to-date revenue performance due to the full-year cost adjustment for the Hollywood Casino hotel penalty per the development agreement.

2019 is the first year in which the mortgage registration tax will no longer be collected, per state legislation. This revenue source generated \$1.5 million in 2015 but has been diminishing since the State Legislature phased this fee out. Another related fees assessed by the Register of Deeds are expected to assist in covering this lost revenue category.

Changes in Expenditures – The increase of \$700,000 in the County General Fund is due to increases in

obligated contractual services and additional one-time capital outlay.

Planned Use of Reserve Balances – A total of \$224,000 in fund balance resources is planned to be utilized for the amended 2019 budget, which is estimated to result in fund balance reserve level of 11.4% 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 very modest increases in its General Fund resources due to macroeconomic conditions and constantly increasing cost drivers. Future financial challenges lie ahead. Future revenue expectations could be impacted by economic trends, such as rising interest rates and lower consumer confidence prompting potential inflationary pressures. Geo-political pressures, such as Brexit, trade disputes and changes in immigration enforcement are also expected to impact revenue projections. 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, blight reduction, and neighborhood quality of life. 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 2020, management anticipates that the national economy will continue to grow at a modest pace although concerns remain of an economic market correction in the coming few years. We anticipate revenue growth to be sluggish through the next several years and anticipate continued budgetary pressure as employee retirements expected in the near-term are expected to bring higher pension and other accrued leave benefit pay-outs. Consistent with the UG's sustainable budgeting principles, we recommend limited proposed 2020 service enhancements or staffing increases to only levels that can be supported on an ongoing basis.

Although we continue to maintain service levels and invest in streets and facilities maintenance 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 an examination of revenue enhancements.

Property and sales taxes are the UG's most significant revenue sources. Ad valorem property tax revenues and delinquent payments across all UG funds are estimated to total \$95.0 million in 2019, increasing to \$99.2 million in 2020, or a 4.4% revenue increase. Keeping mill levy rates constant, this 2020 increase is due to the net of improved property values less an anticipated substantial reduction in valuation of Hollywood Casino due to their tax appeal.

The UG Commission reduced the property tax mill rate for Kansas City, Kansas from 43.875 mills in 2016 to 38.138 mills in 2019, or a total reduction of 13% in the KCK mill rate, or an annual savings to taxpayers of \$6.3 million. Residents of a \$100,000 home in the City of Kansas City, Kansas are estimated to pay \$943 in 2020 City/County property taxes, instead of \$1,013 without the mill rate reductions, a savings of \$70.00 every year.

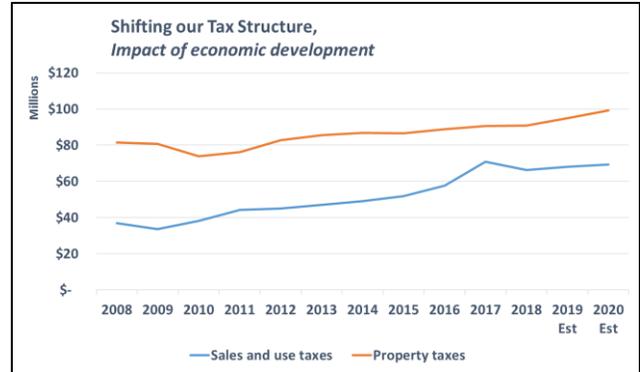
The UG's 2019 property tax revenue estimate is based on assessed property values as of January 1,

2019. 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 six 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 2020, with strong sales activity and prices continuing to climb although at a slower pace than in 2019; second, new construction activity continues to add value to the tax roll; and third, state assessed utility property valuation increased 9.7% in KCK for 2020.

Sales and compensating uses tax revenue across all UG funds were estimated to total \$71 million in 2018 increasing to \$73.6 million in the original 2019 budget, an increase of 3.5%. Unanticipated adverse macroeconomic factors in the last half of 2018 negatively impacted retail sales activity, with 2018 actual receipts coming at \$66.4 million, or a loss in planned resources of \$4.7 million UG-wide in 2018, or (6.3%) drop compared with 2017 actuals. Close monitoring of sluggish receipts in the first half of 2019 necessitate a reduction in the amended 2019 estimate of \$68.0 million, or a modest increase of 2.4% over 2018 actuals. This equates to a reduction of \$5.6 million in current year resources previously planned to support services. The 2020 estimate is a modest 2.2% increase totaling \$69.5 million.

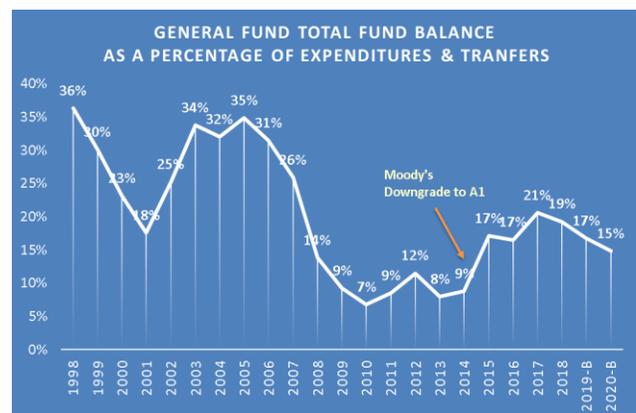
These estimates include the \$12.4 million STAR revenue resulting from the pay-off of the Village West STAR district bonds in December 2016, of which is allocated with \$9.4 million to the City and County General Funds, \$1.8 million to the Dedicated Sales Tax Fund and \$1.2 million to the Emergency Medical Services Fund.

Reduction of the property tax mill levies by six mills between 2016 and 2019 combined with the additional \$12.4 million in STAR revenue in 2017 has resulted in a shifting of our tax structure towards a greater reliance on sales tax revenues. Sales and use tax revenue in 2020 are estimated to be 27% of UG



total tax revenues compared with 21% in 2008. Correspondingly, ad valorem tax revenue and delinquent payments share of total tax revenues in 2020 declined to 39% of total tax revenue compared with 46% in 2008. As the graph above illustrates, 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 revised General Fund Reserve Policy, adopted by the UG Commission on 7/26/2018, complies with the Government Finance Officers Association of the United States and Canada (GFOA) has a recommended practice that local governments maintain operating reserves at two-months of expenditures, or about 17%. This operating reserve ensures the UG has enough resources should the economy reverse course or to cover unanticipated expenditures. This operating reserve target was achieved at the close of fiscal year 2015 having met the target of 17% of Consolidated General Fund expenditures and transfers, or \$21.1 million.



The adopted reserve policy also seeks to achieve accumulating an extra month of reserves for “economic uncertainty/emergencies”, for a total of 25% of expenditures and transfers. As the graph above depicts, the Consolidated General Fund budget anticipates ending the 2020 fiscal year with \$33.0 million in total fund balance, or one month and three weeks (15%) of total expenditures and transfers. The use of fund balance in 2020 is a result of economic uncertainty diminishing revenue growth, as mentioned earlier. Since it is unknown how long sales tax revenue will be stagnant or depressed, replenishing the reserves in 2020 and beyond is an important objective to sustain the organization’s service delivery level. Management is fully committed to remaining in compliance with the General Fund operating reserve policy, approved by the UG Commission, by taking strategic financial actions in to maintain the operating reserve at the recommended level, and/or accumulate resources to achieve the additional one-month for an economic contingency/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. Most 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.

Preliminary analysis by the Public Works Department estimates that approximately \$20 million more per year is required to maintain the UG’s modest pavement condition index. Not funding street preservation will result in an increasing number of UG roads move into the “failed” road category, significantly impacting the quality of life of residents and efficient business commerce throughout the County. Moreover, as Wyandotte County continues to grow, additional infrastructure is added that must be maintained, further stretching the UG’s limited maintenance resources.

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 to move the County toward greater environmental sustainability. Additional maintenance requirements of aging fleet, equipment and streets 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 also asked to address pressing needs in other areas of the organization and the community as well, such as adding personnel to enhance security at UG facilities and police body camera video monitoring. The 2020 proposed budget includes allocations for these items, as well as an increased level of investment in street preservation, public safety equipment and facilities, and technology initiatives to better manage business operations and provide quality and responsive customer service.

In future years, the UG’s unmet funding needs will include additional public safety equipment, upgrades to maintain compliance with the Americans with Disabilities Act, continued work to comply with separations of combined sewers, improvements to parks, replacement of outdated fire stations and maintenance of other UG facilities. 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 continues to accumulate.

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, or on the Finance website at: www.wycokck.org/Finance/FAPolicies

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, Sewer and Stormwater operations, revenues are forecasted out for ten years to account for planned changes to existing revenues (such as a sunset tax) and to project any future deficits between revenues and expenditures.

Following prudent financial policies and procedures builds community trust. In August 2018, Kansas City, Kansas voters approved a measure to allow the City to continue to impose a 3/8th cent general sale and use tax on purchases made in the City. This Dedicated Sales Tax measure generates over \$10.8 million in annual revenue to support public safety and neighborhood infrastructure operations, equipment and capital projects. The tax renewal will expire July 2030.

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 sluggish sales tax revenue performance, rising employee benefit costs, and deferred capital infrastructure maintenance, will be met with transparency and actions consistent with the traditions and culture of this organization. Beginning the fall of 2019, the UG organization will begin its second phase of the Priority Based Budgeting (PBB) process with the presentation of the program scoring developed in partnership with all UG department managers and senior staff and an examination of ideas and actions to improve the extent to which our service delivery aligns with the Commission's strategic goals. The PBB process provides us an opportunity to transform our government in a meaningful way.

I would like to acknowledge and thank all the employees who have dedicated their time, energy and talent towards bettering our shared community. Although our job is never complete, 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 professional and committed group of individuals. Thank you for your continued support of our organization.

Respectfully submitted,



Douglas G. Bach
County Administrator