


LONG TERM FINANCIAL FORECAST

FISCAL YEARS

2020 TO 2024






unified government

wyandotte county
kansas city, kansas

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image credits

All artwork produced by youth and adult artists and can be found throughout downtown Kansas City, Kansas.

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EXECUTIVE SUMMARY

The Fiscal Year 2020 to 2024 General Fund Long Term Financial Forecast (LTFF), which marks the beginning of the FY 2020 budget planning process, projects the use of one-time $3.8 million in General Fund reserves for FY 2020. Although economic indicators and tax revenues of the past ten years reveal that the Unified Government of Wyandotte County/ Kansas City, Kansas has rebounded from the Great Recession, this Forecast reflects financial obligations, one-time retirement payouts and a possible recession in 2020 and/or 2021 that diminish the positive outlook in the future five-year forecast.

Despite modest revenue receipts as projected forward, the Unified Government continues to face fiscal challenges. The table summarizes the Forecast and provides a quick view of the annual net margin between revenues and expenditures.

Baseline Long Term Financial Forecast

Fiscal Year 2020 - 2024

($s in 000s)	2019[a]	2020	2021	2022	2023	2024
Total Revenue	$218,763	$224,416	$229,312	$235,594	$242,601	$249,975
Total Expenditures	$221,546	$228,237	$234,531	$240,337	$246,629	$251,638
Net Annual Surplus / (Shortfall)	**($2,783)**	**($3,822)**	**($5,219)**	**($4,743)**	**($4,028)**	**($1,664)**
Net Operating Margin (Cummulative)	**$0**	**($3,822)**	**($9,041)**	**($13,784)**	**($17,812)**	**($19,476)**

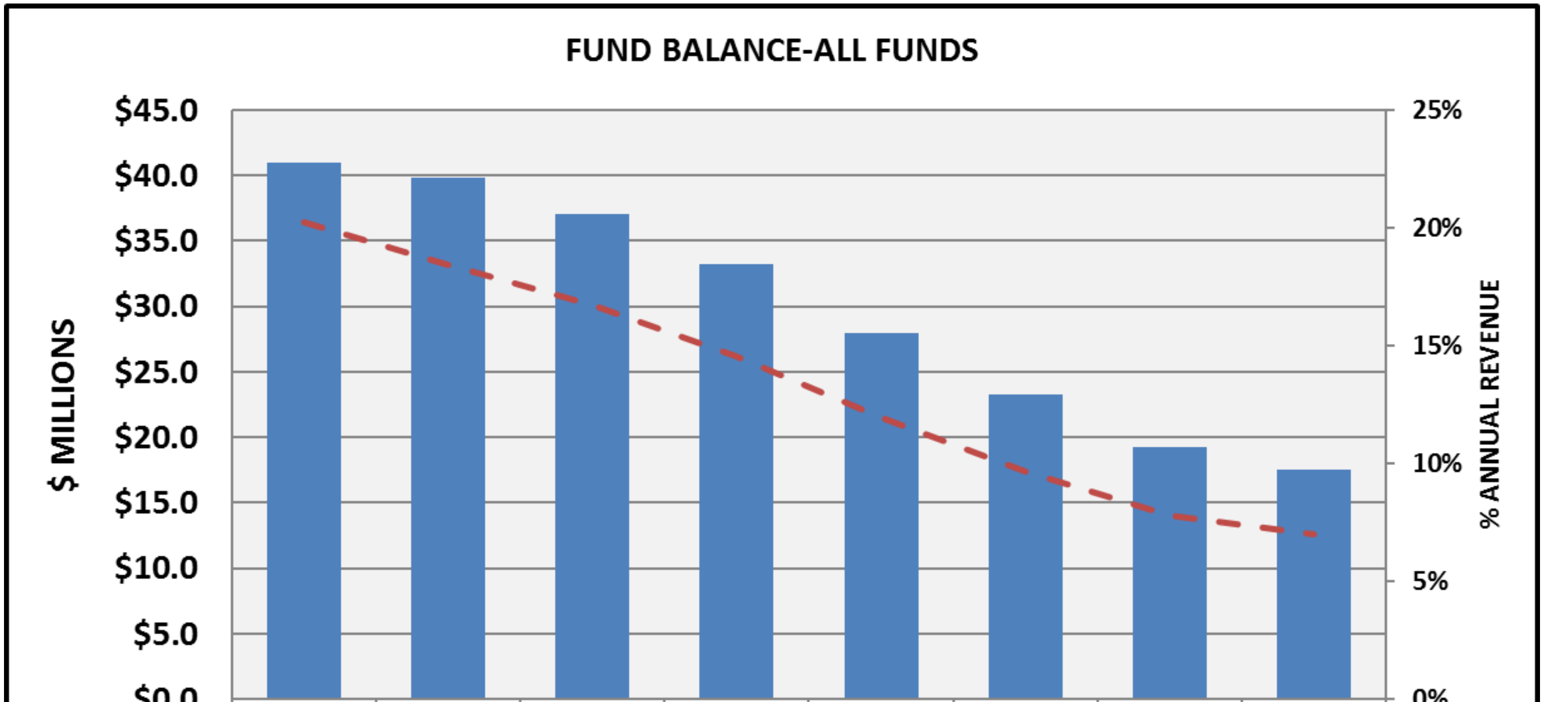
(a) For the Forecast, the Net Operating Margin (Cummulative) approach is used which assumes that no beginning fund balance is available prior to the forecast period.

(b) Assuming the estimated available fund balance of $37 million at the end of 2019, the recommended reserve of 2-mos of operating expenditrures (17%) is maintained in 2024.

More detailed information on all the major revenue and expenditure categories is provided in the subsequent sections, including discussions of past performance and assumptions of projected future performance.

In the years 2020 to 2024, an estimated $19.5 million is projected to be drawn from the 2019 ending fund balance of $37 million. At the end of 2019, the Government ends the year with 2-months of expenditures in its General Fund balance, or a reserve of 16.7%, which is the reserve level targeted in the UG's recently adopted fiscal policies. Of the total $19.5 million drawn-down from fund balance during the forecast period 2020-2024, a net estimated $18.6 million in one-time costs from 2020 to 2024 are required to be paid to *expected* retirees for accrued leave payouts and KP&R retirement special payments upon their separation from service.

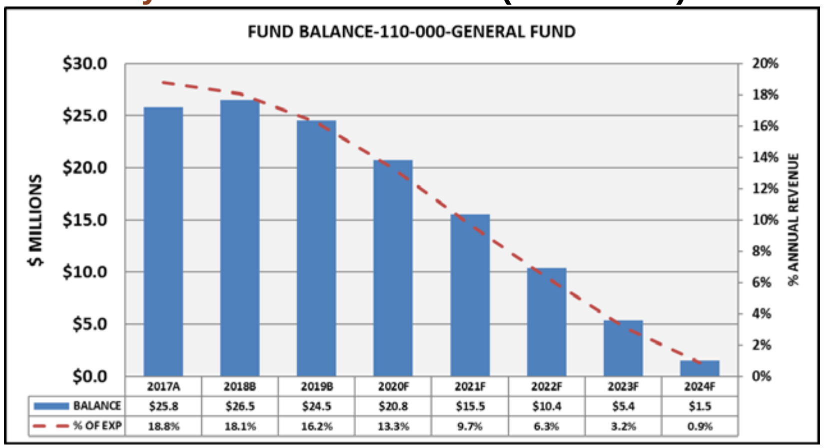
The chart below illustrates the financial projection of all the three funds of the Consolidated General Fund through 2024.



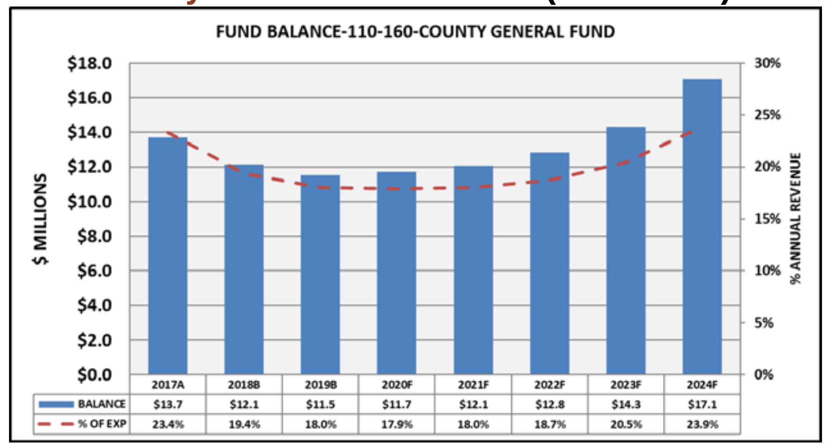
	2017A	2018B	2019B	2020F	2021F	2022F	2023F	2024F
BALANCE	$41.0	$39.8	$37.0	$33.2	$28.0	$23.2	$19.2	$17.6
% OF EXP	20.2%	18.4%	16.7%	14.6%	11.9%	9.7%	7.8%	7.0%

Separately reviewing the financial projections of the City General Fund and the County General Fund may be helpful in evaluating the sustainability of the resources sources to support the various services recorded in each of these funds.

City General Fund Position (2017-2024)



County General Fund Position (2017-2024)



Additionally, long-term challenges include achieving the Commission's goal to identifying resources to invest in our aging public facilities and equipment. UG's over 150 public facilities and buildings are aging, and the Public Works Department is in the process of estimating the costs of these deferred maintenance and infrastructure needs. Another challenge is that although statutorily precluded from augmenting employer contribution levels above the legal cap, the UG's portion of the KPERS net pension liability as of the end of 2017 was $173.4 million. Along with this pension liability, the Government has a long-term liability related to retiree health care costs (Other Post-Employment Benefits, or OPEB) of $84.5 million at the end of 2017.

In addressing these short-term and long-term issues, the UG will continue reviewing its operations and service delivery options. During 2019, staff intends to bring forward a policy framework for Commission discussion and input, which will guide staff in setting appropriate fees for various services based on the values of our community. Staff will also be proposing the establishment of an OPEB Trust to begin setting aside funds for future retiree health care costs that can yield investment earnings greater than the UG's operating funds. Additionally, staff has begun the process of implementing Priority-Based Budgeting as a tool for identifying alternative resource allocation options.

Fiscal Sustainability Proposals

The following is a list of fiscal sustainability proposals the Government plans to undertake in the future:

- ***Analyze current service delivery costs*** to ensure their alignment with the Commission's strategic goals through the Priority Based Budgeting Process;

- ***Revise the capital financing debt policy*** to ensure the level of future general obligation debt can be supported within the UG's projected resources;

- Adjust budget policy to begin to allow for accumulation of ***resources for future equipment replacement costs***;

- Investigate whether the KPERS pension system would allow employees to ***divert portions of their leave accrual values to their 457 deferred compensation accounts*** prior to retirement in order to smooth the fiscal impact to the Government of these one-time retirement payout costs;

- Develop a plan to address ***funding public facility deferred maintenance costs*** which would provide a framework for future policy discussions surrounding identifying new resources to fund these needs;

- Identify a revenue source and develop a plan of finance for the ***Parks Master Plan***;

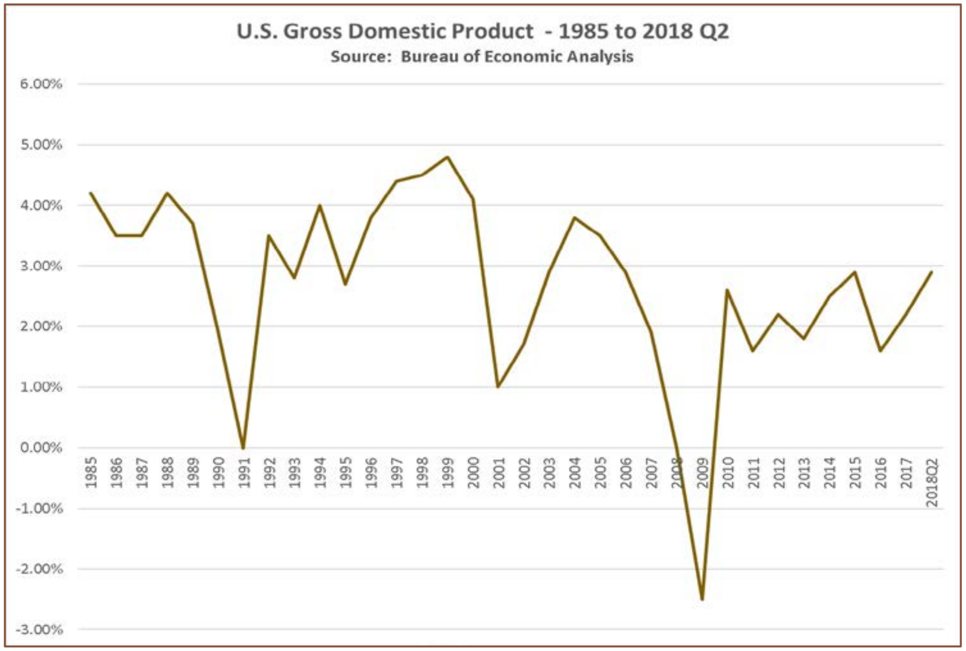
- Utilizing community engagement throughout the process, identify the revenue requirements for appropriate funding levels for the Government's ***stormwater*** future operating and capital infrastructure needs.

ECONOMIC OVERVIEW

In preparing the 2020-2024 General Fund Long Term Financial Forecast, key economic indicators were reviewed. Overall, the economic overview calls for measured optimism as the nation continues its longest period of expansion while several indicators signal the onset of a modest recession in 2020 and/or 2021.

A National View

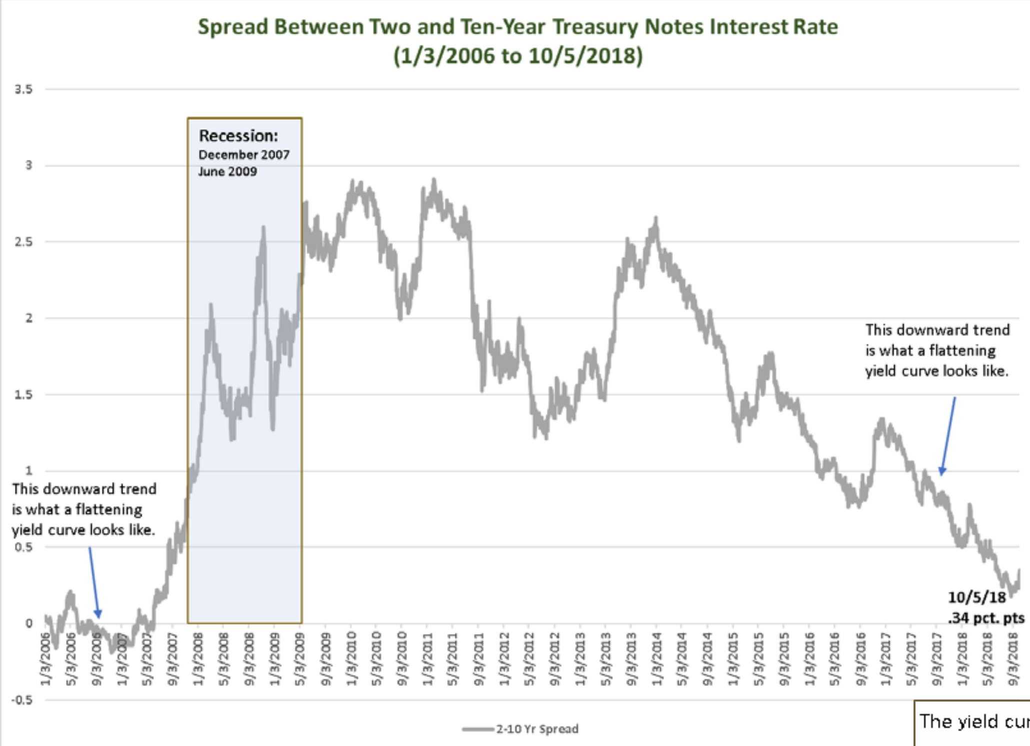
Former 1980s Kansas City Royals pitcher Dan Quisenberry is quoted as saying, *"I have seen the future and it's like the present, only longer."* Economists use the past to attempt to predict the future. Government policymakers rely on economic forecasts to anticipate economic downturns and make decisions to maintain resilient service delivery to residents.



On the left is a chart of gross domestic product annual growth rates since 1985. The graph illustrates downturns in GDP in 1991, 2001 and 2008. Over the past 30 years, there has been a recessionary period every 8 to 10 years, with latest recession having occurred 10 years ago.

The most recent GDP growth of 2.9% for the second quarter 2018 compared to the same period in the prior year is the highest recent growth since 2015. Economist warn that the recent growth of the GDP is unsustainable due to a range of one-time factors, including tax cuts and increased federal spending. Further, trade tensions may be promoting growth by foreign buyers to stock up on American products.

A predictive economic indicator of a recession that is hard to ignore is the difference between the short-term 2-year and the longer-term 10-year US Treasury Note, or the "yield curve". Typically, when an economy seems in good health, the interest rate on the longer-term notes will be higher than short-term notes. The extra interest is to compensate investors, in part, for the risk that strong economic growth could set off a rise in future prices, referred to as inflation.



Lately, though, long-term notes yields have been slow to rise — which suggests bond traders are concerned about long-term growth — even as the economy shows plenty of vitality. At the same time, the Federal Reserve has been raising short-term rates, so the yield curve has been "flattening." In other words, the gap (spread) between short-term interest rates and long-term rates is shrinking.

When short-term 2-year rates are higher than longer-term 10-year rates, the yield curve is said to be "inverted". The last time the yield curve was inverted was 12-18 months before the most recent recession in started in December 2007. Since January 2017 there has been a downward trend in the yield curve spread.

Although the October 5, 2018 spread improved slightly, it is still only 0.34 percentage point. Once it becomes negative (inverted), economist expect a recessionary period 12-18 months in the future.

Every recession of the past 60 years has been preceded by an inverted yield curve, according to research from the San Francisco Federal Reserve. Yield curve inversions have *"correctly signaled all nine recessions since 1955 and had only one false positive, in the mid-1960s, when an inversion was followed by an economic slowdown but not an official recession,"* the bank's researchers wrote in March 2018.

The yield curve, once it inverts, has a track record of **signaling that a recession is coming.**

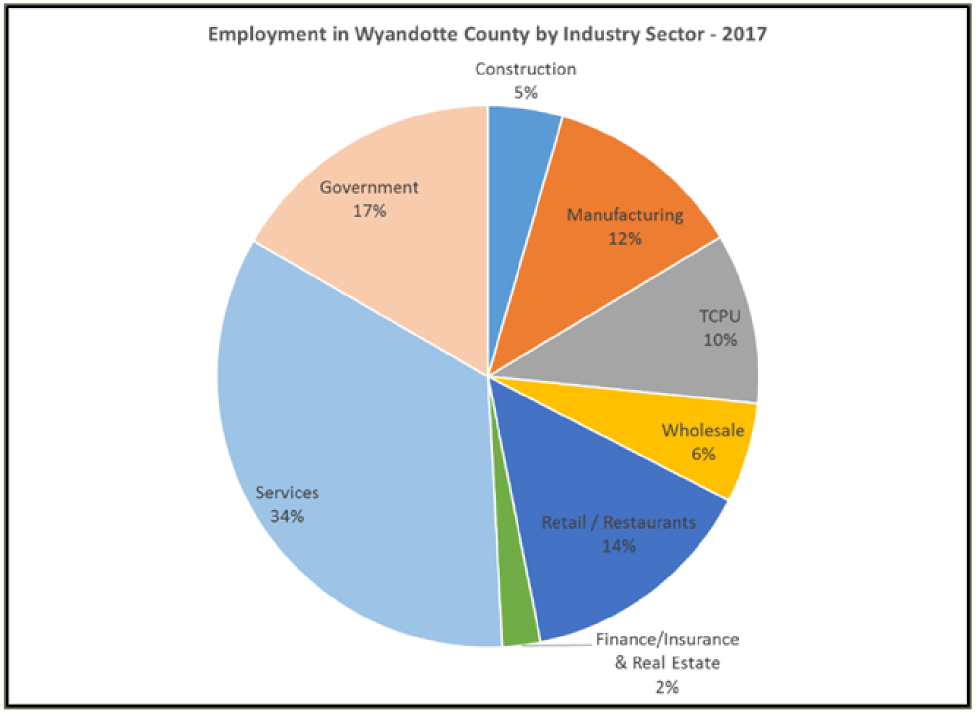
By The New York Times | Source: Federal Reserve Bank of St. Louis | Note: Data as of June 21

Anticipating downturns help policymakers plan, so that services provided to residents are not disrupted. Such plans include maintaining appropriate reserve levels and investing in infrastructure improvements that will be help grow the economy once the recession ends.

Why Care About Fiscal Policy?

In your economics class, the professor told us that GDP = C + I + G + (Ex-Im). C is total spending by consumers. I is total business investment in goods and services. G is total spending by government. (Ex-Im) is net exports. According to this equation, what government spends makes up a quarter of our total economy. Good fiscal policy by governments plays an important part in a regional economy's ability to weather a downturn and come out of a recession resilient and ready for the upturn that follows.

Fiscal policy is important for two reasons. Firstly, governments employ a lot of people. Governments need operational continuity for our economy to not dip too low in a recession. Further, recessions are very stressful for governments. The volatility of sales taxes restricts revenue growth, while structural costs and service delivery often increases, not decreases, during a recession.

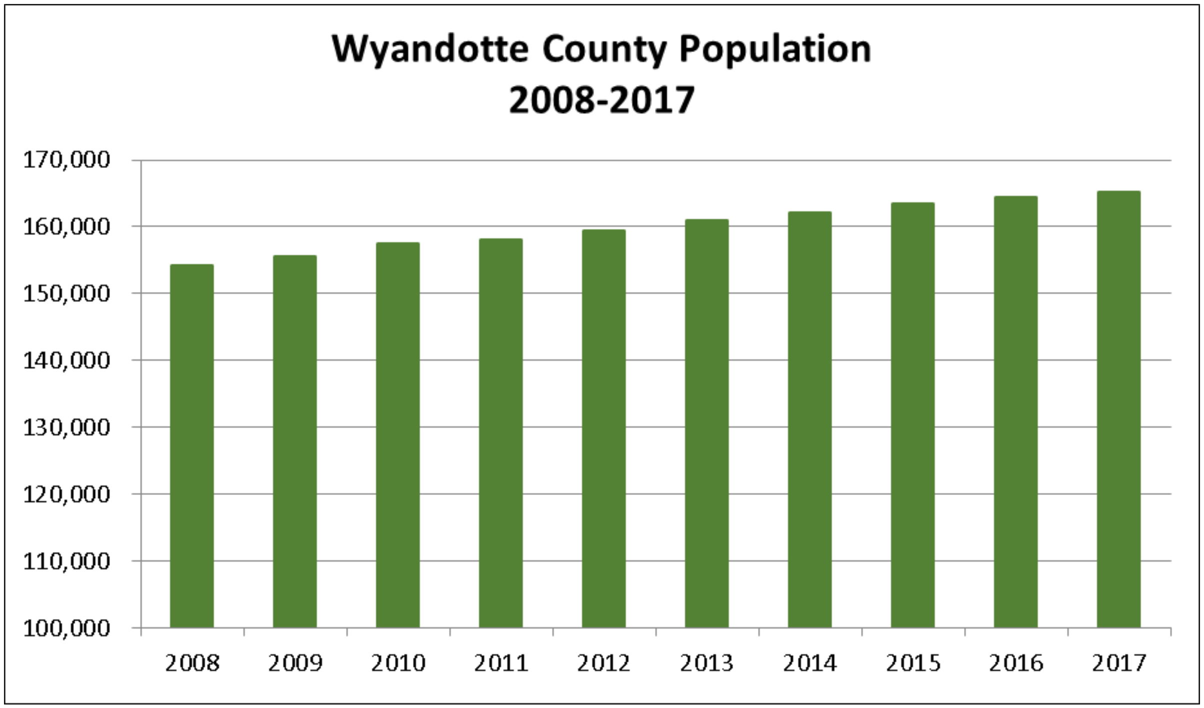


A majority of government spending goes for jobs, or employee compensation. In 2017 all state, municipal and school district governments within Wyandotte County employed 15,142, or 17% of the total 90,910 jobs. Many of these government jobs are held by residents of Wyandotte County. As we face the possibility of another recession, the sustainability of our region's economy is dependent on sound fiscal policies its governments execute in the years prior to a recession. Ten years ago, prior to the recession, the percentage government employment was 19% of total employment, or 2 percentage points higher than it is currently. Since 2007, total employment increased 12.7%, while the total government jobs decreased 0.5% during the same period. Governments are now more efficient and doing more with less since the last recession.

Second, fiscal policy is important because sometimes government don't pay their debts. There are three reasons for government defaults: economic shock, contagion and overwhelming debt load. Two of the three reasons cause fiscal distress for governments.

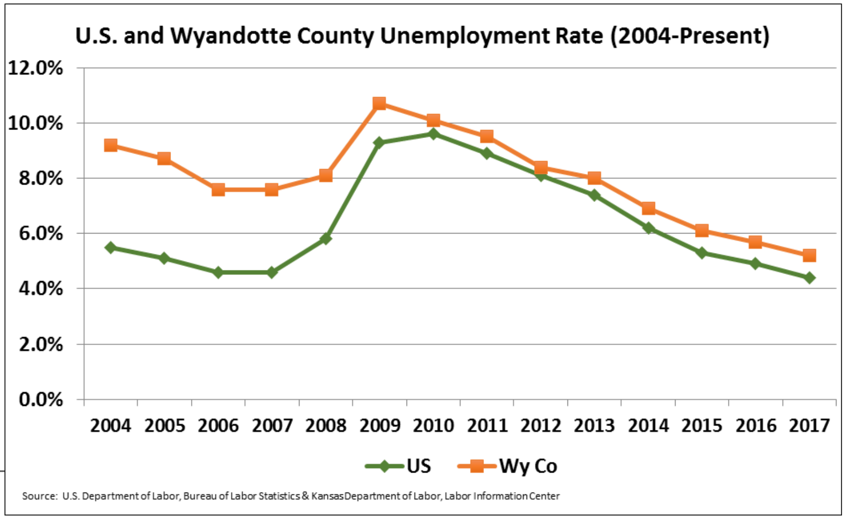
A Regional & Local View

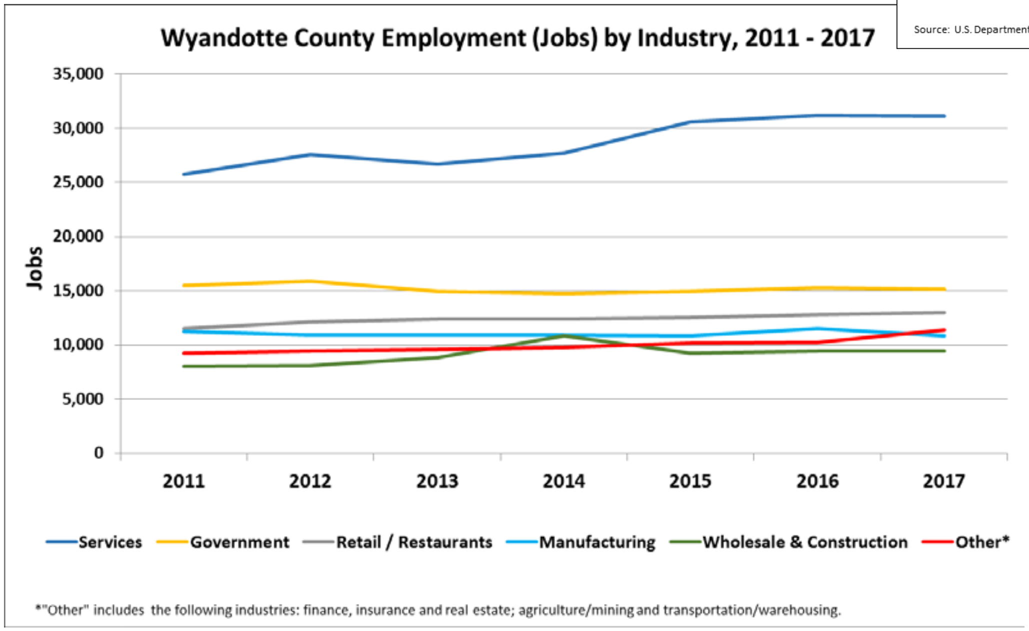
According to the recent forecast by the Wichita State University, Center for Economic Development and Business Research, as fundamentals of the Kansas economy improve, businesses have increased optimism about 2019. Most markets across Kansas are expected to improve. Employment growth is expected to return for Kansas, Wichita and Topeka during 2019. Nevertheless, the expectations also include that a looming recession is anticipated sometime in 2020 or thereafter. Future concerns include higher commodity prices, the availability of skilled labor, slow population growth, trade wars and weak wage growth.



Wyandotte County's population is 7% higher than it was ten years ago, or an annual average growth rate of 0.75%. While this is a very modest growth rate, many communities in Kansas are experiencing declines in population.

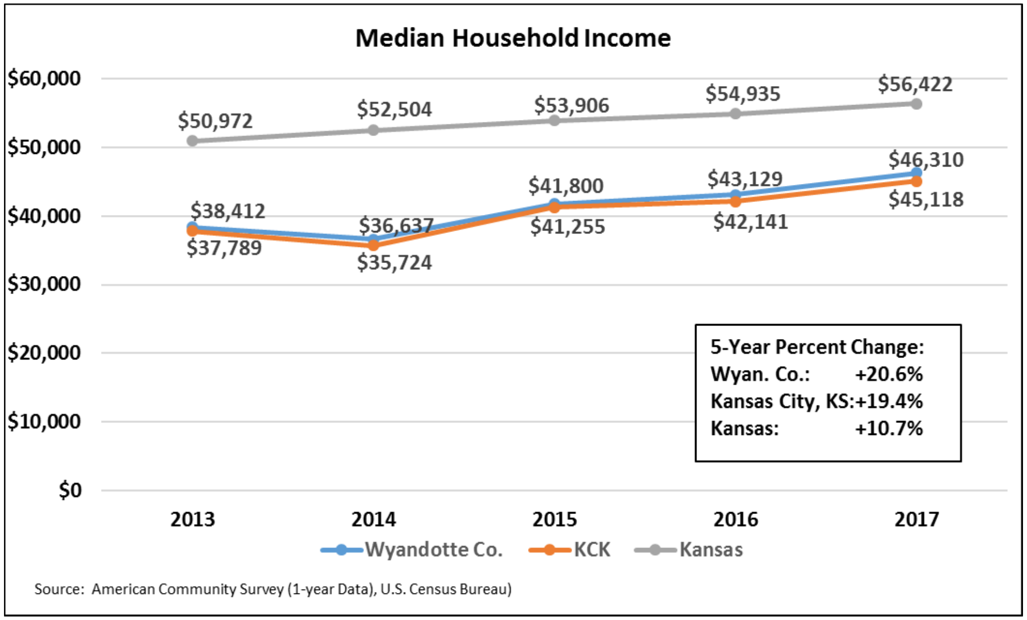
Wyandotte County's unemployment rate has been declining, from 10.7% in 2009 to 5.2% in 2017. The unemployment rate for the County is still above the national level and is decreasing at a rate consistent with the national rates. Since 2010, the County unemployment rate has been an average of 0.6% higher than the national unemployment rate. The Forecast uses a 10-year annual average percentage change assumption with unemployment rate continuing to decline by a 3.0 percentage factor year-over-year.

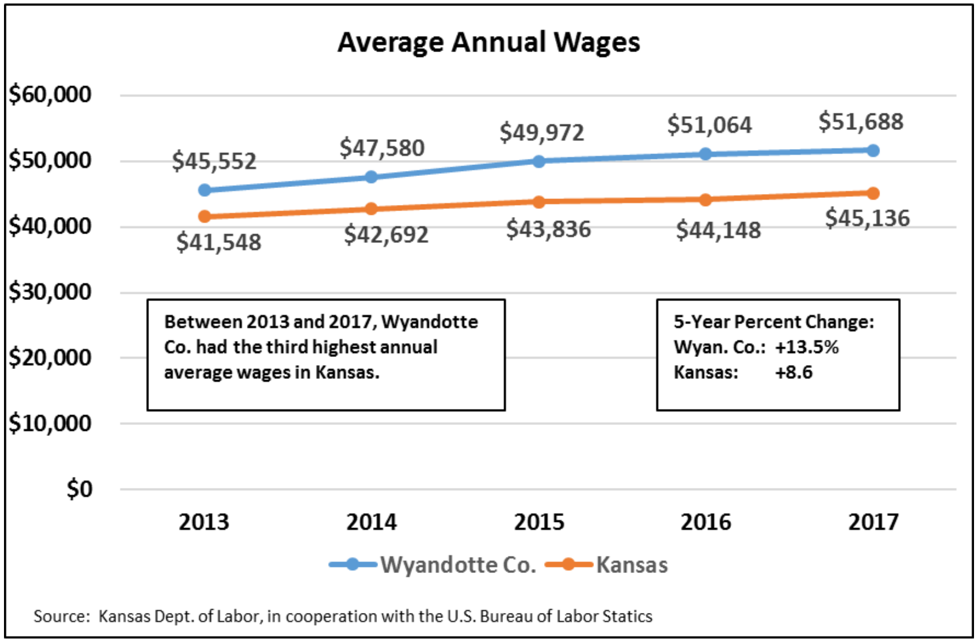




Wyandotte County has seen an increase in jobs over the past five years due to several companies relocating to the area. The total number of jobs in 2017 was nearly 90,910 or 12% higher than the number of jobs in 2011. The largest growth has been in the services sector at 34% the total jobs in 2017, the top blue line. New developments, such as the Amazon Fulfillment Center, brought 2,000 additional jobs beginning in 2017. Services sector jobs have increased over 50% since 2006. Government sector has 17% of total jobs. The Forecast uses the average annual percentage increase in jobs over the past ten years of 1.3% as a predictor of future job growth.

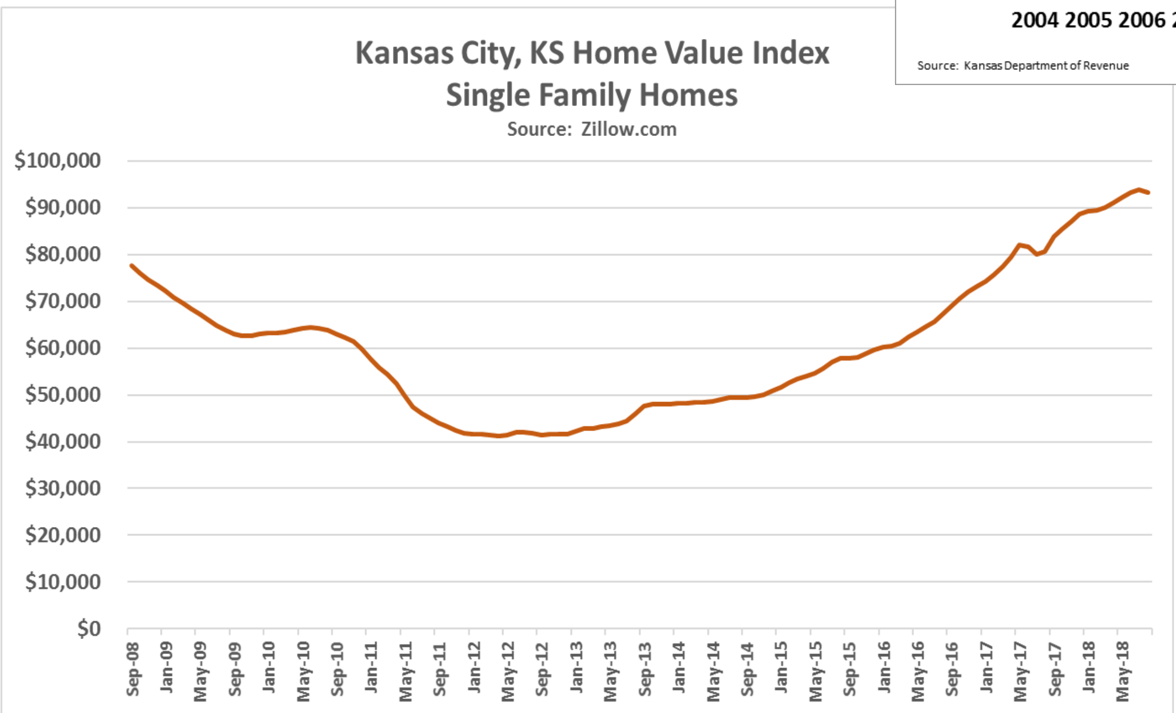
Kansas City, Kansas and Wyandotte County's median household income is approximately $45,000 and has grown at a level consistent with the State. Wyandotte County has a slight increase over the growth of the City and State levels. Wyandotte County median household income over the five-year period grew 20.6%. Although since 2014 the County and City saw a substantial increase in median household incomes, current income level of $45,000 are still 25% below the national average for median household income.





From 2013 to 2017 Wyandotte County had the 3rd highest annual average wages in the State. The County's 2017 average wage was $51,688. County wages are 13.5% higher than in 2013. The national average wage in 2017 was $55,390. Although still improving over the period, the Wyandotte County wages were still only 93% of the national average.

Although mean household income and average annual wages have been growing at conservative levels over the past ten years, substantial growth has occurred in retail sales and food services and accommodations. Over the 14-year period, the average annual percentage growth was 4%. In 2015 the growth rate was 9% over the prior year, and in 2016 the growth was 11%. During 2017, a decrease of 2% occurred. Prior year increases in retail sales can be attributed to retail transactions derived from people living outside the County.



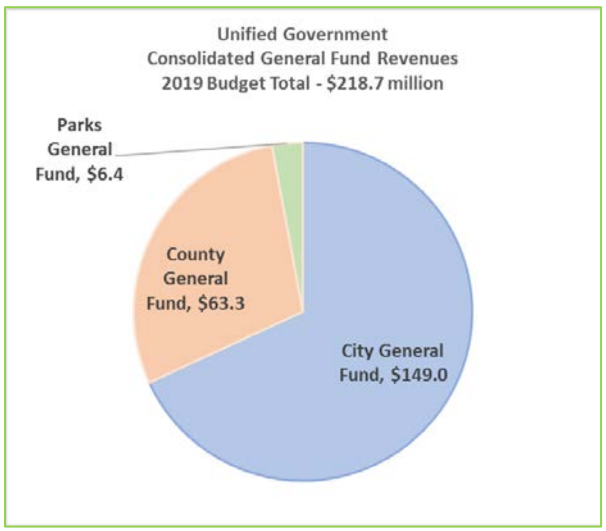
The Zillow.com Home Value Index for Kansas City, Kansas single family homes of $93,300 in August 2018 reflects an all-time high since September 2008. This is a 126% increase since the lowest point in April 2012 at $41,300. The graph illustrates how home values lag economic downturns, with the lowest prices showing three years after the 2009 recession. The data shows that August 2018 $93,300 home value was 15.6% higher than the August 2017 home value of $80,700, which was after a 20% increase between August 2016 and August 2017. Home values are increasing a very significant level.


aren't

GENERAL FUND LONG TERM FINANCIAL FORECAST (LTFF)

Due to an anticipated recession in 2020/2021 and expected large retiree one-time payments, the FY 2020-2024 General Fund LTFF projects net annual shortfalls ranging from $1.6 million to $5.2 million with a cumulative net operating margin shortfall over the five-year period estimated to total $19.5 million. Financial leadership over the next year will ensure a sustainable path to future financial resilience.

Albert Einstein said, *"Everything should be made as simple as possible, but not simpler."* The finances of the Unified Government of Wyandotte County and Kansas City, Kansas are complex because of our unique governance structure as both a city and a county.



To simplify this forecast, references to the General Fund include the consolidation of three distinct general funds. The largest is the Kansas City, Kansas (City) General Fund which collects revenues to spend on services typically provided to city residents, such as police, fire, street maintenance and recreational services. The second largest is the Wyandotte County, Kansas (County) General Fund with resources to support services often required by the State of Kansas, such as the sheriff, jails, the district attorney, the appraiser, motor vehicle registration and many other services provided to all residents within the county. The third is the Parks General Fund that combines resources from both the City and County to maintain over 2,715 acres of park land.

Together, the three funds comprise the Consolidated General Fund which has a total 2019 expenditure budget of $221.5 million and represents over 60% of the entire Unified Government's financial operations. Given its size and the many services it supports for residents, it is important to perform a careful analysis of its long-term fiscal health.

Net Operating Margin Forecast

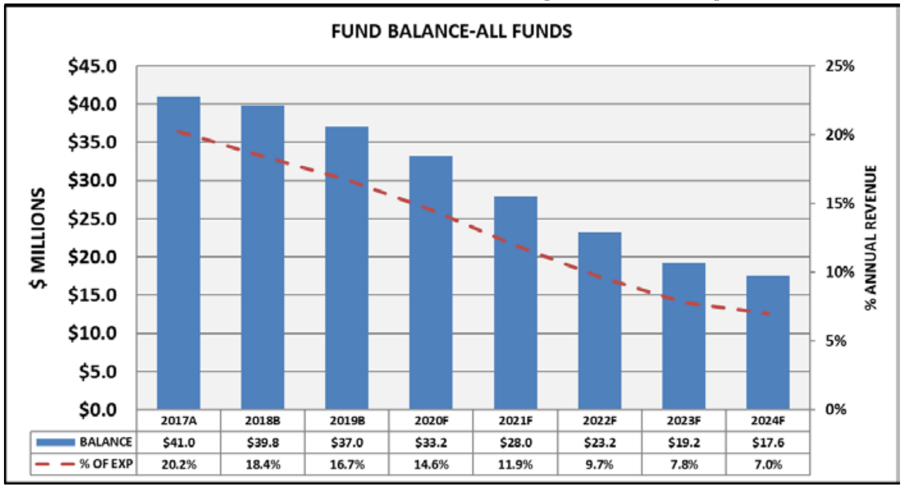
The Unified Government Commission General Fund Reserve Policy seeks to maintain two-months of General Fund operating expenditures, or at least a 16.7%, as a reserve fund balance available for economic and/or operating budgetary uncertainty. Although estimated to maintain this target at the end of 2019, projections for 2020 and beyond bring the reserves level below this reserve target primarily due to net $18.6 million in one-time payments projected for accrued leave and KP&F retirement special payments for *expected* retirees during the forecast period. The projected use of fund balance may decrease the General Fund reserves from 16.7% of total expenditures at the end of 2019 to 7.0% at the end of 2024.

For purposes of this Forecast, the net operating margin approach is used to single out transactions only occurring during the forecast year, in the absence of prior year fund balance reserves. The net annual surplus / shortfall reflects the variance between the projected General Fund revenues and expenditures for each year of the forecast. The net operating margin cumulatively tallies each year's performance over the Forecast period, resulting in the estimated change to fund balance at the end of the Forecast period. Over the Forecast period, $19.5 million are estimated to be drawn down from the General Fund reserve by 2024 if no actions were taken to remedy the imbalance. The graph on the left provides an illustration of the net operating margins of this base forecast.

During the Forecast period, the net annual shortfalls fluctuate between $1.6 million and $5.2 million. Although this Forecast projects moderate revenue growth, annual resources are insufficient to meet the required large net $18.6 million in one-time retiree payments while keeping pace with conservative expenditure needs, such as a moderate cost of living adjustment for employee compensation. Additionally, the Forecast does not include various potential risks and/or long-term liabilities as discussed in the following pages of this section.

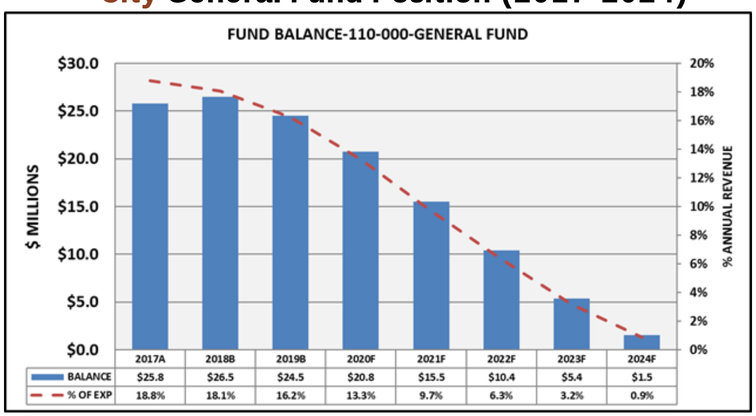
The chart below illustrates the financial projection of the Consolidated General Fund through the Forecast period.

Consolidated General Fund Position (2017-2024)

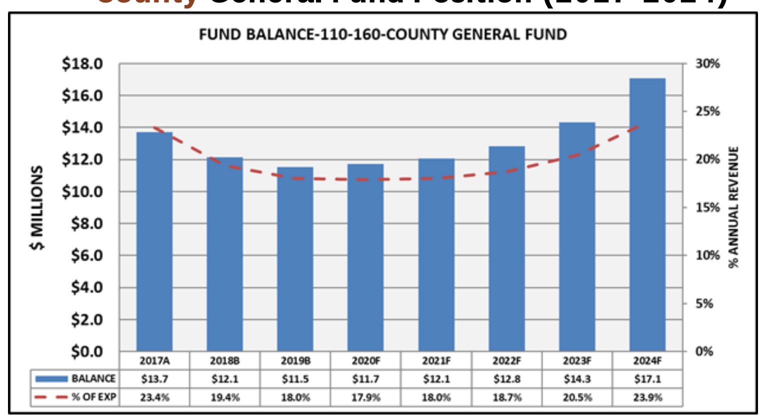


Separately reviewing the financial projections of the City General Fund and the County General Fund may also be helpful in evaluating the sustainability of the resources to support the various services recorded in each of these funds.

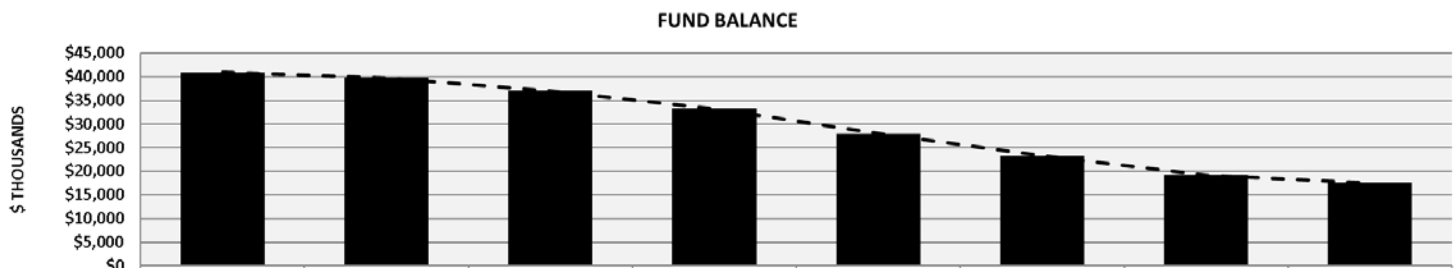
City General Fund Position (2017-2024)



County General Fund Position (2017-2024)

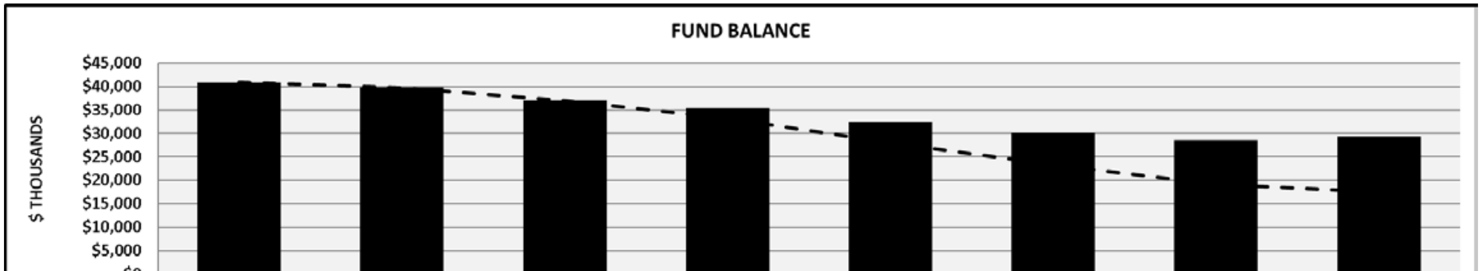


However carefully analyzed, projected revenues and expenditures will vary from the forecast. As a result, it is useful to see the range of possibilities, especially on the revenue estimates. The chart below shows the **baseline forecast** as previously discussed, for the Consolidated General Fund, with the ending fund balance for 2024 at 7% of total expenditures.



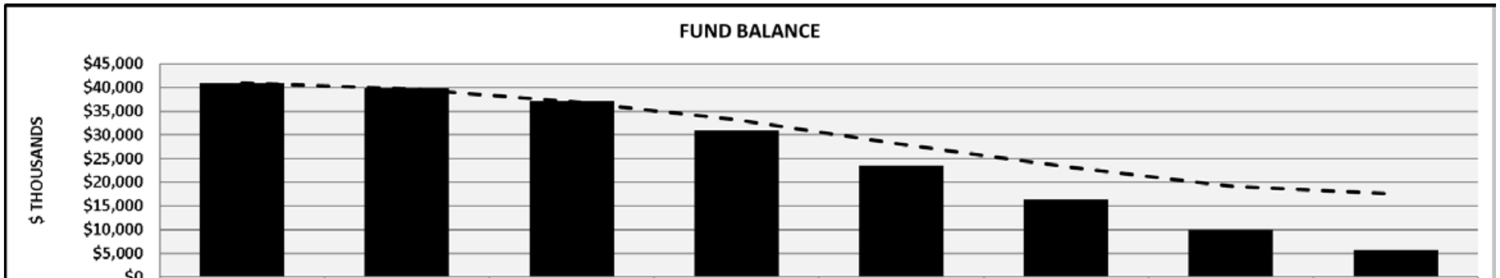
	2017	2018	2019	2020	2021	2022	2023	2024
NEGATIVE	-	-	-	-	-	-	-	-
POSITIVE	40,957	39,816	37,033	33,212	27,992	23,249	19,221	17,557
FB BASE	40,957	39,816	37,033	33,212	27,992	23,249	19,221	17,557

The chart below illustrates how the Consolidated General Fund financial position would look if the revenue estimates were 1% greater than have been estimated in the baseline forecast (dotted line), with 2024 ending fund balance at 11% of total expenditures.



	2017	2018	2019	2020	2021	2022	2023	2024
NEGATIVE	-	-	-	-	-	-	-	-
POSITIVE	40,957	39,816	37,033	35,456	32,530	30,142	28,540	29,376
FB BASE	40,957	39,816	37,033	33,212	27,992	23,249	19,221	17,557

The chart below illustrates how the Consolidated General Fund financial position would look if the revenue estimates were 1% lower than had been estimated in the baseline forecast (dotted line), with 2024 ending fund balance at 2% of total expenditures.



	2017	2018	2019	2020	2021	2022	2023	2024
NEGATIVE	-	-	-	-	-	-	-	-
POSITIVE	40,957	39,816	37,033	30,968	23,455	16,356	9,902	5,738
FB BASE	40,957	39,816	37,033	33,212	27,992	23,249	19,221	17,557

Forecasts are conducted to anticipate potential events before they occur so that policymakers and administrators can undertake discussions for how best to react to the event and make plans to mitigate the negative impact to residents. The underlying reason for forecasts is because we fundamentally care about people; we desire to minimize harms such as job loss or homelessness when economic downturns occur. Although perfectly predicting the timing of a recession is difficult, our residents benefit from having contingency plans for an economic downturn as part of our charge to have a sustainable and resilient local government.

Forecast Potential Risks and Long-Unfunded Term Liabilities

This Forecast, as outlined in the following sections of this report, does not reflect the following potential risks and long-term liabilities in the future five years:

1. Changes in the local, regional and national economy: This Forecast assumes a modest recession in 2020 and/or 2021 marked by a moderate slow-down in the growth rate for the local economy, followed by an economic rebound in the subsequent years. Any changes from this assumption may have positive or negative impacts on economically sensitive revenues, such as sales taxes constituting 25% of total General Fund revenues. National government policy changes, such as trade policy changes, could impact the regional business climate and job growth. The Forecast projection for job growth took the number of county jobs at the end of 2017 and then applied a slowdown of job growth in 2020-2021, followed by the

average annual growth in county jobs over the prior eight-year period.

2. Labor Negotiations: The Unified Government has twelve of thirteen employee organization (labor) agreements expiring December 31, 2019 and one contract expiring December 31, 2018. Although funding for a moderate cost of living adjustment has been included in the 2020-2024 salary and benefits cost lines for potential contract costs resulting from the negotiations of these expiring labor agreements, any agreements reached between the UG's employee organizations and the UG administration above moderate cost of living funding level have not been included in the Forecast. The fiscal challenge with this assumption relates the Government's ability to remain competitive with other local governments in today's tight job market. Further, as detailed in the expenditure section, beyond 2019 the Forecast assumes no additional employee positions.

3. Future Retiree Payout Assumptions: As discussed in the expenditure section, one-fourth of the UG-wide labor force is eligible to retire in the next five years. Assumptions have been made to reasonably predict the timing of these retirements, the expected accrued vacation and sick leave balances, and contribution amounts to the pension funds for additions to these retiring employees actuarial pension liability resulting from the additional final compensation calculation incurred from the leave balance payouts at separation. These costs are one-time in nature, but the amounts and timing are subject to change depending on the decisions of retiring employees. Assumptions have also been made for the potential salary savings the UG might experience following the retirements. These required payments are significant, estimated to have a net $18.6 million impact over the next five years.

   Staff plans to research possible solution to diminish or smooth the pay-out timing of the one-time accrued leave balance pay-outs of *expected* retirees. One option being explored is to offer retirement-eligible employees the opportunity, on a voluntary basis, to begin liquidating a portion of their accrued leave payouts for deposit into their tax-deferred 457 deferred compensation plans. Discussions with KPERs are required to determine if this is a legally viable option.

4. Capital Debt Financing Policy: The Forecast assumes any future debt load above current administrative parameters must be supported by additional revenue. The UG Finance staff plan to bring forward a revised capital financing debt policy and comprehensive strategy for debt management with specific debt capacity parameters that will enable the Government to meet its infrastructure investment needs while remaining fiscally sustainable within an appropriate debt capacity level.

5. Potential Litigation and Settlement Costs: The Unified Government is self-insured for liability claims. All liability claims are reviewed, challenged if appropriate, and processed for payment at the agreed amount by the Chief Legal Counsel. Kansas statutes limit the liability in tort cases to $500,000. Although an estimated $853,000 is annually included in the Forecast to

cover such claims, judgments and settlements, unanticipated settlements may significantly exceed this estimated budgeted cost. In addition, although necessary to take advantage of the opportunity to potentially mitigate legal settlement costs, legal defense expenses for litigating such lawsuits often exceed budgeted estimates.

6. Streets Rehabilitation and Replacement Costs: As presented at the September 17, 2018 Public Works & Safety Standing Committee, the Public Works Department is the midst of developing a comprehensive, data-driven street preservation strategy. The Unified Government's over 2,400 lane miles pavement network has a current Pavement Condition Index (PCI) rating of 56 with 70% of the network rated as in poor, marginal to fair category. Current funding levels for street maintenance are insufficient to maintain even our current low PCI rating in the future, as currently poorly rated streets become "failing" streets in the future due to their age and condition. This baseline Forecast sustains the current funding level for street maintenance and does not include additional resources to address this cost-effective infrastructure investment.

7. Parks Master Plan: The Parks Master Plan was presented to the Commission in the late 2017. This baseline Forecast does not include funding for the estimated costs of the Parks Master Plan. A new revenue source will be needed to fund the recommended park and community center improvements, as well as restore the Parks and Recreation Department staffing to levels consistent with other comparative local government. Proposal options for funding this Plan will be presented to the Commission.

8. Deferred Facility Maintenance Costs: A compilation of the various condition assessment reports of the UG's over 150 facilities and buildings will likely arrive at a very significant level of deferred maintenance costs given the size of UG organization and geographic service area. Due to the prolonged slow recovery since the last recession a decade ago, on-going operating funds have been unavailable to address these deferred maintenance needs. Additionally, in the absence of a property tax mill rate increase or other identified resource, the UG's current general obligation debt capacity is insufficient to finance this significant level of infrastructure investment. This baseline Forecast does not include funding for these expected costs.

   The Public Works and Finance departments are collaborating to develop a condition assessment report and funding strategy to begin the process of identifying solutions. Future funding of these deferred maintenance costs will be challenging without additional resources.

9. Capital Equipment Replacement Costs: Many UG departments need to replace their aging capital equipment. Due to the prolonged slow recovery since the last recession a decade ago, on-going operating funds have been unavailable to fully address these equipment replacement needs. Additional funding from the early payoff of the STAR bonds has provided for

some replacements, however a dedicated fund for the future replacement of capital equipment is a recommended practice and including some minimal funding would be a good start towards addressing this need. This baseline Forecast does not include additional funding for this purpose.

10. Unfunded Net Pension Liability: Based on the most recent July 2017 KPERS pension actuarial report, the UG-wide net pension liability (including the combined KPERS-Local and KP&F-Local group plans) totals $173 million, which represents a funding status of 67% (plan fiduciary net position as a percentage of the total pension liability).[1] In other words, UG's current proportion of the KPERS pension fund assets are 33% lower than the level of assets sufficient to meet 100% of estimated future retirement obligations of covered UG employees (of which those total obligations are based on actuarial assumptions). Although the Government Finance Officers Association (GFOA) recommends a policy of fully funding pension plans, credit rating agencies generally categorize pension plans with funding statuses between 80% and 90% as average or above average; and funding statuses between 60% and 70% as below average or weak.[2]

    The UG is annually contributing 100% of its contractually required contributions, or $17.6 million in 2017.[3] Contractually required refers to the amount KPERS requires local governments to pay; it is not the amount that will bring pension assets to the full value of estimated future costs. The UG is not legally required to contribute additional resources to reduce its net pension liability. State places a cap on the level of employer contributions, and the UG is contributing at this capped rate. Without a state law change, this unfunded net pension liability will remain on the UG balance sheet. This baseline Forecast does not include additional pension contributions in order to bring down the net pension liability.

    As a side note, KPERS assumes that should local governments annually contribute their contractually required contributions, their proportion of pension fund assets will attain the 100% funding status in 30 years. This assumption supports the rationale behind the required KP&F special retirement payments for retiring Police and Fire employees whose final compensation calculations for future pension payment purposes are increased with the inclusion of accrued vacation and sick leave payouts at their separation from UG service.

11. Unfunded Retiree Healthcare Net Liability (Other Post-Employment Benefits, or OPEB): State statute requires the UG to offer healthcare benefits to its retirees up till age 65. Unlike pensions, OPEB costs are based on benefit costs during the years that a retiree (and applicable dependents) are eligible to receive benefits, ending at age 65 per Kansas Statute 12-5040. These retirement benefits (medical, dental, vision) are paid on behalf of retirees and their eligible dependents, in addition to pensions. Benefits are not uniform for all retirees, due to differences in negotiated OPEB benefits over time. Eligible participants must contribute full-blended premiums to maintain coverage. The blended premium is based on average costs

amongst all active and retirees in the healthcare plan. The reason there is a net unfunded liability is because the amount retirees contribute through their premiums is lower than respective costs incurred by these retirees. It is referred to as the "implicit subsidy" because health care costs are higher for older, retired participants than younger, active employees.

For example, in 2017 the Unified Government's Health Benefit Fund spent $4.7 million on healthcare cost claims for 702 retirees, and these retirees partially offset these costs by contributing to the UG, through their premium payments, a total of $2.3 million. This works out to be $3,276 per/year or $273 per/month per retiree, although some retired plan participants pay more, while others pay less or no contribution depending on their union contract or if they received an early-retirement subsidy prior to 2011. Each year this $2.4 million difference between the $4.7 million in claims and $2.3 million in retiree premium contributions is recorded as the UG contribution to the net OPEB liability.

At the end of 2017, the Unified Government's net OPEB liability totaled $84.5 million, which includes the estimated future health care claims of both the 702 retirees and 1,955 active employees that are projected to be covered with these benefits in the future. We are currently only on a "pay go" basis and are not setting aside funds for these future costs. This baseline Forecast does not include additional OPEB contributions to bring down the net liability. Finance staff have developed a plan for establishing an OPEB trust that will provide a funding strategy for reducing this liability. OPEB trusts allow local governments to invest the "pay go" contributions during each year and additional resources in the long-term in investment vehicles that earn better yields than local governments can earn through their more restricted operating accounts.

At this time, staff projects the use of General Fund reserves of $1.14 million for 2018 and $2.8 million for 2019. This use of reserves in 2018 and 2019 is based on the UG Commission Adopted General Fund Budget and is projected to end 2019 with an ending fund balance reserve in the General Fund of 16.7%, in compliance with the General Fund Reserve Policy. Actual revenues and expenditures for these two years will vary from budget and will impact the ending fund balances of this baseline Forecast.

Forecast Methodology

The next sections of the report discuss the analysis and assumptions of major revenue and expenditures categories. The methodology for calculating changes for out-years of the Forecast (2020-2024) are based on historical analysis of increases with adjustments factored in for known items. Forecast assumptions vary per the respective revenue and cost category and, in most cases, are based on statistical correlation with the revenue or cost driver being statistical correlated to the revenue or cost category.

Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. A correlation is a single number that describes the degree of relationship between two variables, with the closer the correlation calculation approaches 1.0 the more correlated are the two variables. Staff also performed a reasonableness test of the results.

This Forecast assumes that a recession and fall-off in economically sensitive revenues occurs once every eight to ten years, and as a result a recession is included in the Forecast in years 2020 and/or 2021. While it is not staff's intent to predict the exact timing of the recession, its inclusion in the Forecast is to send a signal that a cyclical event, whereby revenues can drop dramatically, will inevitably occur. In 2022 a post-recession upswing is incorporated. Historical average growth rates beginning in 2023 reflect the up and down cycles over the past years.

Stabilization, Occupation and Revitalization (SOAR)

In January of 2016 the Unified Government of Wyandotte County/Kansas City, Kansas established the SOAR program- Stabilization, Occupation, and Revitalization – to tackle the issues of housing rehabilitation and blight remediation within the county. The initiative focuses on breaking down the barriers and information silos within the organization and using its resources in a more strategic and effective manner. The premise involves using data to make strategic decisions on targeting, preventing, and remediating the problems that plague a community and cause property to fall into disrepair. This will involve reducing the amount of delinquent taxes, educating property owners about codes, and creating a database that can track and manage vacant properties and unfit structures. The two overall goals of the initiative is to improve 10,000 properties by 2021 which should help both revitalize the housing stock, and improve the tax base, and to improve the perception of safety within the community which should both attract people in and stop the exodus out of the community.

The Unified Government has partnered with Bloomberg philanthropies and What Works Cities for the initial phase of this project. Two phases, the creation of an open data portal and the development of performance metrics, were addressed in this partnership. What Works Cities used its resources and aided the Unified Government in the implementation of an Open Data Policy and Open Data Portal to enable the sharing of data both internally and with the public. The performance management team came up with cascading goals and metrics that would analyze the progress for the 4-year period. More than a dozen departments are involved in aligning their missions with this effort. The next phases of the project include involving stakeholders in the implementation and partnering with a network of other cities to share ideas and progress toward improving the amount of healthy fabric within the community.

REVENUES

Unified Government General Fund Forecast for 2020-2024 projects a 2.6% increase in total revenues in 2020 and increases from 2.2% and 3.0% in the remaining years. The economic drivers anticipate a modest recession in the early years of the forecast with slightly higher unemployment and a slowing in job and assessed valuation growth, with recovery beginning in 2022 moving revenues upward.

Long Term Financial Forecast

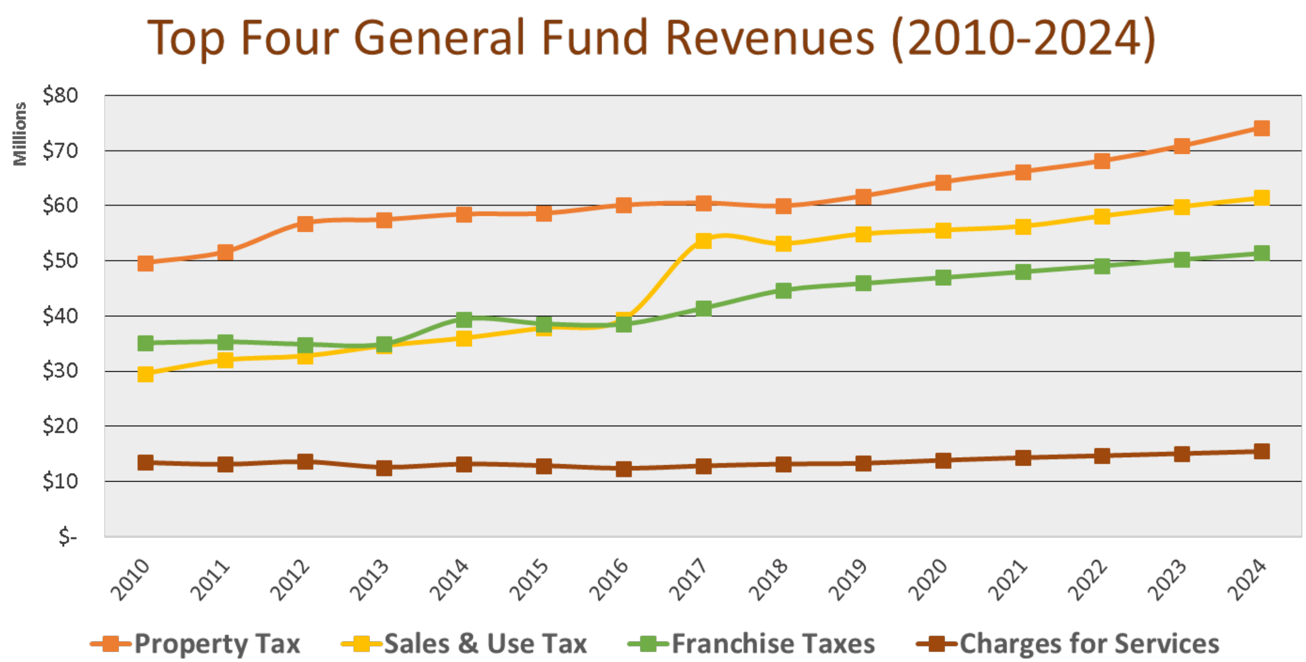
Fiscal Year 2020 – 2024

REVENUE & OTHER *in 000s)*	BUDGET 2019	2020	2021	2022	2023	2024
PROPERTY TAX	$61,757	$64,307	$66,190	$68,128	$70,854	$74,155
SALES & USE TAX	54,928	55,612	56,305	58,182	59,890	61,444
FRANCHISE TAX-ELECTRIC/WATER	36,414	37,244	38,093	38,962	39,850	40,758
FRANCHISE TAX-OTHER SERVICES	9,535	9,763	9,977	10,201	10,463	10,700
PERSONAL PROPERTY TAX	7,590	7,861	8,141	8,432	8,732	9,044
OTHER TAXES	6,494	6,617	6,740	6,835	6,932	7,029
DELINQUENT TAXES	3,977	4,077	4,179	4,283	4,390	4,500
OCCUPATIONAL TAX	2,042	2,017	2,028	2,063	2,099	2,136
IRB / TAX ABATEMENT FEES	745	775	798	822	854	880
MORTGAGE REGISTRATION TAX	0	0	0	0	0	0
SUBTOTAL: TAXES	$183,484	$188,273	$192,451	$197,908	$204,065	$210,646
CHARGES FOR SERVICES	13,292	13,862	14,334	14,708	15,097	15,501
FINES, FORFEITS, FEES	6,145	6,065	5,970	6,045	6,120	6,196
INTERGVTAL REVENUES	4,470	4,500	4,522	4,544	4,576	4,600
MISC. & INTEREST	3,952	4,150	4,357	4,575	4,758	4,901
REIMBURSEMENTS	2,721	2,836	2,918	3,003	3,123	3,214
PERMITS AND LICENSES	2,362	2,394	2,423	2,474	2,526	2,580
SUBTOTAL: NON-TAXES	$32,942	$33,806	$34,524	$35,349	$36,200	$36,991
TRANSFERS	2,337	2,337	2,337	2,337	2,337	2,337
TOTAL SOURCE OF FUNDS	**$218,763**	**$224,416**	**$229,312**	**$235,594**	**$242,601**	**$249,975**

REVENUE & OTHER SOURCES *(% change)*	2020	2021	2022	2023	2024
PROPERTY TAX	4.1%	2.9%	2.9%	4.0%	4.7%
SALES & USE TAX	1.2%	1.2%	3.3%	2.9%	2.6%
FRANCHISE TAX-ELECTRIC/WATER	2.3%	2.3%	2.3%	2.3%	2.3%
FRANCHISE TAX-OTHER SERVICES	2.4%	2.2%	2.3%	2.6%	2.3%
PERSONAL PROPERTY TAX	3.6%	3.6%	3.6%	3.6%	3.6%
OTHER TAXES	1.9%	1.9%	1.4%	1.4%	1.4%
DELINQUENT TAXES	2.5%	2.5%	2.5%	2.5%	2.5%
OCCUPATIONAL TAX	-1.2%	0.5%	1.7%	1.7%	1.7%
IRB / TAX ABATEMENT FEES	4.0%	2.9%	2.9%	4.0%	2.9%
MORTGAGE REGISTRATION TAX	0.0%	0.0%	0.0%	0.0%	0.0%
SUBTOTAL: TAXES	2.6%	2.2%	2.8%	3.1%	3.2%
CHARGES FOR SERVICES	4.3%	3.4%	2.6%	2.6%	2.7%
FINES, FORFEITS, FEES	-1.3%	-1.6%	1.2%	1.2%	1.2%
INTERGVTAL REVENUES	0.7%	0.5%	0.5%	0.7%	0.5%
MISC. & INTEREST	5.0%	5.0%	5.0%	4.0%	3.0%
REIMBURSEMENTS	4.2%	2.9%	2.9%	4.0%	2.9%
PERMITS AND LICENSES	1.3%	1.2%	2.1%	2.1%	2.1%
SUBTOTAL: NON-TAXES	2.6%	2.1%	2.4%	2.4%	2.2%
TRANSFERS	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL SOURCE OF FUNDS	**2.6%**	**2.2%**	**2.7%**	**3.0%**	**3.0%**

The first table above provides revenue estimates which include year-over-year increases for this Forecast from 2020 to 2024. The second table above displays the steady growth projected for the General Fund's revenue streams, by percentage. Fiscal Year 2020 revenues are estimated to increase by $5.65 million or 2.6%.

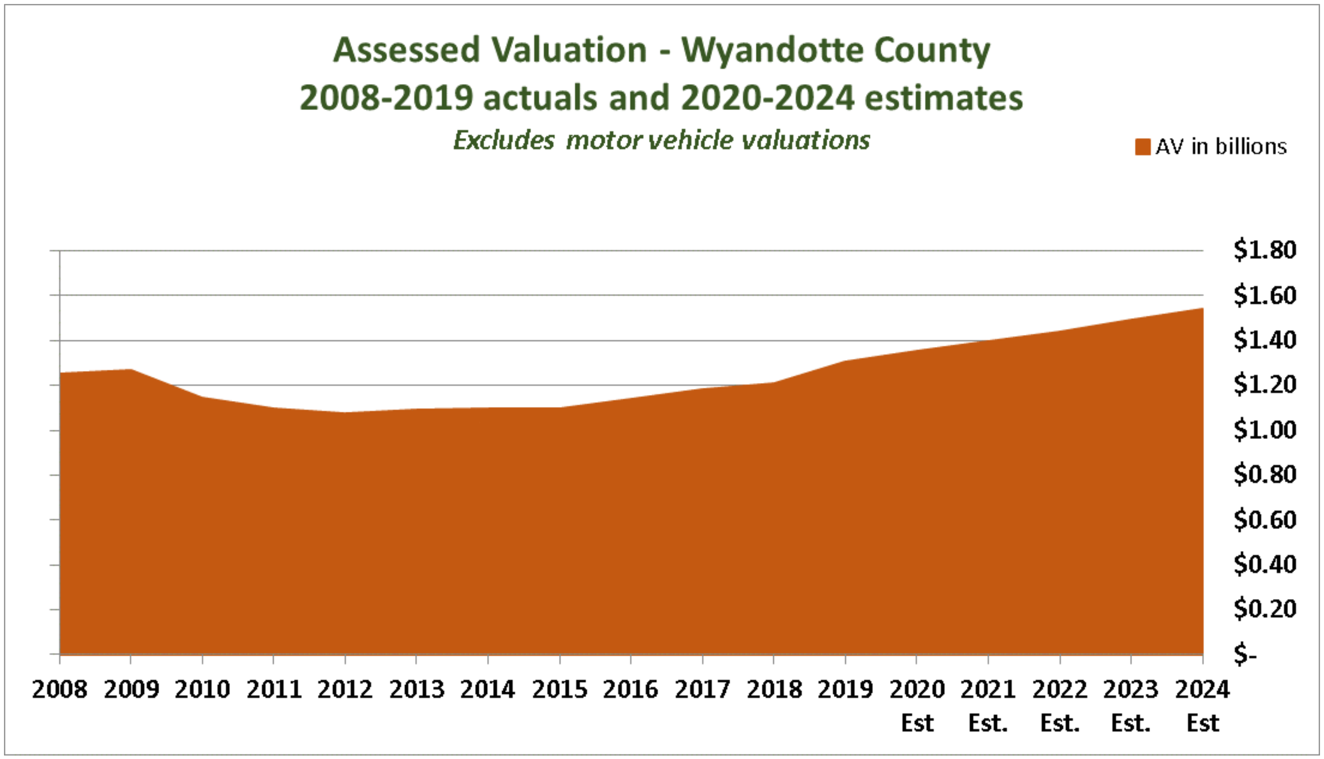
Based on the economic analysis presented in the previous section of this report, revenue estimates, linked to the performance of the regional and local economy, are reflective of modest increases in consumer spending and home prices in 2020 and 2021 impacted by the anticipated recession. The upward trend of the City's tax revenue in 2022 through 2024 anticipate a moderate economic recovery. This Forecast assumes that a recession and fall-off in economically sensitive revenues occurs once every eight to ten years. While it is not staff's intent to predict the exact timing of the recession, its inclusion in the Forecast for 2020 and 2021 is included to warn policy makers of the anticipated cyclical event, whereby revenue growth can fail to grow or drop substantially, so that actions can be taken to maintain the resilience of the organization's operations.



The graph above depicts a historical and projected view of the top four major General Fund revenues, constituting 80% of total General Fund revenues. It includes 8 years of actual revenue history; the budgeted revenue for 2018 and 2019; as well as the projections for the subsequent five-years of the Forecast, based on current available data and application of annual average growth rates and economic factors. The following section is a detailed discussion of these General Fund tax revenue sources by category, as well as a discussion of delinquent property tax fees and interest income.

Property Tax

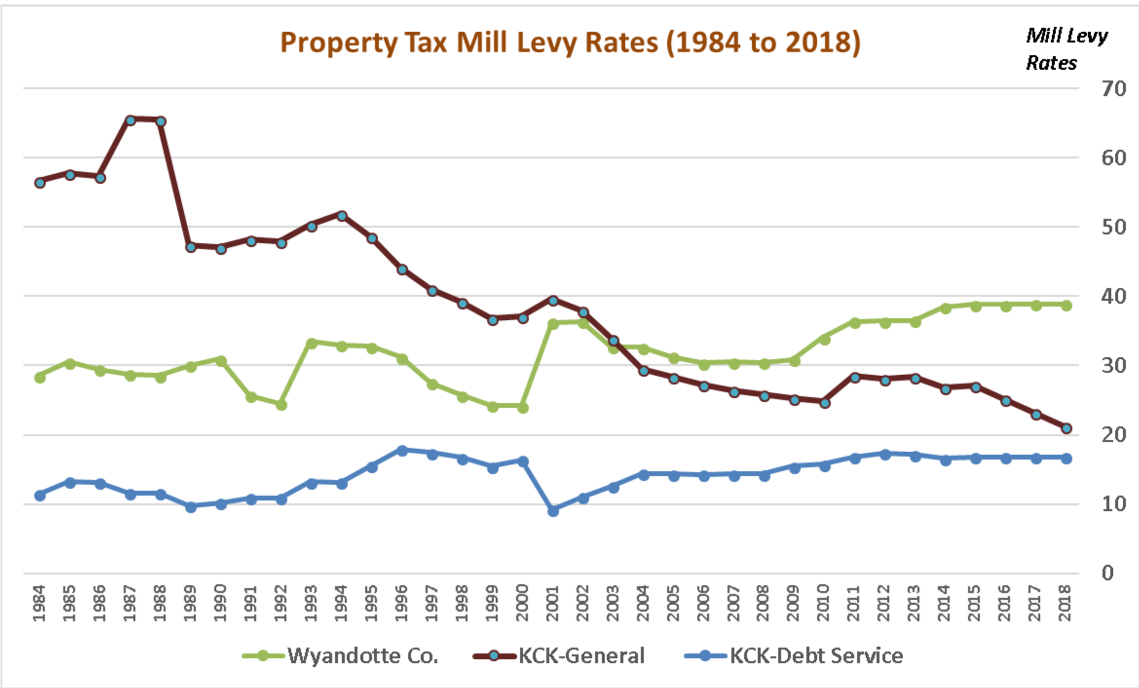
Since the end of the Great Recession, property values and property tax revenues have modestly increased at an annual average rate between 2013 and 2019 of 2.8%. Contributing factors include changes in single family home sale values, commercial property market activity, and incremental assessed value growth. The 2019 assessed value signaled an improvement in market values with a 7.9% increase in that single year. The chart below illustrates county-wide assessed valuation with actuals from 2008 to 2019 and estimated increases of 4% in 2020, 2.94% in 2021 and 2022, 4% in 2023 and 2.9% in 2024.



Property taxes are a focus of policy discussion since they comprise 28% of the total General Fund revenue base. Although this revenue category historically performs in a steady and predictable pattern, the near collapse of the housing market in many parts of the nation earlier in the decade is a reminder of how sensitive some revenues sources are to broader economic indicators and how long it takes to recover from such downturns. This knowledge informs policy makers in developing sound fiscal policies that seek to mitigate sudden disruptions of UG operations resulting from revenue losses. The previous page's assessed value chart illustrates the 15.8% drop in assessed value between 2010 and 2012. The table below displays the impact of the Great Recession, with a property tax revenue decline of 9.4% in 2010 or a revenue loss of over $5 million; and 2011 was still $3 million below the 2009 levels. The total property tax revenue loss during this two-year recessionary period was $8 million. The steep decline in the assessed value prompted the Commission to increase the mill rate (City and County combined) by 5.9 mills in 2012 to diminish the negative impact to service delivery. Between 2017 and 2019 the Commission action reduced the City property tax rate by 6 mills.

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	49,678,709	51,639,599	56,837,214	57,493,825	58,487,765	58,605,683	60,118,941	60,506,630	59,963,333	61,757,150
Percent Change %		3.9%	10.1%	1.2%	1.7%	0.2%	2.6%	0.6%	-0.9%	3.0%

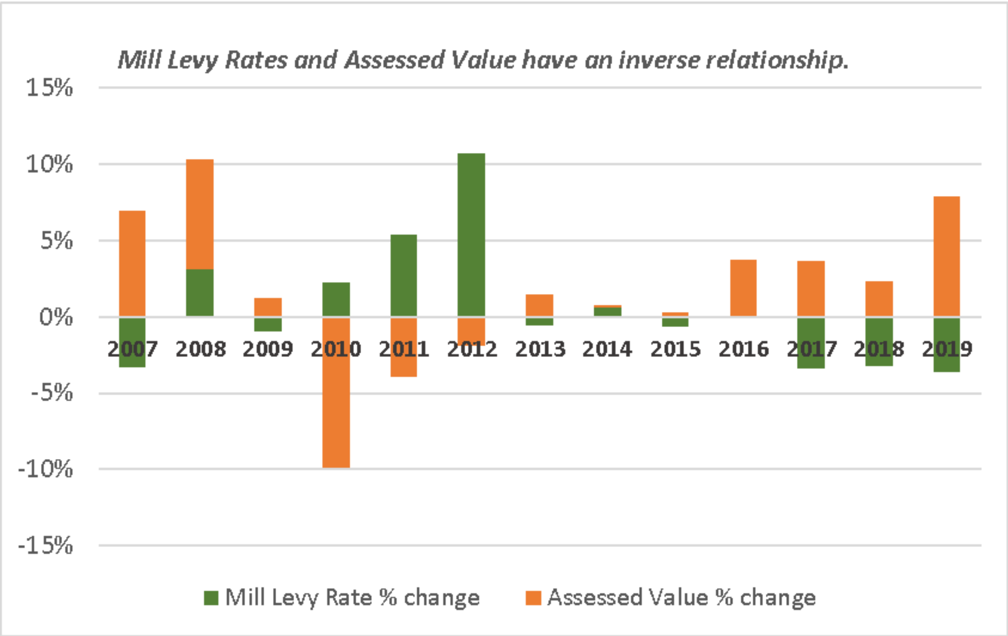
Property Tax Mill Levy Rates – Historic Overview



The chart to the left illustrates property tax mill levy levels since 1984. The top two lines are the mill levies supporting property tax revenues deposited to the City and County General Funds to meet operational demands of the Unified Government. The bottom line is the mill levy supporting general obligation debt service payments in the City Bond & Interest Fund.

The Proposed 2019 Tax Year 21.067 City General Fund mill levy rate (purple line) is at its lowest point over this 35-year period. Conversely, the County General Fund mill levy rate (green line) is at its highest point historically.

Discussions often reference the City General property tax mill levy rate to include **both** the mill rate generating property tax revenues for the City General Fund operating needs and the mill rate generating property tax revenues pledged to the repayment of outstanding debt. For example, as part of the 2019 Proposed Budget the mill levy rate for the City General (total) amounted to 38.003 mills, but this "total" mill rate is separately recorded - with the City General Fund (operating) receiving tax collections associated with a 21.167 mill rate, while the City Bond and Interest Fund dedicated mill levy rate is 16.836. It is helpful to consider that these two mill levies are separately recorded and analyzed.



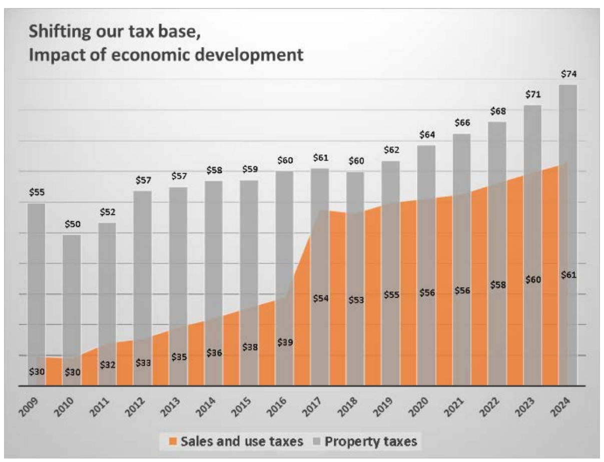
The policy question for discussion is whether and/or how much the mill levy should be reduced. The following graph may provide additional information for this policy discussion. Displayed is the year-over-year percentage change in county assessed value since 2007 budget year compared with the percentage change in the combined mill levies set for the County and City General Funds (which does not include the City Debt Service mill levy). The data shows that these two data sets have an inverse relationship. As assessed value grows, property tax mill rates are reduced; as assessed value growth diminishes, mill levy rates increase. Mill levy rates over the past ten years were adjusted generally when assessed valuation percentage change was greater than -5 /+5 percent. For 2019 Budget, one mill rate equals $1,069,000 in General Fund property tax revenue net of the delinquency non-collection factor.

In the Forecast period, property tax revenue is projected to increase by an average of 3.7% over the Forecast period, with a 4% increase in 2020 and 2.9% in 2021-2022 reflecting the expected recession, an upturn in 2023 of 4% and a leveling out of 4.7% in 2024. Revenue growth is lower than assessed value growth due to the delinquency factor and the Hollywood Casino refunds in 2019-2023. The Forecast assumes the property tax mill levies will remain flat during the Forecast period.

Sales and Use Tax

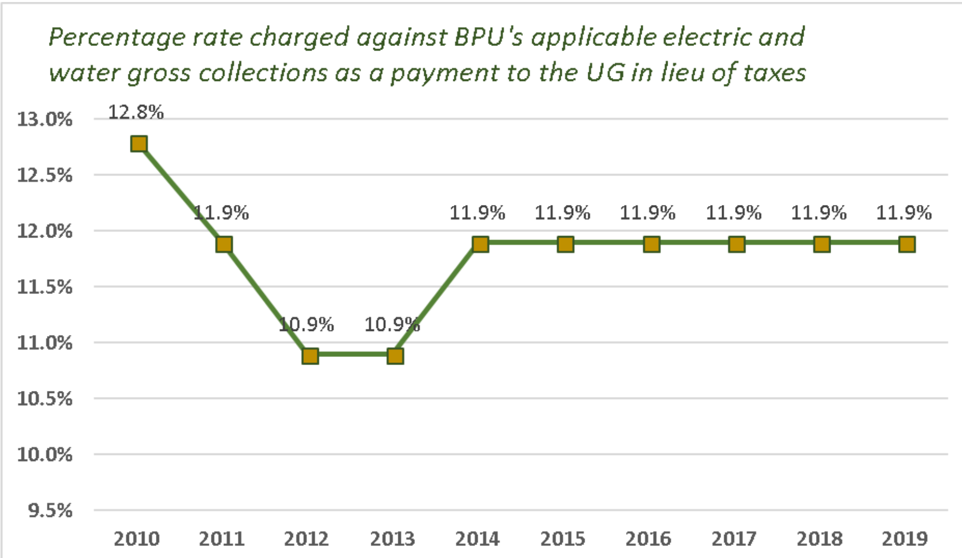
Sales and use tax revenue is the second largest General Fund revenue source constituting 25% of total 2019 revenues. The STAR bonds early pay-off in December 2016 began bringing in an additional $12 million in sales and use tax revenue in 2017 to the City and County General funds ($9 million), the Dedicated Sales Tax Fund ($1.8 million) and the Emergency Management Services Fund ($1.2 million). The General Funds $9 million portion of the STAR revenue influx, in addition to the one-month of December 2016 received in 2017, increase the total sales and use revenue line in 2017 by 36%, and increased UG's reliance on sales tax from 17% of 2010 revenues without the STAR revenue to 25% of total 2019 revenues. The table below displays the historic sales and use tax receipts over the past ten years. The average annual percentage growth of sales and use tax revenue over the period between 2010 and 2019 was 7.6%; but, excluding the influx of STAR revenue results in an average annual increase in revenue is 4.8%. The decline projected in 2018 is due to not expecting a continued collection of one-time use tax collection received in 2017, with a lower estimate for use taxes in 2019 compared to 2018.

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	29,590,523	32,033,764	32,763,449	34,639,631	36,024,497	37,877,475	39,445,231	53,759,356	53,169,101	54,928,494
Percent Change %		8.3%	2.3%	5.7%	4.0%	5.1%	4.1%	36.3%	-1.1%	3.3%
Percent Change % without STAR revenues in begin in 2017		8.3%	2.3%	5.7%	4.0%	5.1%	4.1%	7.6%	2.5%	3.3%

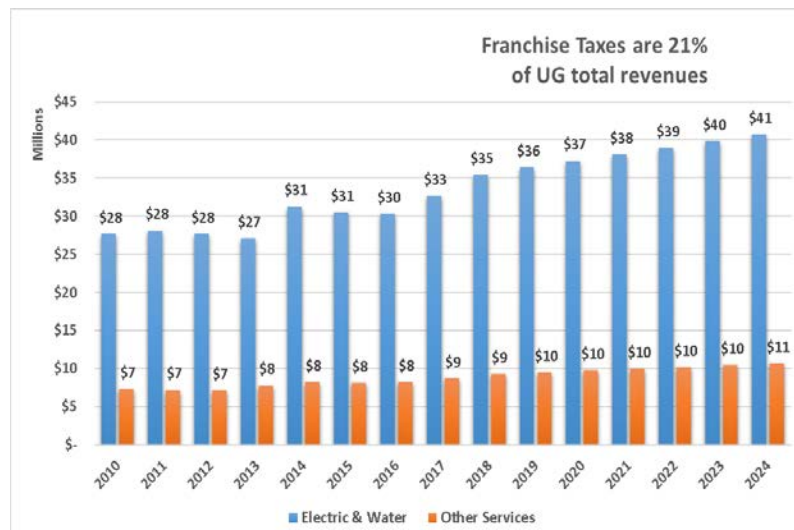


The Commission reduced the City property tax mill levy rate by two mills in 2017, 2018 and 2019, largely because of the significant influx of sales tax revenues starting in 2017 when the STAR bonds were paid off in December 2016. This policy decision shifted the burden of the Government's dependency on tax revenue to sustain its operation from Kansas City, Kansas property owners to retail shoppers. Some studies have a significant percentage of retail shoppers in the Village West Shopping District coming from outside Wyandotte County. In the future ten years, the Forecast projects an average annual growth rate of 2.3% for this revenue, with a 1.2% increase in 2020 and 2021 reflecting the expected recession followed by a 3.3% in 2022, 2.9% in 2023 and 2.6% in 2024. This projection is based on prior year average growth rates of county-wide retail sales.

Franchise Taxes



Franchise tax revenue is the third largest General Fund revenue source at $45 million constituting 21.0% of total 2019 revenues. A franchise tax is a tax levied by a local government against businesses and partnerships chartered within its boundaries. This is a privilege tax that gives the business the right to be chartered and/or operate within that entities boundaries. Local government entities have the right to tax or "nexus" solely on the basis that a company has sales or otherwise derives an economic benefit from activities within their borders. Franchise taxes are determined based on either a flat fee or on the size of the business's total holdings or revenues.



The average annual percentage growth of franchise tax revenue over the period between 2011 and 2017 was 2.5%. Reliance on franchise taxes as a revenue source has remained constant since 2011 at 21% of total General fund revenues in 2019. Most of the franchise tax is from the rate percentages used to calculate the franchise tax payments made by the Board of Public Utilities (BPU), of which many refer to as the "payment in lieu of tax" (PILOT). A 1% change in the franchise tax percentage represents approximately $3.0 million in revenue. The following tables have the historic franchise tax collections by category since 2011.

An increase in revenue from franchise tax for Electric/Water is reflected because of the BPU service charge rate increases scheduled for April of 2017 and April 2018. In 2017 the Board of Public Utilities adopted rate increases of approximately 4% for 2017 and 2018 in electric services, which translates to additional franchise tax revenue to the UG. The Forecast assumes electric and water franchise tax revenue will annually increase by an annual average growth rate of BPU gross revenues of 2.3% over the 12-year period.

Franchise Tax Revenue related to Electric Services

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	23,644,884	23,118,675	22,515,613	26,150,783	25,328,564	25,146,200	27,380,552	30,036,000	30,937,080
Percent Change %		-2.2%	-2.6%	16.1%	-3.1%	-0.7%	8.9%	9.7%	3.0%

Franchise Tax Revenue related to Water Services

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4,465,455	4,554,209	4,600,293	5,100,917	5,171,500	5,190,524	5,329,821	5,380,000	5,476,840
Percent Change %		2.0%	1.0%	10.9%	1.4%	0.4%	2.7%	0.9%	1.8%

The increase in franchise tax revenue from the Sewer Fund is due to rate increase implemented over this same time. The Sewer Fund has increased rates over the last several years. Rate increases are needed to offset expenses related to the consent decree from the US Environmental Protection Agency regarding combined sewer overflows. The sewer franchise revenue growth assumption is 2.3% tied to inflation plus population.

Franchise Tax Revenue related to Sewer (Water Pollution) Services

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,252,713	3,652,698	3,716,327	4,023,392	4,360,174	4,719,704	5,062,765	5,250,000	5,510,000
Percent Change %		12.3%	1.7%	8.3%	8.4%	8.2%	7.3%	3.7%	5.0%

Charges for Services

Charges for services revenue is the fourth largest General Fund revenue source at $13 million constituting 6% of total 2019 revenues. User fees are charged to fund services that either the City provides or contracts with outside agencies to provide. Fees can be charged for services that are provided to all residents and businesses, or could be charged only to a specific user group. This also includes non-residents that are using the services. Charges and fees reduce the need for additional revenues and should be used to offset the cost of providing that service. For example, the city charges a monthly trash/recycling fee that is used to pay for trash pickup. Fees are also charged for recreational activities provided by the Parks Department.

The table below displays the historic charges for services collections over the past ten years, and the basis of the economic assumptions used to project the specific revenue source's future performance. The Forecast assumes different growth rates based on the individual service and its specific revenue performance history over the past ten years, coupled with the charge category's statistically correlated economic factor.

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	13,431,859	13,090,914	13,589,865	12,551,377	13,159,108	12,852,583	12,352,763	12,809,286	13,154,500	13,291,500
Percent Change %		-2.5%	3.8%	-7.6%	4.8%	-2.3%	-3.9%	3.7%	2.7%	1.0%

Delinquent Property Tax Fees & Interest Income

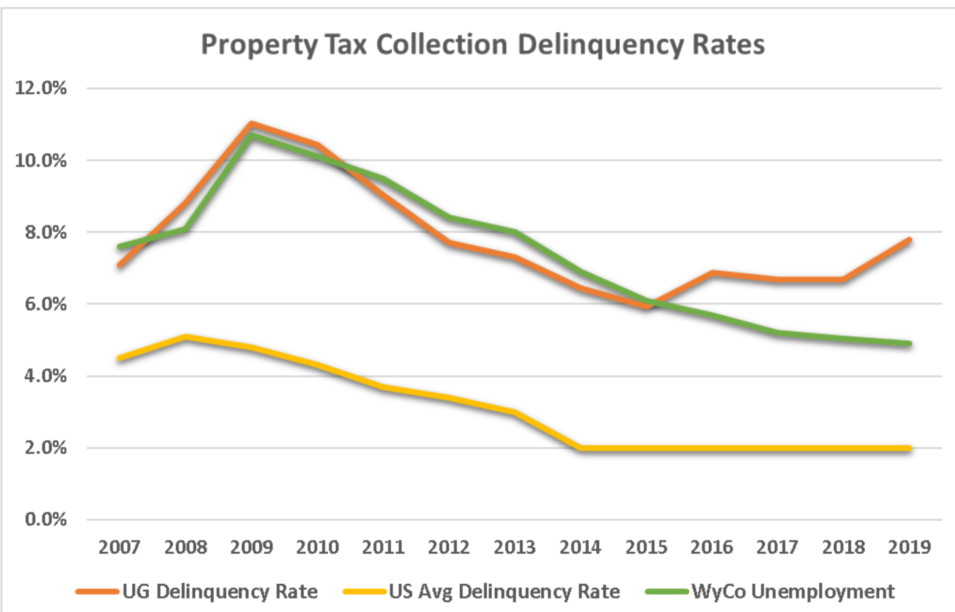
Delinquent property tax fees and interest income revenue totaling $3.9 million constituting 2% of total 2019 revenues is an important component to supporting the UG operations. With increased efforts to collect delinquent taxes, that revenue stream is expected to continue to grow.

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2,436,801	2,949,893	3,092,393	3,917,842	3,986,157	3,287,334	2,839,393	2,950,661	3,029,000	3,977,495
Percent Change %		21.1%	4.8%	26.7%	1.7%	-17.5%	-13.6%	3.9%	2.7%	31.3%

With property taxes accounting for 28% of total General Fund revenues, the payment of delinquent property tax obligations is critical to providing basic public services, such as public safety and street maintenance. Public officials face deciding whether to cut or modify services, generate additional revenue, or borrow money to fund road improvements. Each of these solutions comes with a tradeoff: cutting services can be politically infeasible, finding a new revenue source is difficult, and increasing the amount of debt creates an additional cost due in the bond interest.

Delinquency Trends

In estimating property tax revenue, Finance applies a discount factor for property tax payments not received based on the prior year delinquency percentage rate. In 2016 the delinquency rate was 6.9%, up from 5.9% in 2015, and is projected to be 6.7% in 2018 and 2019. The cause of this increase is partially attributed to additional property tax appeals filed by corporations who are employers in our community. As the graph shows, the rate of property tax payment delinquency strongly correlates to the County's unemployment rate. It rose during the recent economic downturn to a high of 11% in 2009, and has steadily improved since that time. An increase is reflected due to the refund of prior year collected revenues from Hollywood Casino which will be refunded at approximately $650,000 for each of the next five years beginning in 2019. The graph also shows that the UG delinquency rate far exceeds the national average of 2% to 5% during the past decade.[1]



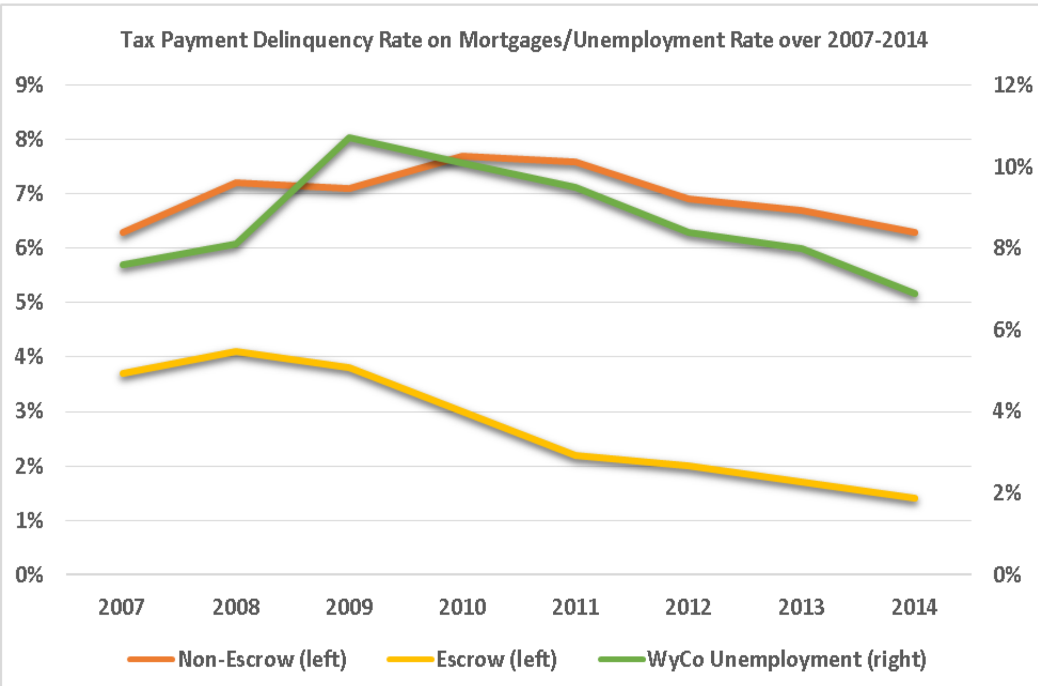
Delinquency Rate Externalities

Collection rates of 92% to 95% are viewed with satisfaction, but even these high rates frequently mask externalities. While maximizing this resource is challenging, there is a risk that the Governments' financial needs are being exploited. In real terms, a 6.7% delinquency rate costs the Government $4.3 million in lost or delayed revenue, compared to the national average of 2% or $1.3 million. This net difference of $3.0 million could have been used to reduce the property tax rate, augment public safety services, engage in neighborhood enhancement efforts as part of the SOAR initiative, or assist in funding street improvements ranked as our resident's highest priority in the recent community survey. Even given recent low municipal tax-exempt interest rates, financing $3.0 million with general obligations bonds for street infrastructure costs an estimated $1.2 million in interest payments over 20 years, or 40% of the borrowed principal.

Delinquency rates impose disproportionate negative consequences on neighborhoods, communities, and local government fiscal solvency. Calculations approximate that the Unified Government has between $6 million and $8 million in past due property tax revenues, after discounting for balances that are highly unlikely to be collected.

Homeownership Inhibited

Property tax delinquency is an important issue for mortgage lenders and may inhibit the availability of mortgage loans to Wyandotte County citizens seeking to purchase a new home. Since property tax payments are often correlated to mortgage payments, property tax delinquency may be associated with an increased risk of future mortgage delinquency. Property tax payment delinquency often proceeds mortgage delinquency.



Escrow vs. Non-Escrow

Some of the challenge in collecting property taxes lies in the proportion of our taxpayers that own property free and clear without a mortgage and thus must make the semi-annual payment rather than having the tax payments collected monthly as part of their mortgage. The figure to the right shows the difference in delinquency rates between escrow and non-escrow accounts, based on national averages.[2] This data is not available for Wyandotte County. The tax delinquency rate for non-escrow accounts is generally higher than escrow accounts, reflecting the fact that escrow accounts help homeowners with budgeting and avoiding the payment shock that comes with a big lump sum tax bill. On the right axis is the national unemployment rate that shows that tax payments regardless of payment approach improves as the overall economy improves.

More attention can be given to the creation of an efficient, effective, and equitable system of property tax enforcement. Recent studies by property tax experts show that increasing the number of required tax payments for non-escrowed accounts from semiannually to three per year decreased the delinquency rate by 1.2%.[3] Further, as of 2012 at least 218 localities in 28 states are offering non-profits, especially education and health care institutions, to make payments in lieu of taxes (PILOTs) on a voluntary basis as a substitute for property taxes, with total collected amounting to $92 million per year.[4] There a various reasons why non-profits offer PILOTs, and governments should weigh the pros and cons. After weighing the options of cutting services or finding new revenues, many local government elect to generate revenue through the sale of future receivables and property tax liens.[5] A better understanding about the financial calculations of delayed enforcement, lack of enforcement, and the transfer of enforcement rights to a private third party will assist the Government in meeting its financial sustainability goal. The recent mortgage foreclosure crisis has renewed interest in implementing policies to help our County's homeowners remain in their homes, while also ensuring the Government's resources are made available to sustain safe and vibrant neighborhoods.

Forecast Methodology

The methodology for calculating changes for out-years of the Forecast (2020-2024) are based on historical analysis of increases/decreases with adjustments factored in for known items. Forecast assumptions vary per the respective revenue and cost category and, in most cases, are based on statistical correlation with the revenue or cost driver being statistical correlated to the revenue or cost category. Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. A correlation is a single number that describes the degree of relationship between two variables, with the closer the correlation calculation approaches 1.0 the more correlated are the two variables. Staff also performed a reasonableness test of the results.


NO
PARKING
LOADING
ZONE

EXPENDITURES

In developing the Long Term Financial Forecast, one-time 2019 cost items were removed from 2020 to provide a baseline for future years. Over the five-year period, total expenditure average annual growth is 2.6%. The 2020 expenditures are estimated to increase by $6.7 million, or 3.0%, primarily due to salary and benefit cost of living adjustment and one-time payments to *expected* retirees.

Long Term Financial Forecast

Fiscal Year 2020 - 2024

EXPENDITURES & OTHER USES *($s in 000s)*	BUDGET 2019	2020	2021	2022	2023	2024
SALARY	$115,427	$117,736	$120,091	$122,492	$124,942	$127,441
BENEFITS	41,963	44,494	46,620	49,082	50,781	53,361
LEAVE BENEFIT PAYOUTS	2,049	2,451	2,768	2,550	2,550	1,986
KP&F SPECIAL PAYMENTS	1,140	1,479	1,591	1,663	1,546	1,069
SUBTOTAL: SALARY & BENEFITS	$160,579	$166,161	$171,070	$175,786	$179,818	$183,856
SERVICES	37,302	37,955	38,880	39,679	40,617	41,459
SUPPLIES & MATERIALS	7,745	7,963	8,184	8,413	8,655	8,900
GRANTS & CLAIMS	6,432	6,690	6,886	7,089	7,372	7,589
CAPITAL OUTLAY	6,002	6,637	6,679	6,538	7,337	7,000
DEBT SERVICE	644	639	639	640	639	641
SUBTOTAL: OTHER OPERATING EXPENDITURES	$58,125	$59,884	$61,269	$62,358	$64,619	$65,589
TRANSFERS / OTHER	2,842	2,192	2,192	2,192	2,192	2,192
TOTAL USES OF FUNDS	**$221,546**	**$228,237**	**$234,531**	**$240,337**	**$246,629**	**$251,638**

EXPENDITURES & OTHER USES *($s in 000s)*	2020	2021	2022	2023	2024
SALARY	2.0%	2.0%	2.0%	2.0%	2.0%
BENEFITS	6.0%	4.8%	5.3%	3.5%	5.1%
LEAVE BENEFIT PAYOUTS	19.6%	12.9%	-7.9%	0.0%	-22%
KP&F SPECIAL PAYMENTS	29.8%	7.6%	4.5%	-7.0%	-31%
SUBTOTAL: SALARY & BENEFITS	3.5%	3.0%	2.8%	2.3%	2.2%
SERVICES	1.8%	2.4%	2.1%	2.4%	2.1%
SUPPLIES & MATERIALS	2.8%	2.8%	2.8%	2.9%	2.8%
GRANTS & CLAIMS	4.0%	2.9%	2.9%	4.0%	2.9%
CAPITAL OUTLAY	10.6%	0.6%	-2.1%	12.2%	-4.6%
DEBT SERVICE	-0.7%	0.0%	0.0%	-0.2%	0.4%
SUBTOTAL: OTHER OPERATING EXPENDITURES	3.0%	2.3%	1.8%	3.6%	1.5%
TRANSFERS / OTHER	-22.9%	0.0%	0.0%	0.0%	0.0%
TOTAL USES OF FUNDS	**3.0%**	**2.8%**	**2.5%**	**2.6%**	**2.0%**

Salary and Benefits

The table above depicts the salaries and benefit costs for the next five years. Total salary and benefits increase from $166.1 million in 2020 to $183.85 million in 2024. Over the Forecast period, salary and benefits costs increase at a faster pace in comparison to other operating expenditures due to *expected* retirement payouts. In 2019, salary and benefits costs represent 72.5% of the expenditure budget and this grows to 73% in 2024. The Forecast period includes a moderate cost of living adjustment for all labor groups. Leave benefit payouts and KP&F special payments associated with *expected* retirements are one-time expenses and are expected to significantly drop-off in the years following 2024. The five-year annual average growth of benefits costs is 4.9% reflecting expected increases in the employer contributions for pensions and health care benefits. The following sections describe the assumed adjustments in salary and benefit costs and depict the reasons for the increases amongst the various cost categories over the Forecast period.

Salary

The Forecast is consistent with the City's salary budget methodology used for the adopted budget. As such, positions are budgeted at actual rate of pay including benefits. Then, by position, salary costs are updated in accordance with the applicable labor contract between the UG and its labor groups. The 2020 and beyond salary forecast includes a moderate salary base cost of living increase per the labor contract. The Forecast includes annual one-time costs for accrued vacation and sick leave pay-outs for the *expected* retirements of a significant portion of the General Fund labor workforce. For clarity purposes, these one-time payments are presented separately in the above tables.

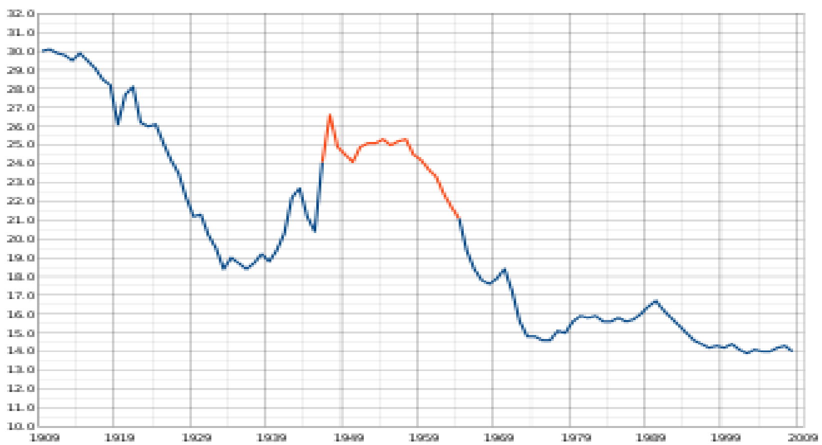
The *"Silver Tsunami"* – Future Retirements

Many articles in the popular press and public administration journals discuss the impending ***"silver tsunami"*** that will greatly impact local government's financial statements. The ***"silver tsunami"*** is due to the retirement of the "baby boomers" – a demographic group born during the post-World War II baby boom approximately the years 1946 and 1964. This includes people who are between 53 and 71 years old in 2017, per the US Census Bureau.

United States Birth Rates (per 1,000 population)[1]

The graph illustrates the segment for the years 1946 to 1964 highlighted in red, with birth rates peaking in 1949 and dropping steadily around 1958 reaching pre-war depression era levels in 1963.[1] Baby boomers grew up at a time of dramatic social change. In the United States, 76 million American children were born between 1946 and 1964. Early and mid-boomers were coming of age at the same time across the world, so they experienced events like Beatlemania and Woodstock, organized against or fought in the Vietnam War. The baby boomers found their music, notably rock and roll, as an expression of their generational identity.

Baby Boomer Retirements - UG Impact



Between 2018 and 2024, there are an estimated 615 baby boomer employees across all UG departments that are currently or will be eligible to retire from the Kansas Public Employee Retirement System (KPERS) or the Kansas Police and Fire Retirement System (KP&F). These estimated 615 employees constitute one-fourth of the total UG-wide labor force, a significant majority of which are funded from the General Fund. Not only will the UG organization experience a loss of institutional knowledge and many years of experience with the departure of these retiring employees, but these retirements will place a significant financial impact on the UG organization upon their separation. The retirement separation cost impacts are one-time pay-outs of accrued vacation and sick leave balances categorized as salary costs, and one-time special payments to KP&F for public safety retirees categorized as benefit costs. For clarity purposes, these one-time payments are presented separately in the tables.

Special payments to KP&F are required to align the level of associated assets in the KP&F retirement fund with the final compensation calculation attributed to the respective retiring public safety employee. For public safety employees initially employed (or entering the KP&F retirement system) prior to 1993, the final compensation calculation includes accrued vacation and sick leave payouts received at separation from the UG. For many of the police and fire employees, these accrued leave balances are significant resulting in an increase in their final compensation calculation and a substantial increase in the future retirement payments to these employees during their respective actuarial determined retirement periods.

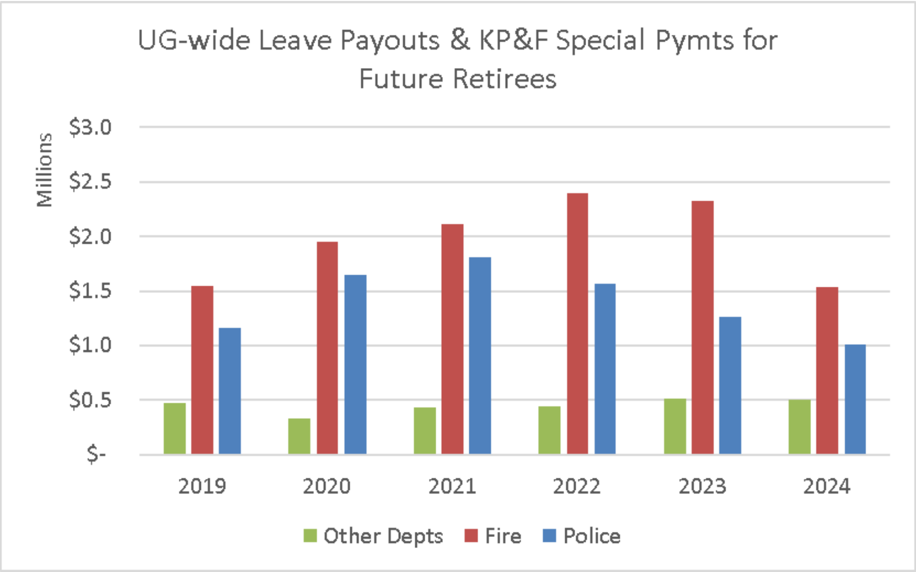
RETIREMENT ELIGIBLE EMPLOYEES BY CATEGORY								
	2018	2019	2020	2021	2022	2023	2024	2018 to 2024 TOTAL
CIVILIAN	125	35	45	42	34	32	31	344
SHERIFF	55	11	15	9	12	3	15	120
FIRE	34	17	21	13	16	7	9	117
POLICE	17	0	1	2	2	4	8	34
TOTALS:	**231**	**63**	**82**	**66**	**64**	**46**	**63**	**615**

Of the estimated 615 retirement-*eligible* employees across the UG organization, 376 employees are *eligible* to retire during 2018 through 2020, or 61 percent of the total. Given the estimated accrued leave payouts and special payments to KP&F for police and fire retiring personnel, these 376 future retirees could cost the UG a total of $19.6 million during 2018, 2019 and 2020, which would significantly reduce the General Fund reserve and impair the General Fund's ability to meet obligations.

Fortunately, retirement-*eligible* and *expected* retirement dates are the key difference in the Forecast cost driver. In reviewing the data, it was apparent that many of the employees eligible to retire during 2018-2020 appeared likely to remain employed with the UG due to their younger age and ability to earn additional service credit to augment their future pensions. Thus, a review was performed of each of the 615 eligible retirees considering their age of retirement and years of service. The review was objectively conducted to estimate a deferment schedule for each group of employees eligible to retire in a specific year. The review consisted of analyzing trends in each of the retirement categories (police, fire, sheriff, civilian).

From those trends, percentages were estimated for the first eligible year and for each subsequent year retirement is deferred. This data review resulted in the table that displays the *expected* retirements of UG-wide employees by category and fiscal year. The results of the analysis estimates that instead of 60%, only 28 percent (or 174 retirees) of the total 615 retirement-eligible employees during the Forecast period are *expected* to retire during 2018-2020 estimated to cost $10.1 million and postponing $9.5 million in these one-time costs to future years.

EXPECTED UG-WIDE RETIREMENTS BY CATEGORY	2018	2019	2020	2021	2022	2023	2024	2018 to 2024 Total
CIVILIAN	47	25	19	27	28	30	28	205
SHERIFF	3	2	1	1	0	1	0	8
FIRE	9	11	14	15	17	17	11	95
POLICE	12	13	18	20	17	13	11	104
TOTALS:	**71**	**51**	**52**	**64**	**62**	**61**	**51**	**412**



Generally, the review resulted in the *expected* retirements being in aggregate more evenly distributed annually amongst the Forecast period. More Fire Department employee retirements are expected to occur between 2021 through 2023, while Police Department employee retirements are expected in 2020 through 2022, both a product of age and years of service. Civilian (non-Fire or Police) employees are distributed throughout the six-year period with peaks in 2019, 2023, and 2024.

The “Silver Tsunami” financial impact is significant. Recommended steps to plan for these costs is advised. Over the seven-year period (2018-2024), a projected total of $26 million is required by existing labor contracts and the KP&F retirement system. Of the $26 million total, a $16.6 million in accrued vacation and sick leave payouts and $9.4 million in KP&F special retirement actuarial true-up payments are required upon retiree separation.

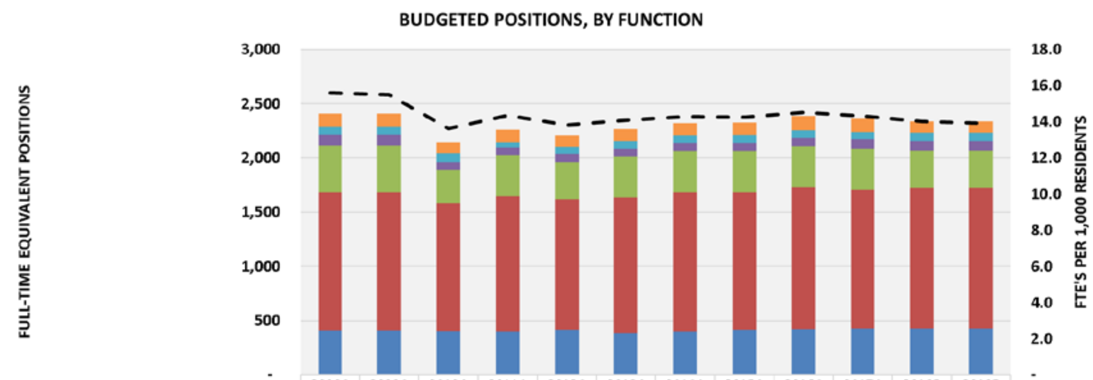
SUMMARY TABLE - PROJECTED COSTS FOR ACCRUED LEAVE PAYOUTS AND RETIREMENT PENALTIES *ASSUMPTION BASED ON EMPLOYEE RETIREMENT EXPECTATION**	2018	2019	2020	2021	2022	2023	2024	2018 to 2024 Total
CIVILIAN - PAYOUTS @ 40% OF BASE PAY	708,947	416,908	285,468	411,184	437,269	483,522	494,864	3,238,161
SHERIFF - PAYOUTS @ 35% OF BASE PAY	42,492	35,978	24,039	19,093	5,979	14,565	4,653	146,799
FIRE - PAYOUTS @ 90% OF BASE PAY	634,691	763,988	961,831	1,042,944	1,187,471	1,150,734	764,241	6,505,901
POLICE - PAYOUTS @ 80% OF BASE PAY	664,157	832,421	1,180,127	1,294,846	1,120,755	900,741	724,401	6,717,448
ESTIMATED ACCRUED LEAVE PAYOUTS:	*2,050,287*	*2,049,296*	*2,451,466*	*2,768,066*	*2,751,474*	*2,549,562*	*1,988,159*	*16,608,309*
FIRE - PENALITIES @ 93% OF BASE PAY	655,848	784,657	989,095	1,068,055	1,212,544	1,174,583	775,771	6,660,554
POLICE - PENALITIES @ 32% OF BASE PAY	265,663	332,968	472,051	517,938	448,302	360,296	289,761	2,686,979
SHERIFF - PENALTIES @ 32% OF BASE PAY	13,414	22,903	18,056	5,239	1,958	10,852	3,216	75,637
ESTIMATED RETIREMENT PENALITIES:	*934,924*	*1,140,528*	*1,479,201*	*1,591,233*	*1,662,804*	*1,545,731*	*1,068,748*	*9,423,170*
TOTAL PAYOUTS & PENALITIES	**$ 2,985,211**	**$ 3,189,824**	**$ 3,930,667**	**$ 4,359,299**	**$ 4,414,278**	**$ 4,095,292**	**$ 3,056,907**	**$ 26,031,479**
TOTAL NUMBER OF RETIREES	**71**	**51**	**52**	**64**	**62**	**61**	**51**	**412**
Notes: Base Pay uses 2018 salary levels without CPI or step increases. % of Base Pay amounts based on historic levels.								

With the loss of knowledge and experience of the retiring employees, the UG will also encounter an opportunity for salary and benefit savings through rehiring employees at lower salary levels and efficiencies encountered through business process improvements. These annual cost savings (reflected in the subsequent corresponding year) have been included in the Forecast, based on an estimated reduction of 10 percent from the 2018 base salary of the retired employees.

The following table displays the personnel cost net of potential salary savings. An additional column has been added to the following table to illustrate the cost reduction to the salary and benefit lines in 2025 through 2028. The net impact between the *expected* retirees’ accrued leave payouts and KP&F special retirements less the estimated base salary cost reduction of 10 percent of their respective 2018 base salary is displayed in the table below, and totals $24.5 million between 2018 and 2024. During the five-year period of 2020 to 2024, these net payouts totaling $18.6 million are reflected in the baseline Forecast.

SUMMARY TABLE - NET FINANCIAL IMPACT OF EXPECTED RETIREMENTS								TOTAL
	2018	2019	2020	2021	2022	2023	2024	2025-2028
CIVILIAN	708,947	346,014	243,777	382,637	396,150	439,795	446,512	1,401,827
SHERIFF	55,906	54,632	38,497	21,928	6,027	24,819	6,413	488,550
FIRE	1,290,539	1,485,177	1,874,528	2,014,816	2,295,720	2,206,569	1,424,939	5,628,451
POLICE	929,820	1,098,974	1,568,935	1,694,771	1,439,573	1,148,962	924,088	2,942,477
TOTAL NET FINANCIAL IMPACT	**2,985,211**	**2,984,796**	**3,725,737**	**4,114,152**	**4,137,471**	**3,820,145**	**2,801,951**	**10,461,305**

Budgeted Employee Positions



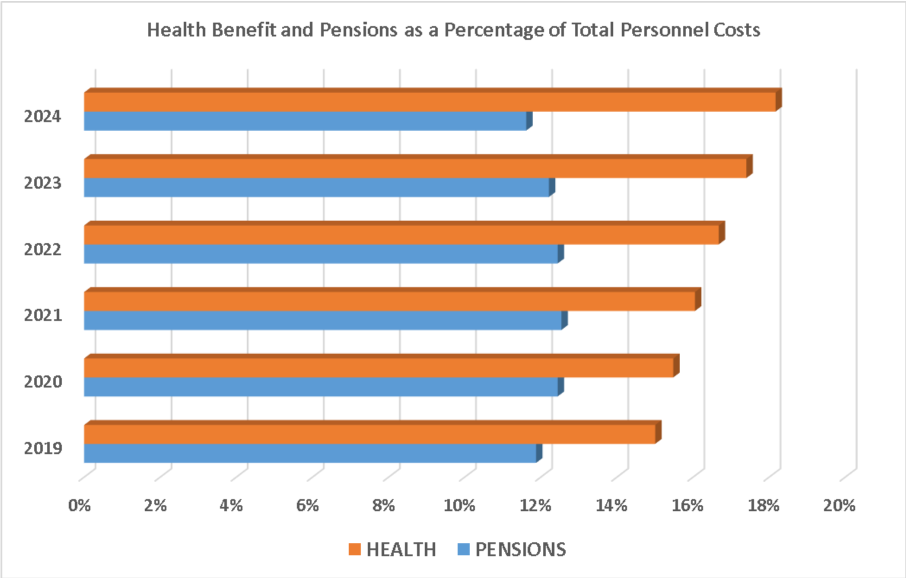
	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016A	2017A	2018B	2019B
HEALTH & WELFARE	120	120	104	115	107	110	114	118	128	126	103	103
COMMUNITY & NEIGHBORHOOD DEVL	69	69	79	50	66	70	62	71	71	66	74	74
PARKS & RECREATION	108	108	72	74	73	75	77	77	80	89	89	89
PUBLIC FACILITY & IMPROVEMENT	431	431	308	375	340	375	382	380	374	380	345	345
PUBLIC SAFETY	1,270	1,270	1,177	1,247	1,204	1,254	1,285	1,264	1,308	1,281	1,298	1,298
GENERAL GOVERNMENT	409	409	404	400	416	383	397	416	422	424	426	426
FTE PER 1,000 RESIDENTS	15.6	15.5	13.6	14.3	13.8	14.1	14.3	14.2	14.5	14.3	14.0	13.9

The number of budgeted employee positions across the entire UG organization has remained relatively constant since 2008. As the graph illustrates, 2,407 positions were budgeted in 2008 compared to 2,336 in 2019. As a result of the 2009 recession, 263 positions were reduced in 2010 with these positions restored in the subsequent years as the economy and revenues improved. Full Time Equivalent (FTE) positions per capita reduced during this period from 15.6 positions for each resident in 2008 to 13.9 employees per resident in 2019, demonstrating the Government's efficiency.

In 2019, public safety comprises 56% of the total budgeted positions, followed by general government at 18% and public facility and improvements at 15%. For the future five-year Forecast, the assumption was made to not include any additional employee positions above the 2019 Budget level.

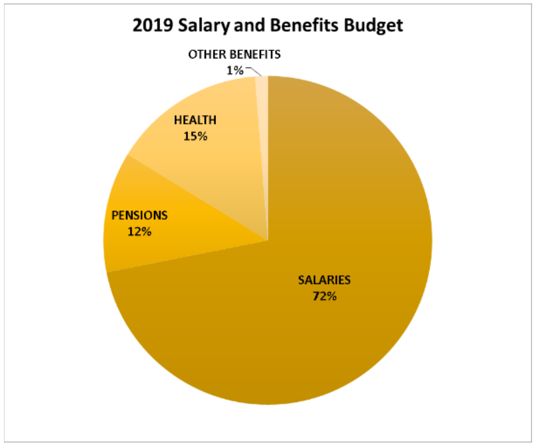
Benefits

Employee benefits primarily include pensions, health insurance, workers' compensation insurance, and unemployment insurance. Pension and health care benefits comprise of 96% of total benefit costs in 2019, amounting to $19 million for employer contributions to the retirement systems and $24 million in health benefit employer contributions. Over the Forecast period, benefit costs vary due to one-time KP&F special payments to the employees *expected* to retire, on-going increases in employer contributions to both KPERS and KP&F pensions attributed to retirement pay-outs, and on-going estimated annual increases of 7% in general health care costs. Pension and health benefit employer contributions are based as a percentage of on-going salary costs; thus, as lower salaries replace retired employee positions, overall benefit costs also decline on a relative basis.



As mentioned earlier, KP&F special payments are required to align the level of associated assets in the KP&F retirement fund with the final compensation calculation attributed to the respective retiring public safety employee. These one-time special payments cause the variability in retirement costs in the first five years of the Forecast period.

Once these one-time payments are completed, estimated to begin reducing in 2023, on-going employer contributions to pensions drop and stabilize. Health care costs are estimated to overtake retirement costs in the future as a more significant portion of total personnel costs. Aggregate health care costs are estimated to grow annually by 7%. Over the Forecast period, health care costs are estimated to total $24 million in 2019 compared to $33 million in 2024.



Conclusions about Salary and Benefits

Between 2010 and 2019, total salary and benefits had an annual average growth of 5.5%, totaling $125.7 million in 2010 compared to $160.5 million in 2019. Over the past decade, one-time costs for accrued leave payouts and special retirement payments to have contributed to variability in total salary and benefit costs. On-going health care costs increased from $14.7 million in 2010 to $24 million in 2019, or an annual average growth rate of 5.5%. On-going pension costs increased from $11.3 million in 2010 to $19 million in 2019, or an annual average growth rate of 6.5%.

Total salary and benefit costs are estimated to total $160.5 million in 2019, These costs climb to $184 million in 2024 due to moderate cost of living adjustments, expected increases in retirement contributions, an annual increase in health care costs of 7%, and one-time payments associated with “baby boomer” retiring employees that are expected to diminish after 2023.

Services

Services expenditures is the second largest cost category of the General Fund totaling $37 million in 2019 or 17% of total expenditures. Services costs increase to $41.4 million in 2024 or 16.5% of the total. This category includes residential waste (trash), the Kansas City Area Transportation Authority (ATA) contract, inmate medical contract, inmate housing, jail food and transportation, demolition, rents and leases, repair and maintenance, property and general liability insurance premiums, telephone, outside legal costs, counsel/guardian ad litem, and other professional and contractual services.

Forecast assumptions vary per the respective cost category and, in most cases, are based on statistical correlation with the cost driver being statistical correlated to the cost category. Correlation is a statistical technique that can show whether and how strongly pairs of variables are related. A correlation is a single number that describes the degree of relationship between two variables, with the closer the correlation calculation approaches 1.0 the more correlated are the two variables.

Residential waste (trash) 2019 contract costs of $7.3 million (along with $1.5 million of related costs in other cost categories) are offset by trash services revenues of $8.1 million. Residential waste (trash) contract costs strongly correlates to population and inflationary growth rates combined of 2.2%.

ATA contract costs in 2019 are anticipated to be around $6 million being offset by an anticipated $1.4 million in grants and $660 thousand in passenger revenue for a total general fund cost of $3.9 million. The ATA contract cost assumption is 3% annually with the assumption of no changes in routes or loss of grant funding. Due to their strong correlation contractual services and repair and maintenance cost assumptions are based on the historic percentage changes in assessed valuation, or 2.7% annually. The other professional services cost assumption is 1% annually. The cost categories for other services and our rent/lease costs strongly correlates to inflation, estimated at an annual growth rate of 1.4%.

Demolition and clearance total budget for 2019 is maintained at $852,000 in the 2019 budget plus $1 million that was budgeted in debt due to Commission support of the SOAR initiative for 2018 and 2019. The funding level for the general funds portion is retained at the $852,000 level during the forecast period, inflated by 2.9% which is the Housing Price Index growth rate of which it strongly correlates.

Inmate housing, medical and related jail contract costs of $4.8 million are partially offset by jail fees of $1.3 million. Inmate housing and food services cost assumptions are a combination of factors, as the UG transitions away from paying for private sector jail beds to housing inmates in existing adult jail and proposed juvenile detention facilities. The assumption includes increases for food costs while reducing the amounts paid out in contracted private sector inmate beds. Associated personnel cost increases related to increased jail security needs in existing facilities are reflected in the salary and cost category. Medical inmate contracted costs are forecasted to increase annually over the forecast period by 1.4%, based on the annual rate of inflation.

Supplies and Materials

Supplies and materials expenditures is the third largest cost category of the General Fund totaling $7.7 million in 2019 or 3.4% of total expenditures. Supplies and materials costs increase to $8.9 million in 2024 remaining at 3.5% of the total. This category includes gasoline and fuel, utilities, clothing, maintenance and construction materials (not included in capital outlay), vehicle parts, office equipment, custodial materials, ammunition and other supplies.

Gasoline and fuel costs have decreased over the past few years due to declining market rates, from $1.7 million in 2014 down to $1.3 million in 2017. The Forecast retains a $1.7 million funding level for this cost category due to year over year price volatility in this cost category and recent increases in gasoline and fuel costs. Utility costs strongly correlates to assessed valuations and with recent increases to natural gas prices is projected to increase at 2.9%. All other supplies and materials cost categories strongly correlate to the motor vehicle valuation rates and have been increased by a rate of 3.6%.

Grants & Claims

Grants and claims expenditures is the fourth largest cost category of the General Fund totaling $6.4 million in 2019 or 2.9% of total expenditures. Grants and claims costs increase to $7.6 million in 2024 or 3% of the total. In 2019, this category includes a City General Fund intra-fund contribution to the Consolidated Parks and Recreation (General) Fund of $3.7 million, grants totaling $1.2 million, claims and judgments estimate of $850,000, and taxes that are remitted, rebated and/or refunded totaling $680,000. Grant costs of $1.2 million are supported by intergovernmental revenues of $770,000, the difference attributed to timing of grant revenue receipt and expenses incurred. The grants and claims costs correlate to historic growth in assessed value, or 2.9% annually. The City General Fund intra-fund contribution (cost) to the Consolidated Parks and Recreation (General) Fund of $3.7 million is offset by a corresponding revenue in the Consolidated Parks and Recreation (General) Fund.

Capital Outlay

Capital outlay expenditures is the third largest cost category of the General Fund totaling $6 million in 2019 or 2.7% of total expenditures. Capital outlay expenditures are those projects paid from the General Fund "cash" category in the Capital and Maintenance Improvement Program (CMIP). Capital outlay expenditures in the Forecast for 2018 and 2019 are based on the planned CMIP projects as reflected in the Adopted 2019 Budget. Of the total in 2019, $3.1 million is dedicated to equipment and machinery, $960,000 for telecommunications and computer equipment. The remaining $1.9 million is dedicated to public building improvements, design and engineering, bridge and park improvements, parking lot improvements and capital project contingencies.

Capital outlay costs are forecast to be $7 million in 2024 or 2.8% of the total expenditures. Between 2019 and 2023, the levels of funding reflect what has been listed in capital schedule in the 2019 Unified Government budget document; This level of funding is maintained in 2024 to reflect an ongoing commitment to fund a basic level of infrastructure and ongoing maintenance.

A compilation of the various condition assessment reports of the UG's over 150 facilities and buildings will likely arrive at a very significant level of deferred maintenance costs given the size of UG organization and geographic service area. Due to on-going operations, additional capital funding to address these needs is challenging. In the absence of a property tax mill rate increase or other identified resources, the UG's current general obligation debt capacity is not currently large enough to finance this level of infrastructure investment. Funding these deferred maintenance costs will be challenging without additional resources.

Debt Service

The only debt service payment made directly from the General Fund is the Soccer Stadium Parking General Obligation Bonds (Series 2010-H) with principal and interest payment amounting to $643,000 in 2019. The annual amounts included in the Forecast on based on the bond documents' annual debt service schedule. This debt payment is 100 percent offset by Soccer Stadium Ticket Tax revenues received from the soccer facility.

Other general obligation bonded debt service payments are recorded in the Debt Service Fund, not in the General Fund. The Debt Service Fund expenditures are supported by a City Debt Service property tax mill rate of 16.836 in 2019. There is also a County Debt Service Fund for related debt financings with dedicated revenues consisting of lease payments derived from various sources. The County debt property tax mill rate is 2.195 in 2019. *[Refer to the Debt Profile section for more detail.]*

Transfers & Other

Transfers and Other expenditures totals $2.8 million in 2019 or 1% of total expenditures and remain relatively constant during the forecast period. This category includes transfers-out to other UG funds of $2.06 million and budget contingencies of $130,000 in 2019 and beyond. The Forecast keeps budget contingencies and transfers-out to other UG funds at a constant amount.

Transfers that are budgeted for 2019 and beyond include $1 million annually for the debt service on the Juvenile Center project, 435,000 to the Water Pollution Control fund payback, 250,000 for debt service in support of the commission initiative to debt $2 million in demolition funding in 2018 and 2019 with the remainder going to support the T-Bones and Sunflower Hills Golf funds.

Conclusions – Expenditure Forecast

The Forecast for expenditures begins with a total of $221.5 million in 2019 and ends with $251.6 million in 2024, with an average annual growth of 2.8% over the five-year forecast period. This forecast is based on general assumptions for percentage increases over the prior year based on expected cost factors and economic indicators. Salary and benefits assumptions are significantly impacted by one-time costs during the period. The remaining cost categories' assumptions are consistent year-over-year based on statistically correlated factors.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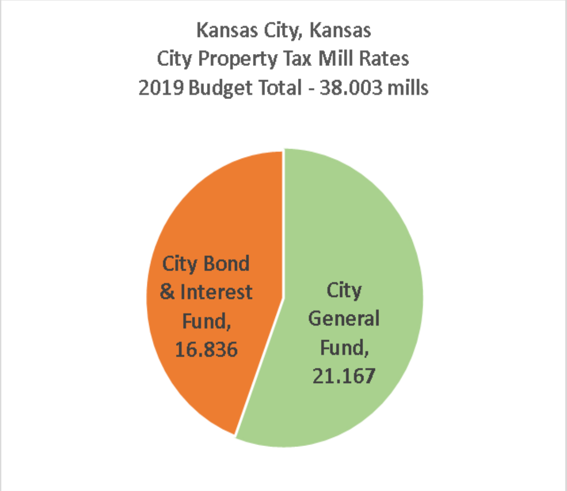
DEBT PROFILE

The FY 2020-2024 General Fund LTFF estimates current debt-dedicated resources are sufficient to support the Government's current limited capital infrastructure plan.

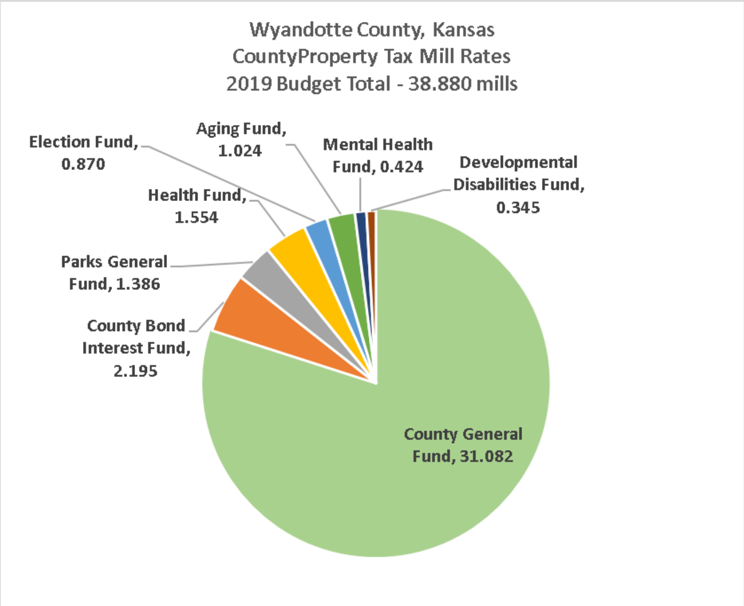
The Unified Government finances infrastructure investments through the use of general obligations bonds, utility revenue bonds and various economic development tax increment financing tools. For this Forecast, only debt service recorded in the City Bond and Interest Fund and the County Bond Interest Fund are discussed. For accounting purposes, this debt is separately reported from the General Fund (operations) discussed in this long-term financial forecast. Nevertheless, a profile and outlook of the outstanding General Fund-backed debt is necessary for evaluating the financial sustainability of the Unified Government.

General Fund-Backed Debt Profile

Property Tax Mills dedicated for Operational and Capital Investment Needs



The outstanding general obligation debt is often referred to as "General Fund-backed" because of its reliance on ad valorem property tax revenues as a debt repayment source. Often confusion arises when referencing the City of Kansas City, Kansas General property tax mill levy rate that includes **both** the mill rate generating property tax revenues for the City General Fund operating needs and the mill rate generating property tax revenues pledged to the repayment of outstanding City debt. The pie chart on the left illustrates the 2019 Budget Commission adopted mill levy rate for the City, totaling 38.003 mills. Of this total, the City General Fund (operating) plans to receive property tax collections associated with a 21.167 mill rate, while the City Bond and Interest Fund mill levy rate of 16.836 is dedicated for general obligation bond debt service payments. Legally in accordance with the bond documents and for credit rating analyst review, the combined mill rate is considered, but for operational purposes these two mill levies are separately reported and analyzed.



The Unified Government of Wyandotte County/Kansas City, Kansas is authorized to issue debt as a city and a county. Because of our consolidated governance structure, the financial framework of the Unified Government is complex. In addition to a KCK City property tax mill rate, there is a mill rate for the operational needs and debt repayment of Wyandotte County. The pie chart on the left illustrates the 2019 Budget Commission adopted mill levy rate for the County, totaling 38.880 mills. Of this total, the County General Fund (operating) plans to receive property tax collections associated with a 31.082 mill rate and the Parks General Fund with a mill rate of 1.6386, while the County Bond and Interest Fund mill levy rate of 2.195 is dedicated for general obligation bond debt service payments. The remaining County mill rates are dedicated to support of variety of county government-related services to residents.

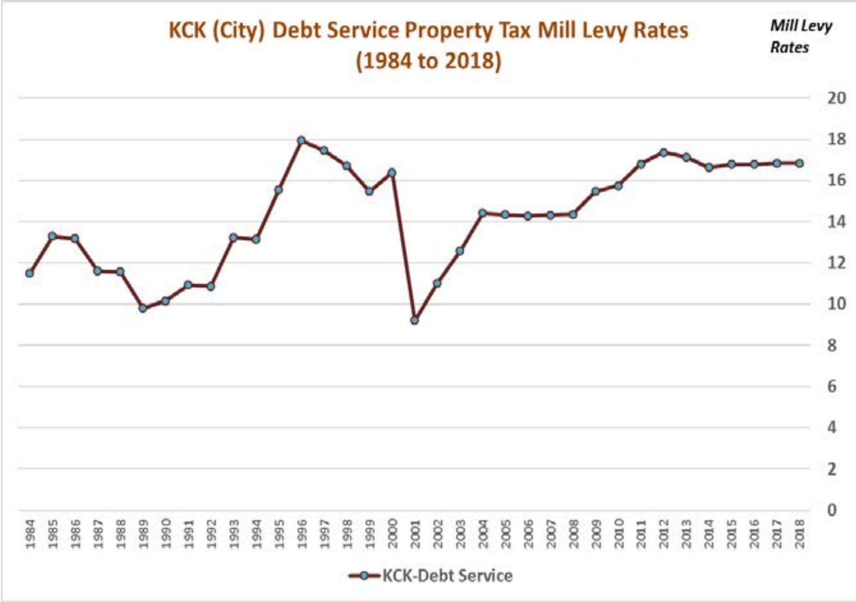
Kansas City, Kansas (City General) Debt Profile

Current Debt Obligations

The City Bond and Interest Fund plays an important role in the Government's ability to support capital infrastructure needs, and property tax revenue is a significant source in planning capital investments. Outstanding Kansas City, Kansas General Fund-backed (City Bond & Interest Fund) debt totals $416 million as of August 2018, of which $136.7 million or 33 percent have dedicated revenue streams outside the property tax revenue base. This $136.7 million includes, $75.7 million from sewer services revenues, $27 million in tax increment financing property revenues, $29.2 million in storm water fee revenues, $4.2 million in electric utility transfers from the KCK Board of Public Utilities, $2.8 million in Public Building Commission lease revenues and $600 thousand in dedicated sales tax revenues. The remaining outstanding debt fully supported by ad valorem property tax revenues totals $276.5 million issued with 32 separate bond issues.

The City Bond and Interest Fund expenditures, consisting of principal and interest debt service payments, are supported by a City debt service property tax mill rate of 16.836 in 2019, as mentioned earlier. The City debt service mill levy generates $19.6 million in tax revenue in 2019, which are combined with other additional revenues of $15.7 million from other revenue sources. The total annual debt service payments out of this City Bond and Interest Fund are budgeted to total $35 million for 2019.

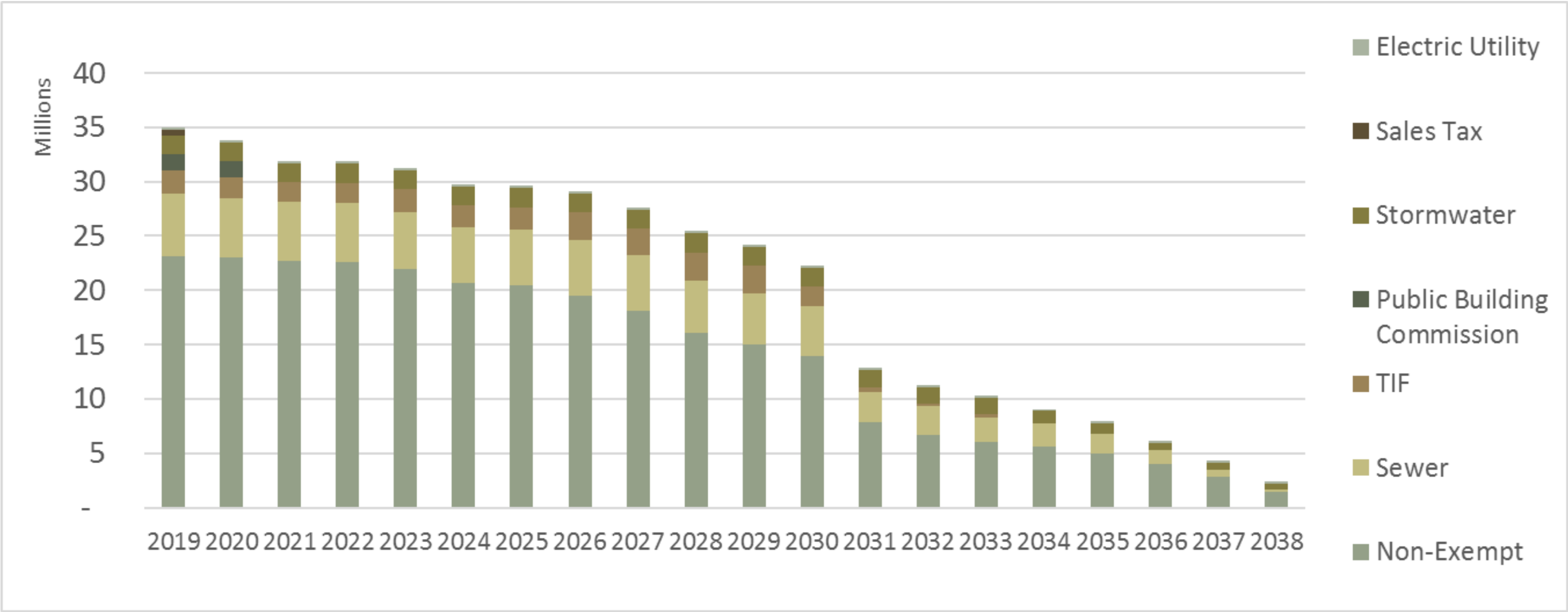
A historic review of the mill rate dedicated for debt repayment is important due to significant reliance on property tax revenue to support capital investments. The chart on the right displays the Kansas City, Kansas (City) debt service related property tax mill levy rate from 1982 to 2018. *[As a note, mill levies are established in the year prior to the collection period; thus the 2018 levy associated revenues are budgeted in 2019.]* Over the 35 years shown in the chart, the City Debt service mill levy increased from 11.495 in 1984 to 16.836 in 2018, or 32 percent. Over the past 20 years, a decrease of (3.5) percent occurred with the City Debt service mill levy from 17.449 in 1997 to today's 16.836 mills.



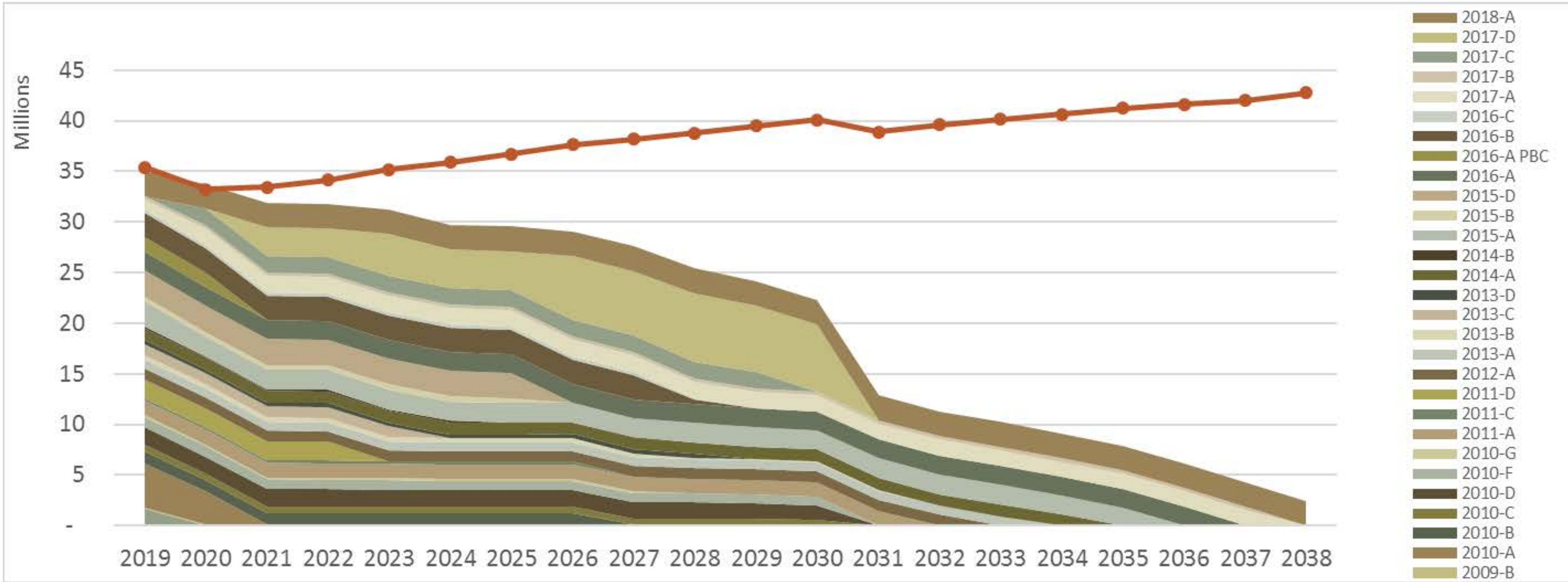
On the following pages are two charts illustrating the City Bond & Interest Fund's debt service payment obligations over the future life of the outstanding bonds recorded in this Fund. The first chart displays the debt service payments by the repayment revenue source category. The second chart displays the debt service payments by the respective year's bond issuance series with a line illustrating future revenue given current revenue dedication to this fund.

Current General Fund-Backed City Debt Service Payments by Dedicated Revenue Source Category

** Non-Exempt Category Signifies a Pledge of City Debt Mill Property Tax Revenue*



Current General Fund-Backed City Debt Service Payments by Bond Issuance Series



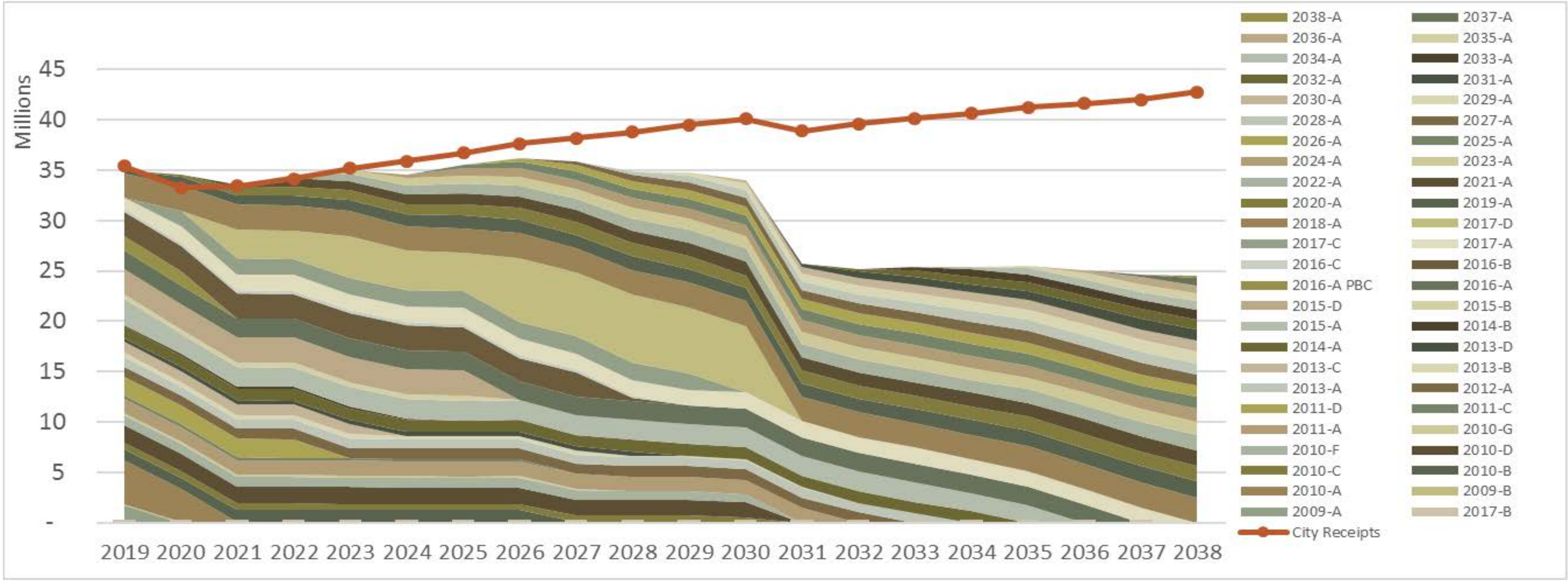
Future City Debt Affordability and Capacity

The City Bond & Interest Fund's ability to support our future capital investments is primarily dependent on the revenue generating capacity of its 16.836 property tax mills. To determine this capacity, the annual growth rates for Kansas City, Kansas's assessed valuation used for the City General Fund Forecast have been applied, namely 4.2% for 2020, 2.9% for 2021 and 2022, 4% for 2023 and 2.9% thereafter. These growth rates reflect the anticipated recession in 2020 and/or 2021, which for property valuation purposes lags by a year or two behind the economy. The 2.9% assessed value growth rate is an average annual growth rate between 2013 and 2020. The debt capacity is also impacted by the current municipal bond interest rate environment, which with the Federal Reserve on a path to raising interest rates, the assumption issued for this analysis is an average of 3.6% interest rate for 20-year general obligation bonds.

Given these revenue assumptions and the current municipal bond interest rate environment, as well as, known debt service payment outstanding obligations, the City Bond and Interest Fund can support additional new money borrowing. The amount and timing of the additional new money are affected by the current outstanding temporary note and the 2019-2023 CMIP schedule. The addition of new money does not directly influence the schedule of permanent bonding (i.e. adding $15 million in new money does not necessarily determine that $15 million will be permanently financed that same year). The schedule for current outstanding and expected future temporary notes to be permanently financed is determined by the timing of project completions and is statutorily limited to 4 years.

For this analysis, it is assumed that new money is permanently financed within 3 years, and years subsequent to the approved CMIP are limited to $15 million in new money additions. Current outstanding and expected future temporary notes are expected to be permanently financed as 20-year general obligation bonds of approximately $18.3 million in 2019, $17.5 million in 2020, $17.9 million in 2021, $17.9 million in 2022 and $16.6 million in 2023. The Unified Government has anticipated an annual capital financial plan of annually issuing $15 million in annual additions of low interest temporary notes for a max of four years (subsequently converted to 20-year general obligation debt) to meet our street infrastructure and other public facilities infrastructure needs, which, in the near term is greater than the forecasted level of bonded debt that can be supported with the current revenue stream. As a result of the anticipated recession, the Forecast projects a shortfall between 2020 through 2023 where debt service expenditures exceed revenue estimates. There are sufficient reserves in the bond and interest fund to fund this deficit in the short term.

Future General Fund-Backed City Debt Service Payments by Bond Issuance Series



Wyandotte County, Kansas (County General) Debt Profile

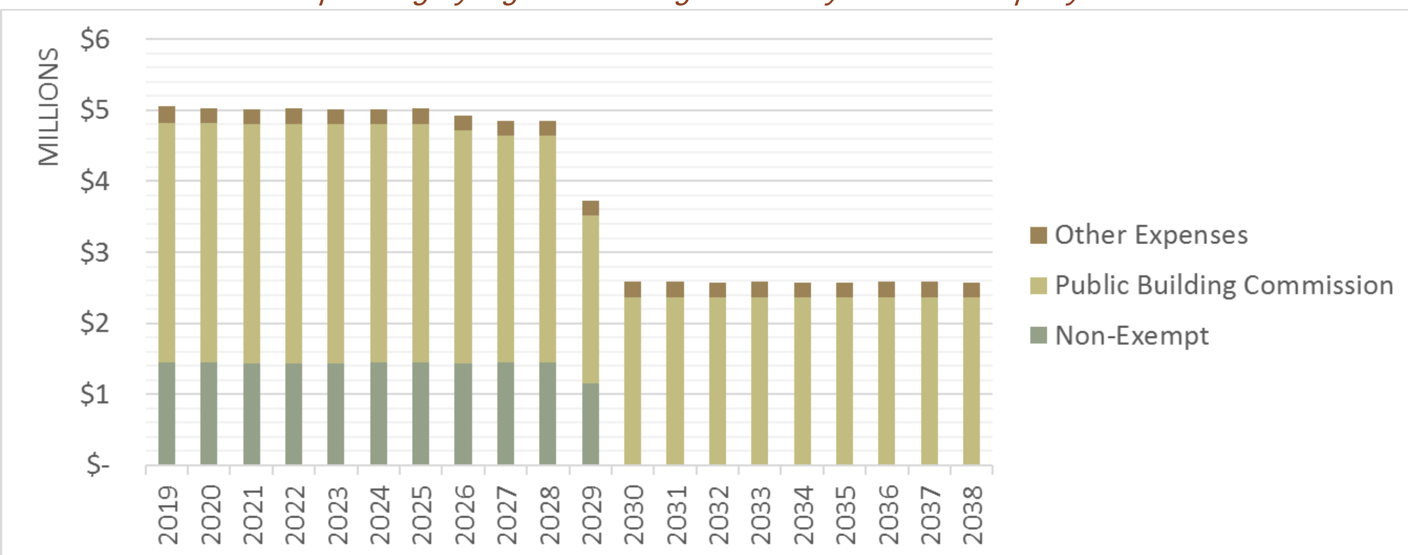
Current Debt Obligations

The County Bond and Interest Fund plays an important role in the Government's ability to support county-related capital infrastructure needs, and property tax revenue is significant source in planning capital investments. Outstanding Wyandotte County General Fund-backed (County Bond & Interest Fund) debt totals $76.7 million as of August 2018, of which $4.1 million or 5 percent have dedicated revenue streams outside the property tax revenue base. This $4.1 million includes transfers from the KCK Board of Public Utilities for the radio project debt financed with both general obligation and public building commission lease revenue bonds. The remaining outstanding debt fully supported by ad valorem property tax revenues totals $72.6 million issued with 8 separate bond issues.

The following are two charts illustrating the County Bond & Interest Fund's debt service payment over the future life of the outstanding bonds recorded. The first chart displays the debt service payments by the repayment revenue source category.

Current General Fund-Backed County Debt Service Payments by Dedicated Revenue Source Category

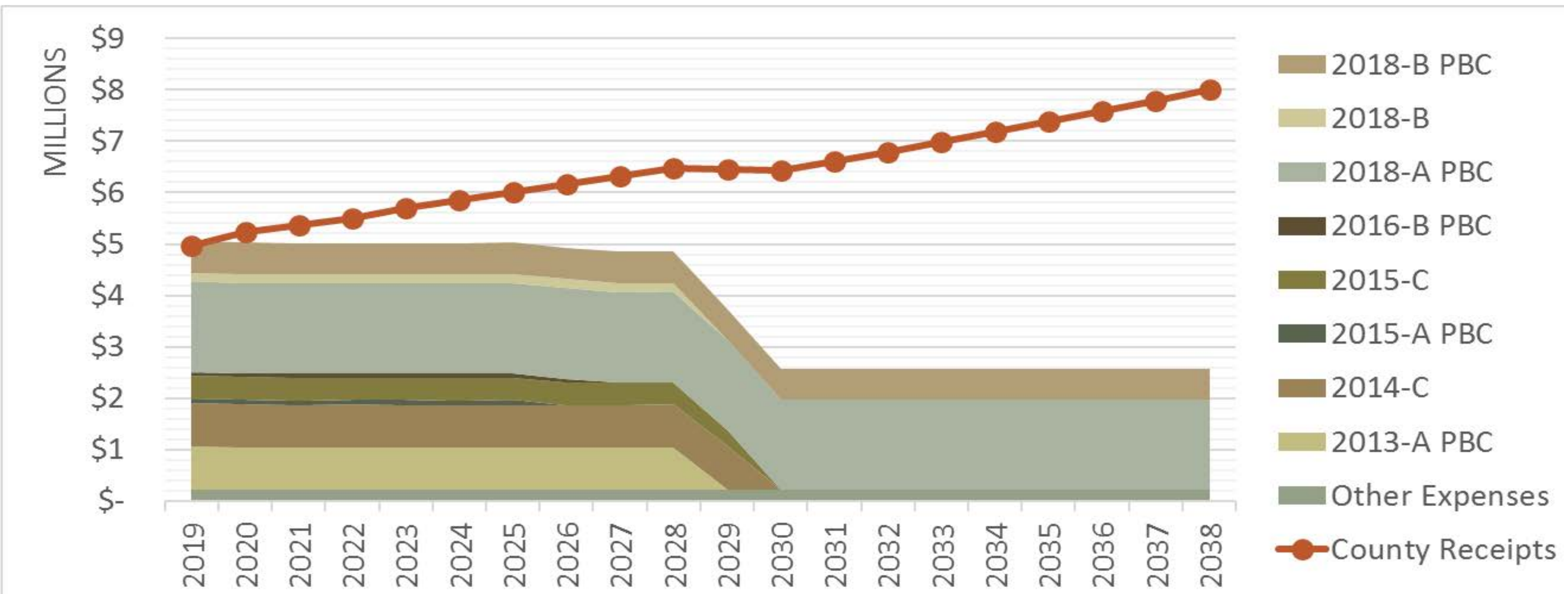
** Non-Exempt Category Signifies a Pledge of County Debt Mill Property Tax Revenue*



The County Bond and Interest Fund expenditures, consisting of principal and interest debt service payments, are supported by a County debt service property tax mill rate of 2.195 in 2019, as mentioned earlier. The County debt service mill levy generates $2.9 million in tax revenue in 2019, which are combined with other additional revenues such as lease payments of $2.1 million from other revenue sources. The total annual debt service payments out of this County Bond and Interest Fund are budgeted to total $4.8 million for 2019.

The second chart displays the debt service payments by the respective year's bond issuance series.

Current General Fund-Backed County Debt Service Payments by Bond Issuance Series

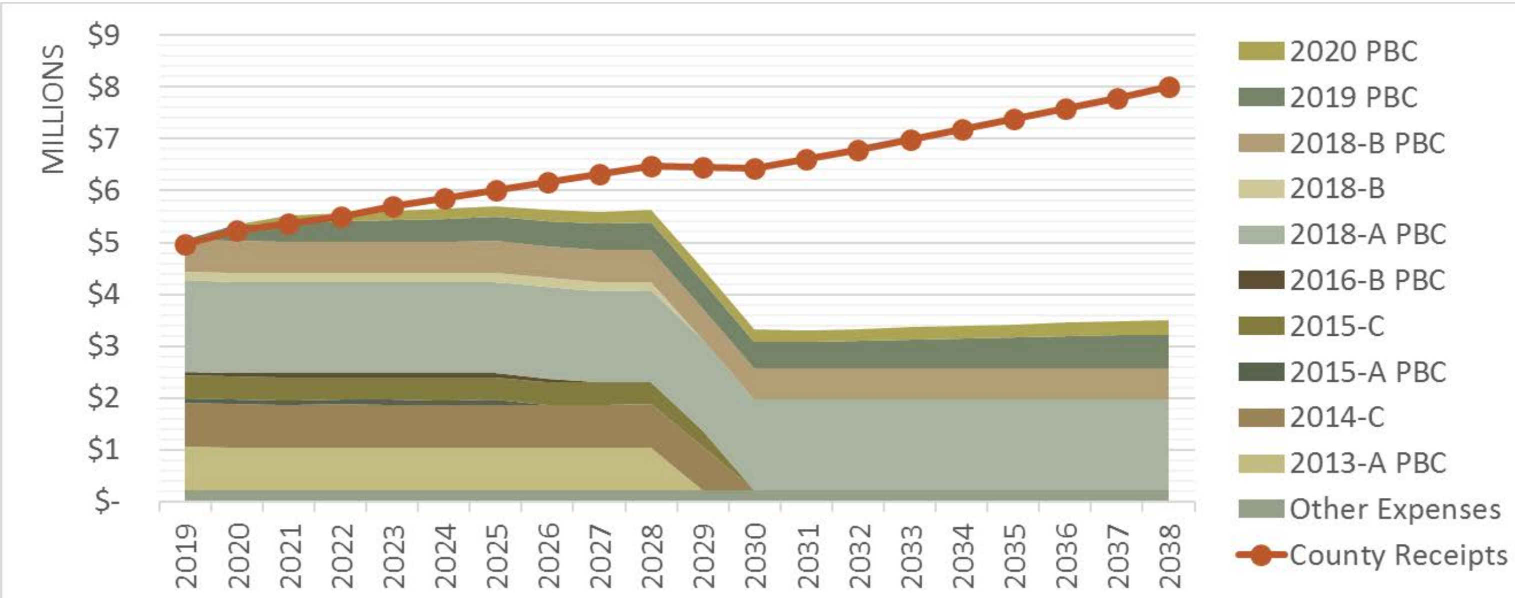


Future County Debt Affordability and Capacity

The County Bond & Interest Fund's ability to support our future capital investments is primarily dependent on the revenue generating capacity of its 2.195 property tax mills. To determine this capacity, the annual growth rates for Wyandotte County's assessed valuation used for the County General Fund Forecast have been applied, namely 4.0% for 2020, 2.9% for 2021 and 2022, 4% for 2023 and 2.9% thereafter. These growth rates reflect the anticipated recession in 2020 and/or 2021, which for property valuation purposes lags by a year or two behind the economy. The 2.9% assessed value growth rate is an average annual growth rate between 2013 and 2020. The debt capacity is also impacted by the current municipal bond interest rate environment, which with the Federal Reserve on a path to raising interest rates, the assumption issued for this analysis is an average of 3.6% interest rate for 20-year general obligation bonds.

Given these revenue assumptions and the current municipal bond interest rate environment, as well as, known debt service obligations, the County Bond and Interest Fund can support the borrowing for public building commission projects budgeted in the 2018-2023 CMIP, but cannot support any additional borrowing for general obligation bonds over the next three years.

Future Budgeted General Fund-Backed County Debt Service Payments by Bond Issuance Series

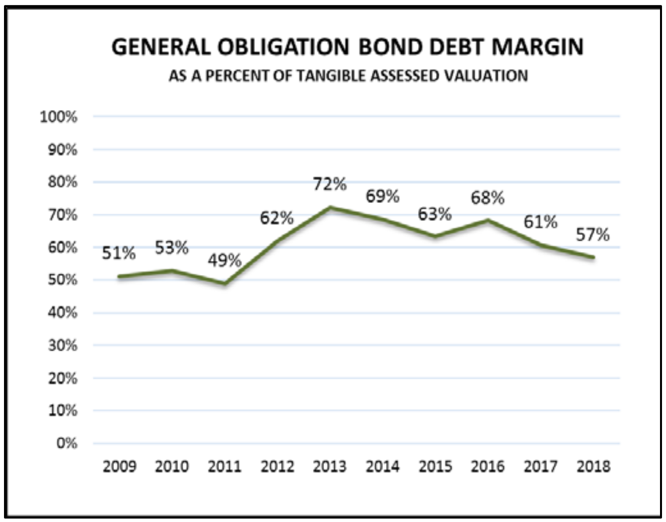


The Unified Government's County infrastructure and other public facility needs are limited not only by the level of revenue generated by its dedicated debt mill levy, but also by various State statutes. The analysis in the chart above results in the County being able to borrow additional funds in 2024.

Unified Government Issuer Credit Ratings

The Unified Government's "issuer rating" on its general obligation debt is rated AA Stable by Standard & Poor's credit rating agency and A1 Stable by Moody's Investor Service. Both rating agencies in their most recent reports affirmed that the UG had strong management practices, strong budgetary performance and flexibility, strong liquidity, yet are negatively impacted by weak economic factors and an overburdened debt load and contingent liabilities, such as our unfunded $173 million pension and $84.5 million retiree health (OPEB) liability. In recent years, the rating agencies have placed greater emphasis on local government's ability to meet these retirement -related obligations.

In their recent reports, both rating agencies emphasized that improvement in the UG ratings (and hence a reduction in our borrowing costs) would improve if the level of outstanding debt were reduced or the level of future borrowing would diminish. They both also stressed the importance of maintaining the General Fund reserves at levels considered to be very strong, or between 10 percent and 15 percent of total expenditures. The reports also mentioned a significant improvement in the County's economic factors could also result in a rating upgrade.



Kansas Statutory Debt Margin for the Unified Government

The debt margin computation is based on a 30 percent of the equalized assessed tangible valuation and the outstanding general obligation debt of which property tax revenues are pledged, per Kansas statutes that specifically references the Unified Government. Given the outstanding debt statutorily included in this calculation, and the Unified Government is at 57% of the General Obligation Debt Margin, with available statutory debt authority remaining as of October 2018 is $134.5 million. Maintaining at the current level or reducing the debt margin is recommended, while reaching 100% of the debt margin would be ill advised. For comparative purposes, the City of Wichita is at 17%, City of Topeka at 23% and Johnson County at only at 0.5%.

City General Fund (Operating) Debt-Related Items

As mentioned previously, the City General Fund is the main operating fund of the Unified Government. For the most part, it does not record debt-related obligations. There are two notable exceptions which require disclosure in order to provide a complete discussion for this Long-Term Financial Forecast. Firstly, the only debt service payment made directly from the City General Fund is the Soccer Stadium Parking General Obligation Bonds (Series 2010-H) with principal and interest payment amounting to $643,650 in 2019. The annual amounts included in the Forecast are based on the bond documents' annual debt service schedule. This debt payment is entirely offset by Soccer Stadium ticket tax received from the soccer facility and recorded in the City General Fund.

The second item is the *"annual debt appropriation"* that is added annually to the City General Fund (operating) budget. For 2019, the annual debt appropriation totaled $9,880,614. This annual debt appropriation is required by the bond documents in various outstanding bond series to provide bond holders with additional security that the repayment obligations will be met, and as a result the Unified Government received a lower interest rate on those bonds at the time of the bonds' issuance. There are six debt obligations in which the bond documents require an appropriation be adopted annually to authorize the debt service payments from the City General Fund should the primary dedicated revenue source pledged to debt repayment proves to be insufficient. These debt obligations, some of which the UG is not the obligor or issuer, include the 1999 Kansas Speedway International Corporation Taxable STAR Bonds, 1999 Kansas Speedway International Corporation Tax-Exempt STAR Bonds, the 2014 Kansas Speedway International Corporation Sales Tax Refunding Bonds, the 2015B Schlitterbahn Vacation Village STAR bonds, the 2014 Happy Foods TDD Revenue bonds and the 2014 Prescott Plaza TDD Revenue bonds.

The total of these annual appropriations for 2019 of $9,880,614 was budgeted as both an expenditure and a revenue in the City General Fund for balancing purposes. Although budgeted, the prior year actual expenditures do not reflect these payments because the City General Fund has never had to make any of these debt service payments. The dedicated revenue sources for these bond issuances were sufficient to meet debt service requirements. As a result, these budgeted figures have been eliminated from the Long-Term Financial Forecast in order to provide more accurate analysis of percentage changes year-over-year.

CONCLUSION

This forecast projects the use of fund balance in 2020 to 2024 during which large one-time payments are required for expected retirements. The Forecast reflects a recessionary slow-down in the economy in 2020 and/or 2021, followed by a more positive outlook in 2022 through 2024. Due to the anticipated economic slowdown and the large one-time retirement payments, the General Fund's financial position is projected to decline over the next five years without budgetary action to repair the annual shortfalls.

Economic indicators demonstrate that the local business environment has rebounded to pre-2009 Recession levels; however, an anticipated recession in 2020 and/or 2021 and substantial financial obligations and added uncertainties are expected to diminish the General Fund reserves over the future five years. One uncertainty is the timing of the anticipated recession. A second uncertainty is the timing of the significant level of retiring employees in the next five years; if these employees retire sooner than expected, the General Fund financial position would be more negatively impacted and could impair the UG's ability to meet operational demands in subsequent years.

To address these short-term and long-term issues, the UG administration will continue reviewing its operations and service delivery options. Over the past years, the UG has outsourced some services to the private sector and entered into negotiations with the non-profit sector for public-private partnerships. While the UG further explores alternative service delivery models with the goal to realigning staff levels, the UG will also review cost recovery levels of services currently provided to the community.

During the upcoming months, staff will continue to monitor revenue sources as well as update spending plans, as applicable, based on newly available information. This updated information will be reflected in the 2020 Proposed Budget, which is scheduled to be released to the Commission in July 2019.

ENDNOTES

Long Term Financial Forecast Section Endnotes:

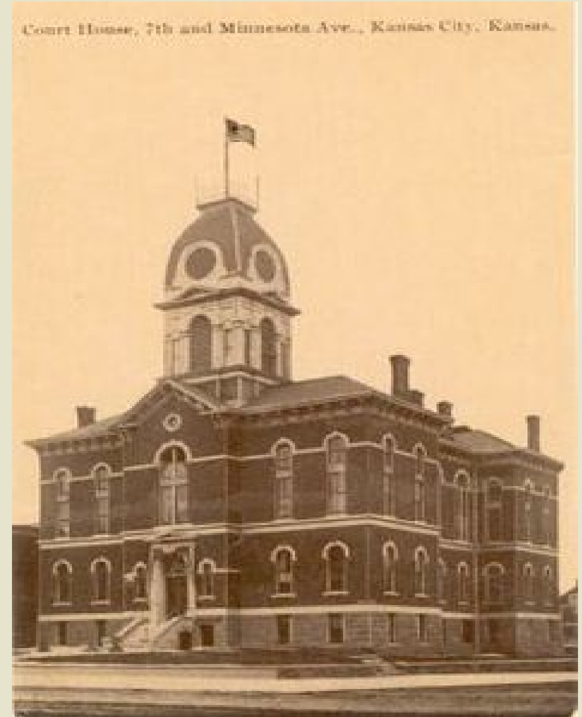
1. Unified Government Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended December 31, 2015, Pension Status References, Pages 77-81 and Pages 98-100; web link: 2017 Unified Government of WyCo/KCK CAFR
2. National Association of State Retirement Administrators, "The 80-percent threshold: Its source as a healthy or minimum funding level for public pension levels", January 2012, web link: NASRA Pension Funding Status Threshold White Paper-January 2012
3. Unified Government Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended December 31, 2015, Pension Status References, Pages 77-81 and Pages 98-100; web link: 2017 Unified Government of WyCo/KCK CAFR

Revenue Section Endnotes:

1. *National Property Tax Delinquency Declining*, Matt Cannon, CoreLogic, Inc., December 29, 2015.
2. Ibid
3. *The Effects of Increasing the Number of Property Tax Payment Installments on the Rate of Property Tax Delinquency*, Paul Waldhart, Lincoln Institute of Land Policy, 2011.
4. *Nonprofit PILOTs (Payment in Lieu of Taxes)*, Daphne Kenyon and Adam Langley, Policy Brief, Lincoln Institute of Land Policy, Nov 2016.
5. *Making Debt Pay: Examining the Use of Property Tax Delinquency as a Revenue Source*, Michelle Marchiony, Emory Law Journal, October 31, 2012.

Expenditure Section Endnotes:

1. United States Centers for Disease Control, http://www.cdc.gov/nchs/products/vsus.htm, "Vital Statistics of the United States, 2003, Volume I, Natality", Table 1-1 "Live births, birth rates, and fertility rates, by race: United States, 1909–2003."



Wyandotte County was organized on January 29, 1859. The county contains the cities of Bonner Springs (part), Edwardsville, Kansas City and Lake Quivira (part), and was named for the Wyandot Indians (various spellings). The Wyandot Indians arrived in the area from Ohio in 1843. They were responsible for the early cultivation of the land, barn buildings, planting of orchards, and road building. The Wyandot Constitutional Convention met on July 5, 1859, remained in session twenty-one days, and at the close gave Kansas a new constitution. This constitution was approved by the people on October 4, 1859. Other significant historical facts include: White Church was founded in 1832 and is the oldest church in Kansas still in use; the first county fair was held in 1863 on the levee in Wyandot and the first school district was organized in 1867 in the city of Wyandot.

Unified Government of Wyandotte County / Kansas City, Kansas
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