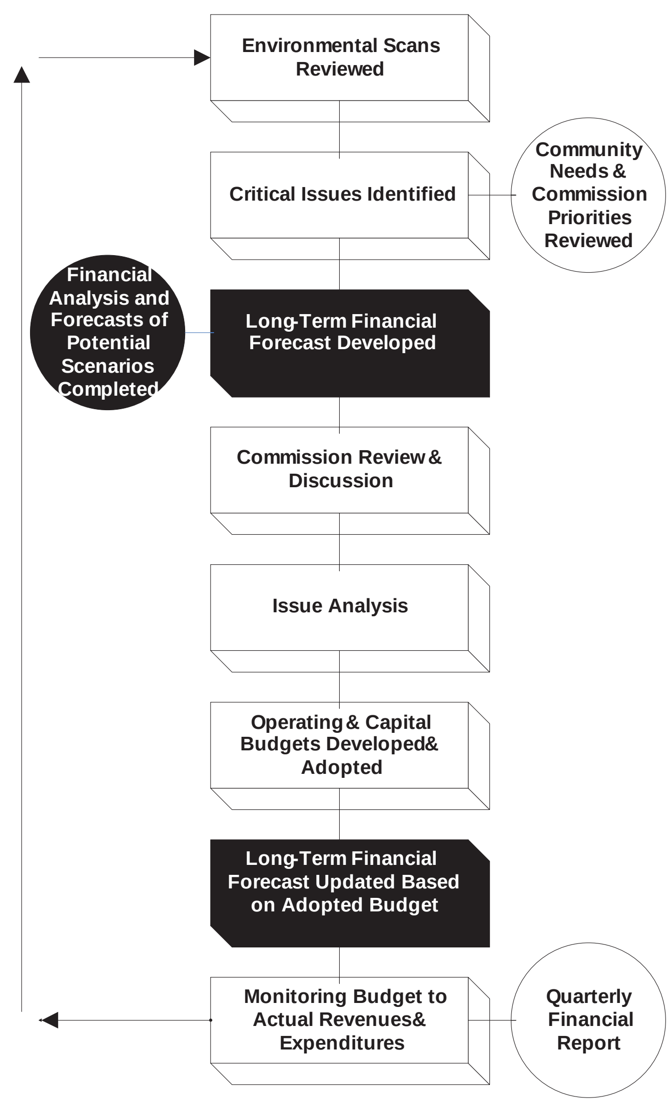
Financial Forecast

For the Period of 2017 - 2022

Introduction

Sedgwick County prepares an annual long-term financial forecast as a fundamental element of the budget process. The purpose of the forecast is to evaluate current and future fiscal conditions to guide policy and program decisions. A financial forecast is a fiscal management tool that presents estimated information based on current and projected financial conditions to identify future revenue and expenditure trends that may have an immediate or long-term influence on County policies, strategic goals, or community services. The forecast assists in the formation of decisions that exercise fiscal discipline and deliver essential community services as an integral part of the annual budgeting process. All information is presented on a budgetary basis.

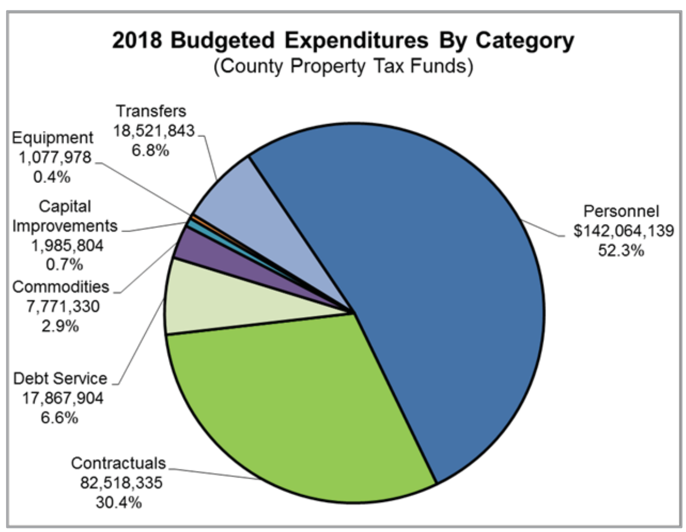
Financial Forecast and the Budget Process



Financial Forecast vs. Budget

The long-term financial forecast should be distinguished from the annual budget, as the forecast projects expected revenues and expenditures for the current year and five years into the future, while the budget sets the maximum amount of spending for one year. An additional distinction is that the budget typically includes budgeted contingencies to provide additional spending authority beyond the amount allocated to an individual department or division for use in times of unanticipated events. While budgeted, these contingencies typically are not anticipated to be spent in the forecast. As such, the budget generally is significantly greater than the forecast for a given year. For 2018, $19.1 million in contingencies is budgeted in the County General Fund.

The revenue and expenditure estimates included in this financial forecast section pertain to the County's eight property-tax-supported funds. These funds are outlined in the pie chart below. Total budgeted expenditures in these funds are $271,807,333 though forecasted expenditures total $249,045,028 in 2018. The difference is largely related to the contingencies outlined in the paragraph above.



Forecasting Methodology

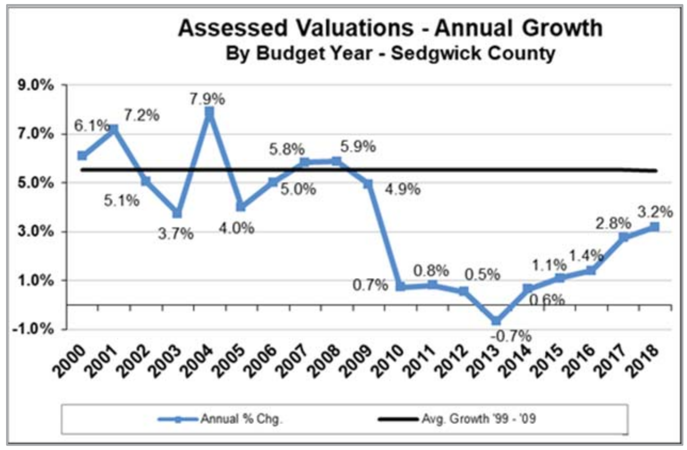
The estimates included in the forecast are formulated through the use of both quantitative and qualitative methods. Quantitatively, historical revenues and expenditures were analyzed primarily through trend analysis and percentage growth patterns. In addition, national, state, and local economic conditions were evaluated to determine what impact they may have on the County's ability to generate specific types of revenue. Qualitatively, the forecast draws upon the experience and knowledge of finance staff, along with input from division managers, to outline the most likely results.

Whenever forecasts are done, even a local weather forecast, one often loses sight that they are performed based on the most recently available variables. For the financial forecast, these variables include economic data through October 2017, along with the changes included in the 2018 budget.

Unfortunately, financial variables are constantly changing. The County's forecast is subject to unforeseen and uncontrollable national, state, and local events, in addition to the timing of large capital projects and operational decisions that may make the forecast less accurate. All information is presented on a budgetary basis.

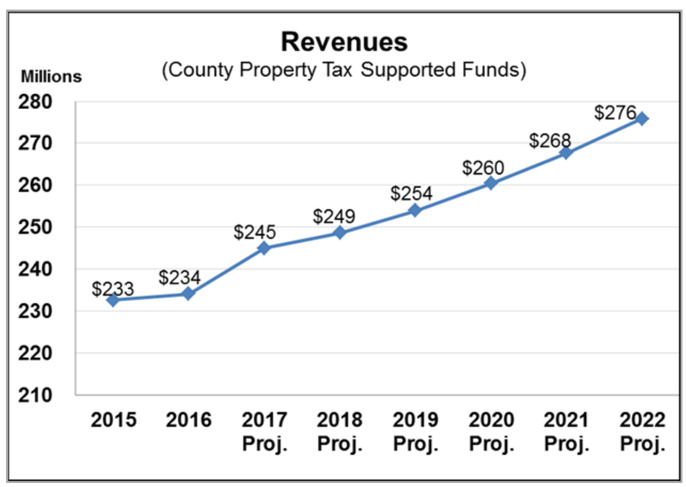
■ Executive Summary

Similar to other state and local governments, Sedgwick County government remains challenged by modest revenue growth, though reports in a few areas point to gradual improvement in the local financial condition. From 2010 through 2012, valuations driving property tax collections (more than 50 percent of total revenues per year) experienced less than one percent growth. Then, for the first time in 20 years, assessed property tax valuations for the 2013 budget experienced a negative assessment of 0.7 percent. Growth returned in the 2014 budget, when assessed property valuations increased 0.6 percent. Assessed valuation growth for the 2015 budget was 1.1 percent over the previous year. Growth was 1.4 percent for the 2016 budget, 2.8 percent for the 2017 budget, and 3.2 percent for the 2018 budget. The table at the top of the next column illustrates changes in Sedgwick County's assessed valuation since 2000.

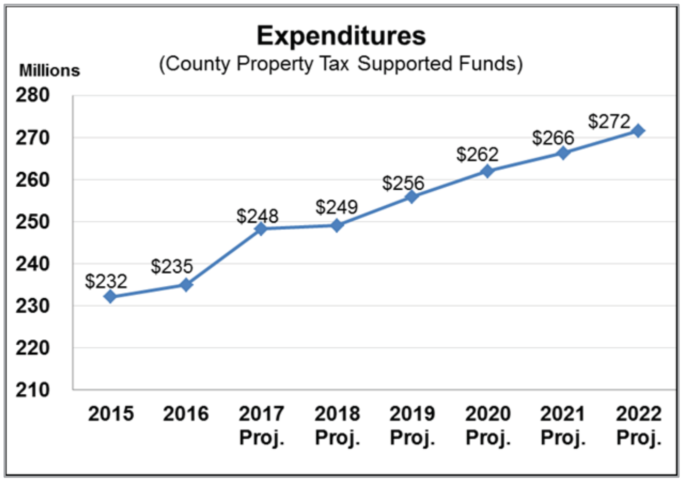


Other key revenues comprising approximately 32 percent of total revenues in County property-tax-supported funds are slowly returning to pre-Great Recession levels. These key revenues do not include property taxes and are highlighted and discussed within this section of the budget document.

The County's revenue collections since the Great Recession have remained relatively flat, after falling significantly in 2009. As shown in the table below, projections outline slightly stronger revenue growth in 2017, with stronger revenue growth returning in 2018-2022 as property valuations slowly improve. However, the Kansas Legislature's decision during the 2014 legislative session to phase out the mortgage registration fee by 2019 has a significant impact on the long-term forecast. Additionally, potential State actions to address projected deficits in State Fiscal Year 2018, which runs from July 1, 2017 through June 30, 2018, continue to pose a threat to the County's financial condition.



As a result of revenue declines following the Great Recession and modest revenue growth in the financial forecast, along with reduced revenue from the mortgage registration fee due to 2014 legislative action, the County has made great efforts to control expenditures to maintain fiscal integrity.



Because of the challenging revenue environment and flat expenditure growth over an extended period, Sedgwick County has experienced significant changes in both the services it delivers and how those services are delivered. The County continues to work through the current environment to achieve the principles identified by the County Manager:

- Continued emphasis on core services;
- Reduce government funding to services that can be provided by non-governmental entities or through private sector or other funding support;
- Reduce debt and reliance on bonding; and
- Maintain the mill levy tax rate at the 2010 level

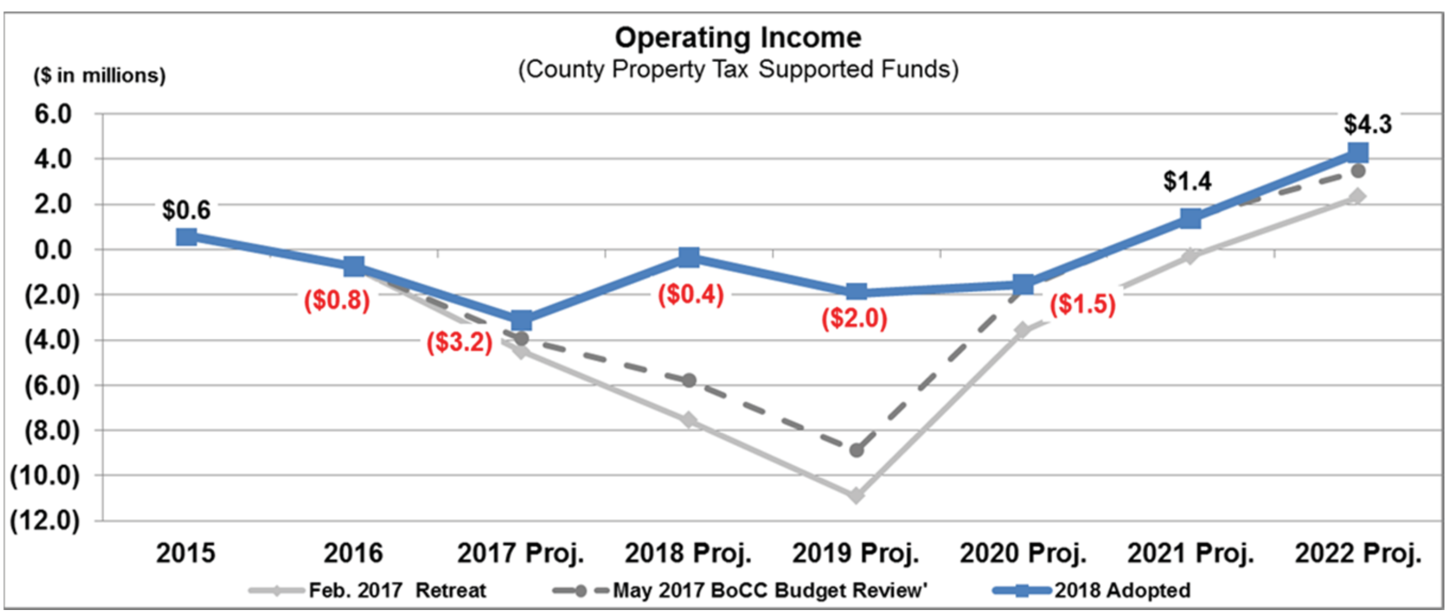
Since the economic downtown, the County has been responsive to the financial challenges outlined in the financial forecast. While the economy continues to improve, the County will continue to be challenged by expenses that exceed revenues.

The blue line in the graph below shows the County's actual and current projections for each year in the forecast. The 2018 budget projects a deficit of $0.4 million related to several one-time projects and an intentional draw-down of fund balance to reach targeted levels in the County's property-tax-supported funds. These targeted levels are outlined later in this section.

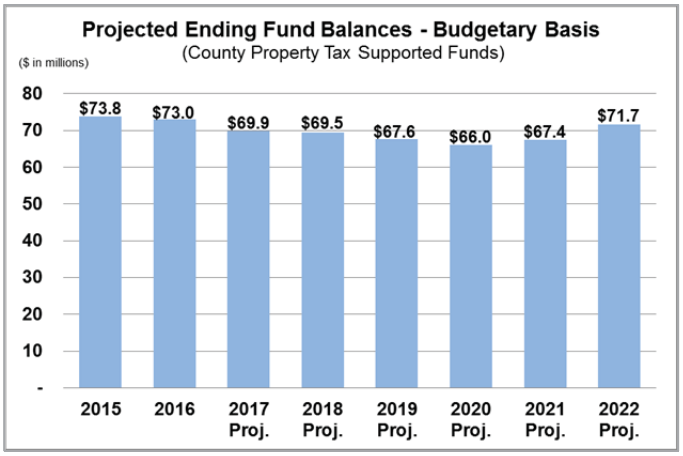
Consistent with the Commission's actions in the 2017 budget to reduce debt, $2.0 million in transfers for capital improvement projects are planned from County property-tax-supported funds to the County's Capital Improvement Fund in 2018: $1.5 million for facility projects and $0.5 million for drainage.

Current projections outline deficits in each year through 2020 as projected expenditures outpace projected revenue growth. In 2021 and 2022, the forecast projects an operating surplus as projected revenues outpace expenses.

As outlined previously, the organizaton's strategic efforts are significantly influenced by the forecast. The forecast is a valuable planning tool that is used to ensure the long-term continuity of essential services. Prior to the national recession, Sedgwick County proactively implemented an initiative to increase its fund balances during the good times to weather significant economic downturns later through a "General Fund reserve".



Despite the Great Recession, the County added to the cumulative fund balance of County property-tax-supported funds in 2012 through 2015, but deficits were incurred in 2016 and are anticipated in 2017 due to one-time capital projects.



Due to the County's previous actions to develop a "General Fund reserve" and other management actions outlined in the box to the right, the County has been able to make strategic decisions regarding how and when to make service changes to minimize the impact on community services. With the extended recovery, the sustainability of the County is placed at risk if existing operations are not monitored and adjusted to address current economic conditions and revenue collections that appear to be slowly rebounding.

Over the planning horizon of the financial forecast, the County will continue to confront a variety of challenges. In addition to challenges from an uncertain economy, actions at the Federal and State levels continue to cause concern to County management. These challenges will require the County to continue to concentrate on a variety of core financial guidelines, as outlined in the following section.

- **Revenue Core Guidelines**
  - Maintain the mill levy rate imposed on properties in Sedgwick County at the 2010 level
  - Maintain a diversified revenue base, which requires diligence. Adjust current fees when appropriate
  - Effective governance is the result of effective partnerships. County services mandated by another government should be funded by that government

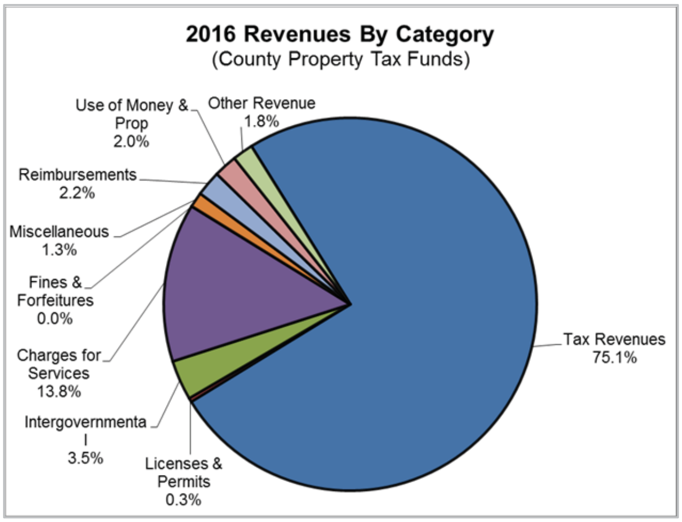
- **Expenditure Core Guidelines**
  - Concentrate public services on those strategic priorities identified in the new strategic plan
  - Reduce government funding to services that can be provided by non-governmental entities or through private sector or other funding support
  - Reduce debt and reliance on bonding
  - Seek innovative programs for delivering public services beyond current operating standards
  - Educate State legislators on the impact of new and pending State mandates

Previous Management Decisions

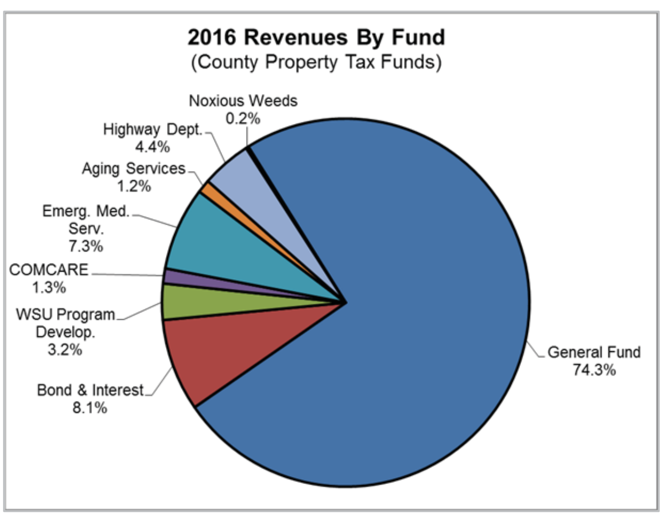
- **2007**: 2.5 mill increase to address public safety issues with a growing jail population, maintaining other public safety services, and construction of the Center for Aviation Training.
- **2008**: Implementation of Drug Court Jail Alternative.
- **2009**: County eliminates 1.0 mill from the property tax levy by deferring a 384 bed expansion to the jail.
- **2010**: Suspend performance compensation and implement a general pay adjustment of 2.0% for eligible employees with salaries below $75,000. Implement a 0.5 mill reduction in the property tax rate, combined with $3.3 million in budget reductions. In May, deferred and/or reduced capital projects totaling $1.8 million and established a position review team.
- **2011:** Implement a 0.5 mill reduction in the property tax rate, 2.0% performance-based compensation pool combined with adjustments to employee benefits, defer a capital project, implement $2.5 million in annual recurring operating reductions in April, and initiate a voluntary retirement program.
- **2012:** Implement budgetary reductions of $10.3 million (impacting both 2011 and 2012 budgets) and no employee compensation adjustment.
- **2013:** Implement budget reductions of $7.2 million with a 2.5% performance-based merit compensation pool combined with an adjusted health benefits plan which was designed to encourage employees to take responsibility for their health to reduce future increases in benefit costs
- **2014:** Implement a 2.5% performance-based compensation pool. Fund the recommendations of a market pay study for full-time employees. Shift programs to alternative revenue sources. Fully implement a mental health pod at the Adult Detention Facility. Closure of the Judge Riddel Boys Ranch, a State program, due to insufficient State funding
- **2015:** Implement a 2.5% performance-based compensation pool. Shift to a self-funded employee health insurance model. Add one ambulance crew. Add funding for recommendations of Coordinating Council formed to address increasing EMS call demand. Add part-time mower positions. Shift programs to alternative revenue sources. Eliminate funding for Visioneering. Reduce funding to Wichita Area Technical College.
- **2016:** Implement a 1.75% performance-based compensation pool. Reduce funding to external community development and culture and recreation agencies. Eliminate funding for State Affordable Airfares program. Shift from debt funding to cash funding for road/bridge projects. Add additional positions to the Elections Office. Reduce property tax support for some health and aging services. Eliminate the Day Reporting program.
- **2017:** Implement a 2.5% performance-based compensation pool along with $5.0 million in County property-tax supported funds to address pay compression and support pay-for-performance. Addition of 9.0 FTE positions to Emergency Communications for increased call volume and to reduce overtime. Addition of 8.0 FTEs to support EMS operations. Additional positions to address other public safety needs for Sheriff, District Attorney, and Regional Forensic Science Center. Additional funding to replace the Election Commissioner's election machine fleet.

Revenues & Transfers In

Sedgwick County's revenue structure related to property-tax-supported funds is grouped into seven primary revenue categories, with aggregate tax collections as the largest revenue source, followed by charges for service and uses of money and property. These revenue categories are shown in the chart below. In 2016, a total of $234,168,422 in revenue and transfers in was received in these funds, with 75 percent collected from multiple tax sources. These actual results are the baseline from which financial estimates in the financial forecast are made.



Of the funds receiving property tax support, the largest is the General Fund, with 74 percent of total revenue collections in 2016, followed by the Bond & Interest, EMS, and Highway funds. Revenues by fund are outlined in the chart below.



Specific Revenue Projections in the Financial Forecast

Of the total revenue collections and transfers from other funds in 2016, 86 percent was collected from seven distinct revenue sources. The following discussion on revenue projections included in the financial forecast will concentrate on these revenues as outlined in the table below.

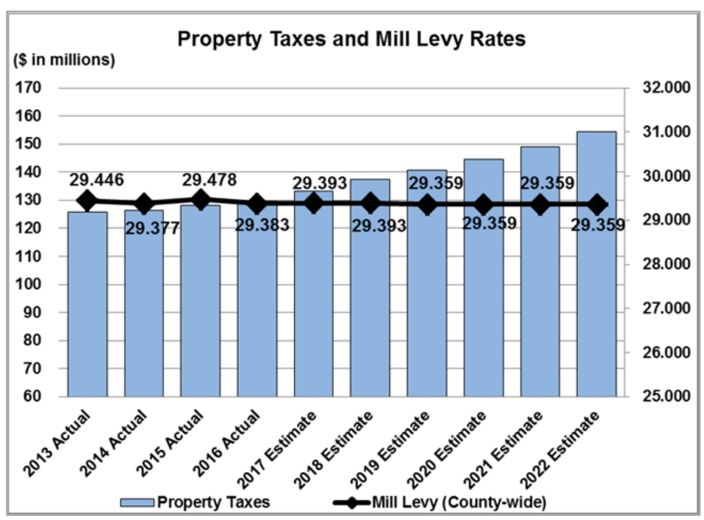
Major Revenues
County Property Tax Supported Funds*

	2016	% of Total
Total Revenues & Transfers In	$234,168,422	100%
Property taxes	$124,991,359	53%
Local sales & use tax	$ 28,744,006	12%
Motor vehicle tax	$ 18,220,476	8%
Medical charges for service	$ 15,190,716	6%
Mortgage registration & officer fees	$ 6,831,259	3%
Special city/county highway	$ 4,572,247	2%
Investment income	$ 1,838,325	1%
Total	$200,388,388	86%

*General Fund, Wichita State University, COMCARE, EMS, Aging, Highway, Noxious Weeds, Bond & Interest

Property Taxes

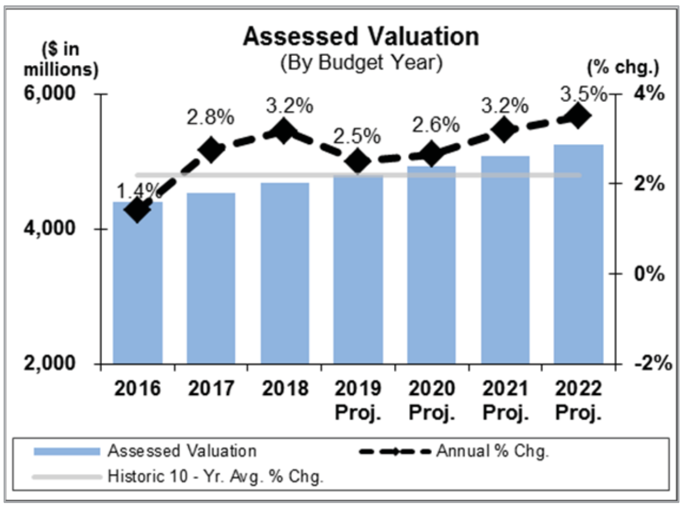
Property taxes play a vital role in financing essential public services. Property tax revenues are primarily used to fund services County-wide in the General Fund and various special revenue funds that do not have the capacity to self-finance their services, in addition to retiring the County's long-term debt on capital projects for facilities and infrastructure. This reliable revenue source has no attached mandates as many other State and Federal revenues often do.



The 2018 budget includes a mill levy rate of 29.393 mills after technical adjustment to the targeted rate of 29.359 mills as included in the 2018 Recommended Budget. This forecast assumes that the property tax rate will remain unchanged at the targeted level of 29.359 mills over the planning horizon.

Projected revenue from property tax collections in this financial plan are based on:

- An assumption that the property tax rate will remain unchanged through the planning period at 29.359 mills, absent technical adjustments.
- Increases or decreases in property tax revenues after 2016 will result from estimated changes in assessed valuations and not changes to the mill levy rate.
- An assumption that collection delinquencies will return to more typical historical levels, after the delinquency rate reached 4.2 percent in 2010.



Over the past 10 years, Sedgwick County's assessed valuation has grown an average of 1.9 percent annually. Like many other jurisdictions, the County experienced strong valuation growth between the years of 2000 to 2009 with an average growth rate of 5.6 percent. That trend changed notably in 2010 when valuation increased by less than a percent. Growth was less than one percent through 2012; then, for the first time in 20 years, assessed valuation decreased for the 2013 budget year. Growth returned at a rate of 0.6 percent in the 2014 budget year, then grew at 1.1 percent for the 2015 budget year, 1.4 percent for the 2016 budget year, 2.8 percent for the 2017 budget year, and the 2018 budget includes growth of 3.2 percent.

Within the financial forecast, property tax rates among different County property-tax-supported funds can and are distributed based on the total available resources to achieve the greatest outcomes in service delivery. In some instances, distribution of the total property tax rate is adjusted due to changing operations, one-time projects such as capital improvements, or the availability of unexpected resources. The table below outlines the property tax rate movements estimated within this plan.

Property Tax Rates by Fund (in mills)						
	2017	2018	2019 Est.	2020 Est.	2021 Est.	2022 Est.
General	22.814	22.528	23.216	22.888	23.293	23.336
Bond & Int.	2.604	2.625	2.010	1.852	1.830	1.702
WSU	1.500	1.500	1.500	1.500	1.500	1.500
Highw ay	1.026	0.780	0.980	1.092	1.084	1.106
EMS	0.277	0.906	0.557	0.874	0.527	0.595
Aging	0.523	0.494	0.469	0.489	0.477	0.473
COMCARE	0.590	0.495	0.547	0.585	0.573	0.570
Noxious Wds	0.059	0.065	0.080	0.079	0.075	0.077
Total	**29.393**	**29.393**	**29.359**	**29.359**	**29.359**	**29.359**

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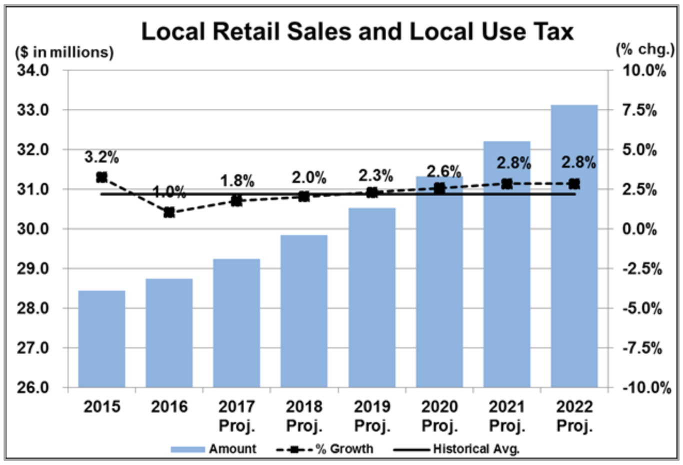
Local Retail Sales and Use Tax



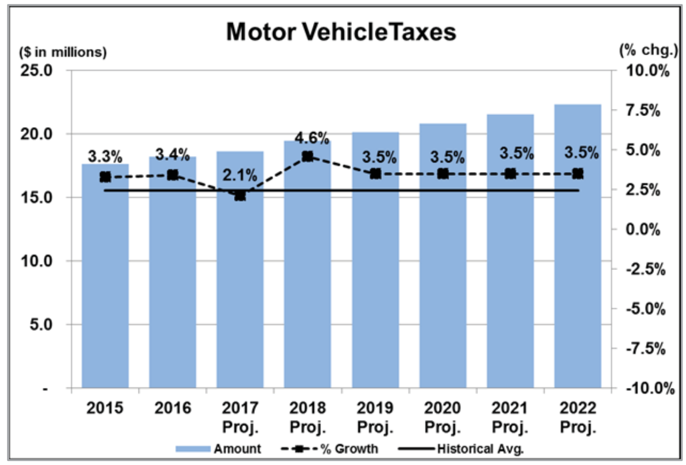
Local retail sales tax is generated from a County-wide one-percent tax on retail sales, imposed pursuant to voter approval in July 1985. Local use tax, per State statute K.S.A. 12-198, is a tax paid on tangible personal property purchased from other states and used, stored, or consumed in Kansas on which no sales tax was paid. Use tax is also applied if a taxable item is relocated to Sedgwick County from another state and that state's sales tax rate is less than the Kansas rate.

Distribution of these revenues to the County and cities is based half on their individual population levels and half on property tax levies per State statute K.S.A 12-187. Sedgwick County receives 28.5 percent of the revenue produced by the County-wide sales tax in its General Fund; the balance is distributed by the State government to the 20 cities located within the county. There are three principal factors that influence the County's collection of local retail sales tax revenue:

- Total taxable retail sales in Sedgwick County
- Population in the unincorporated areas of the County as a percentage of total County population
- The County's property tax levies as a percentage of total taxes levied by all governmental entities

Historically, retail sales and use tax collections have experienced an average growth rate of 1.7 percent over the past 10 years, but averaged 5.7 percent from 2004 to 2008. As a result of economic stress and the County's reduction in its mill levy over three consecutive years, collections declined from a high of $26.8 million in 2008 to $25.7 million in 2012; however, as the economy has improved, revenues in this category have increased. Total revenues of $28.7 million were collected in 2016.

Motor Vehicle Taxes



The State statute describing the collection and distribution of Motor Vehicle Taxes is outlined in K.S.A. 79-5101 et seq. Motor vehicles are distinguished by 20 vehicle classes, and then taxed at 20 percent of the class value based on the average County-wide mill levy during the previous year. State statutes define the average county-wide mill levy as the amount of general property taxes levied within the county by the State, county, and all other property taxing subdivisions; and then divided by the county's total assessed valuation.

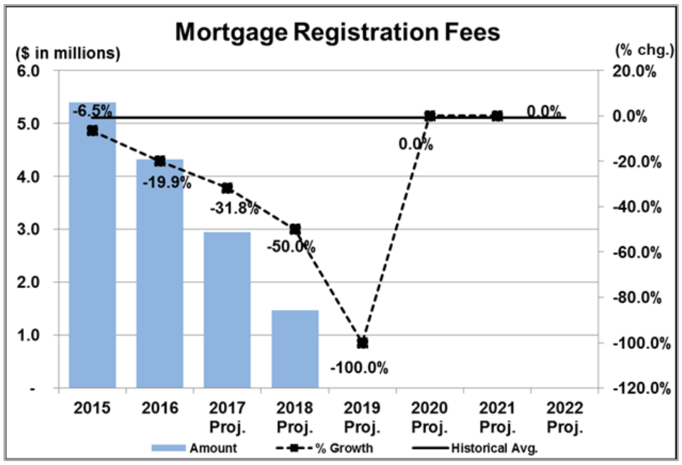
The 2012 Legislature enacted legislation requiring that an annual commercial vehicle fee be paid in lieu of current property taxes for both interstate and intrastate commercial vehicles registered in Kansas.

Collected taxes are distributed by the County Treasurer to the taxing jurisdictions based on the owner's residency, and the ratio of levied taxes by the jurisdiction to the total taxes levied. Once the County's portion is distributed, the revenues are shared across the eight County property-tax-supported funds based on each fund's mill levy rate for the previous year.

Collections are dependent not only on economic conditions and vehicle sales, but also on the ratio of County property taxes to all of the other property taxing jurisdictions.

Previously, motor vehicle taxes have been a consistent and reliable revenue source. However, with the changing economy and impact of past tax reductions it has become more inconsistent. This revenue source reached a historical high of $17.2 million in 2009; however, collections surpassed the historical high in 2016, with $18.2 million received.

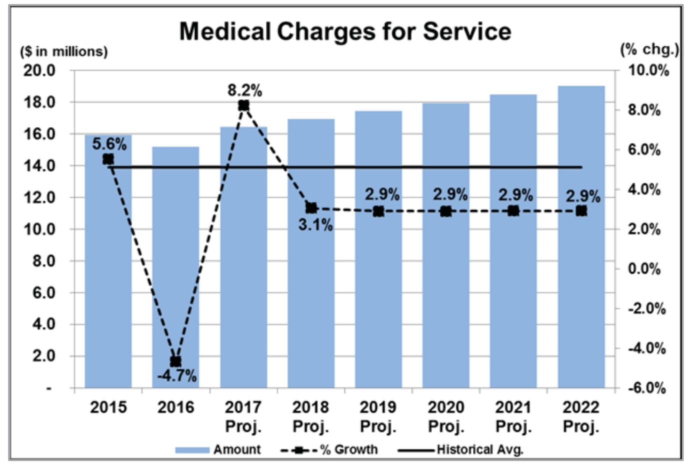
Mortgage Registration Fees



Mortgage registration fees are collected by the Register of Deeds. Mortgage registration fees are established under K.S.A. 79-3102, which set the fee rate at 26 cents per $100 of mortgage principal registered through 2014; the County General Fund received 25 cents. However, legislative action in 2014 began a phase-out of the fee in 2015, with complete elimination by 2019. Additional per-page fees were implemented by that legislative action, recorded as officer fees in the County's financial system. The estimated impact of the reduction is $4.3 million in 2019, when per-page fees of $3.4 million offset projected mortgage registration fee loss of $7.6 million.

Within this revenue source, collection levels historically have been strongly correlated with the strength of the local real estate and refinancing market. Mortgage registration fees reached a high of $8.7 million in 2003 and generated $5.8 million in 2014, the last year where the fee was at its historic level.

Medical Charges for Service

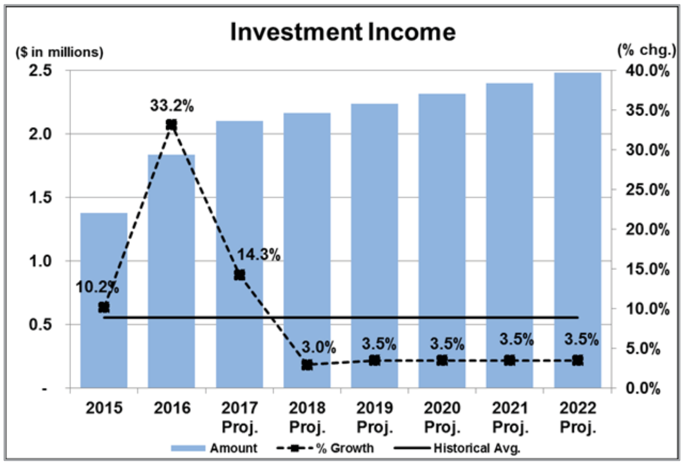


Medical charges for service include Medicaid, Medicare, insurance, and patient fees for delivered medical services. In the property-tax-supported funds, these services are predominately delivered through EMS, generating 92.8 percent of the total 2016 collections, followed by the Health Division and the Sedgwick County Offender Assessment Program (SCOAP). Revenues related to emergency medical services are deposited in the EMS Tax Fund.

The County also receives substantial amounts of medical charges for service revenue in grant funds delivering mental health, developmentally disabled, and aging services. Because those revenues are not received within property-tax-supported funds, they are not included within this forecast.

In July 2014, the County moved the EMS billing function in-house. The 2016 budget included an increase in the mileage rate and base rate for transports to bring EMS charges more in line with other emergency service providers. Further revenue growth is anticipated in 2017 as a new EMS post and crew in the southeast area of Sedgwick County provide transports for a new emergency department in the area.

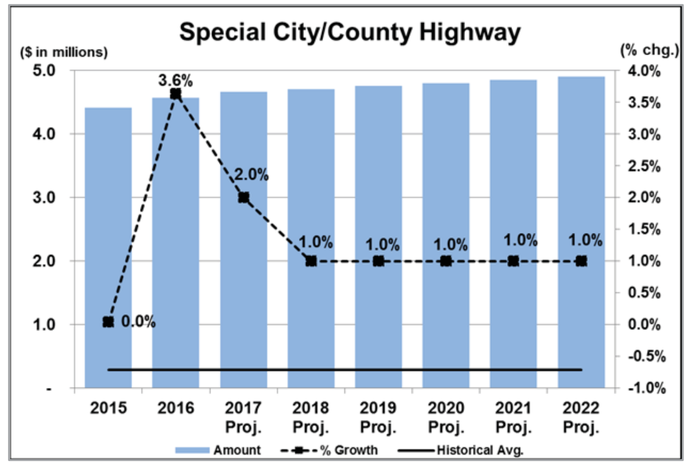
Investment Income



Investment income accounts for revenues generated from the investment of idle County funds. Traditionally, this revenue source can be volatile with collections dependent on interest rates in investment markets, the timing in which investments mature, and the size of the investment portfolio. State law outlines that all investment income is to be deposited in the General Fund unless otherwise directed by statute.

The County has an investment portfolio that ranges from $225 million to $500 million depending on the time of year. By law, the County's investments are restricted to short maturities having little or no risk. Since the Great Recession, investment income has been very low due to very low interest rates. In 2014, collections increased for the first time since 2007, though the amount of revenue generated was $1.3 million. The forecast projects revenue of $2.1 million in 2017.

Special City/County Highway



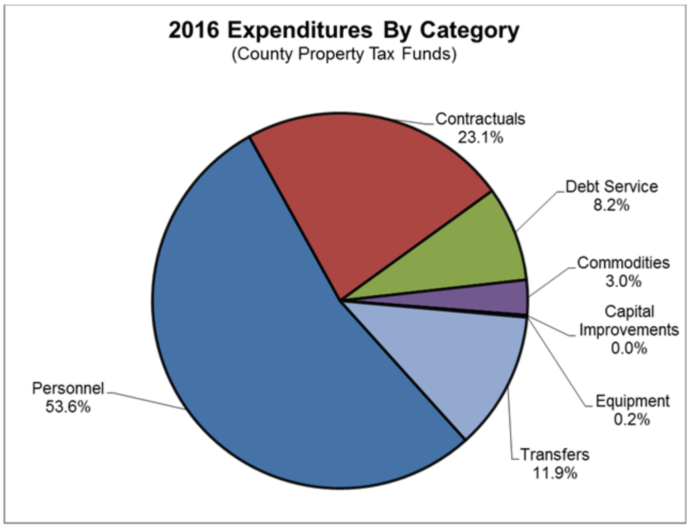
The Highway Division is financed through the Highway Fund to construct and maintain the County's roads, bridges, and intersections. Of the revenues used to fund these operations, the largest is the State's special city/county highway fund authorized under K.S.A. 79-3425. Through the Fund, the State distributes motor-fuel taxes among local jurisdictions based on a distribution formula that includes:

- Each county shall receive a payment of $5,000
- Remaining 50 percent is allocated based on the portion of collected motor vehicle registration fees in the county compared to the amount collected in all counties
- Remaining 50 percent is allocated based on the portion of average daily vehicle miles traveled in the county compared to the amount traveled in all counties

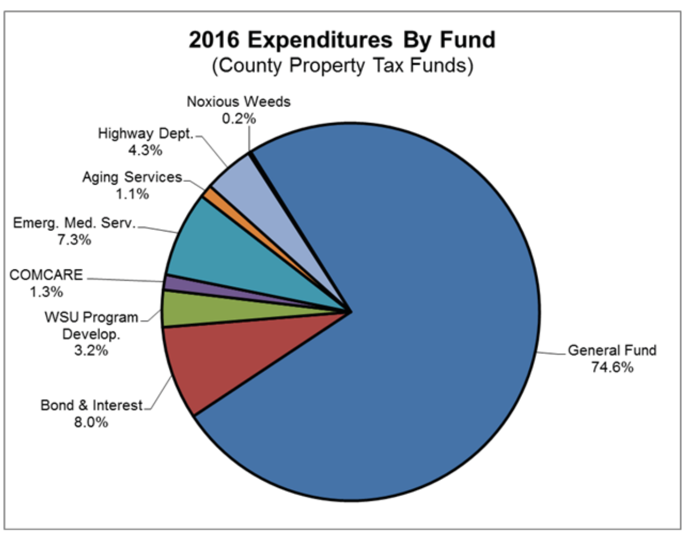
This revenue source has demonstrated considerable variability in the past. As State Motor Fuel Gas Tax collections fluctuated, the Legislature made temporary adjustments to the distribution formula, and the State corrected previous distributions made in error. More recently, receipts have been relatively constant from year to year. Collections are anticipated to remain mostly flat through 2022.

Expenditures

Sedgwick County's expenditure structure is divided into seven primary spending categories: personnel, contractuals, debt service, commodities, capital improvements, equipment, and interfund transfers. Total expenditures incurred in 2016 in County property-tax-supported funds were $234,934,449. Of those, 54 percent were for personnel costs and 23 percent for contractual services. As with revenues, these actual results are the baseline from which the current financial forecast was developed.

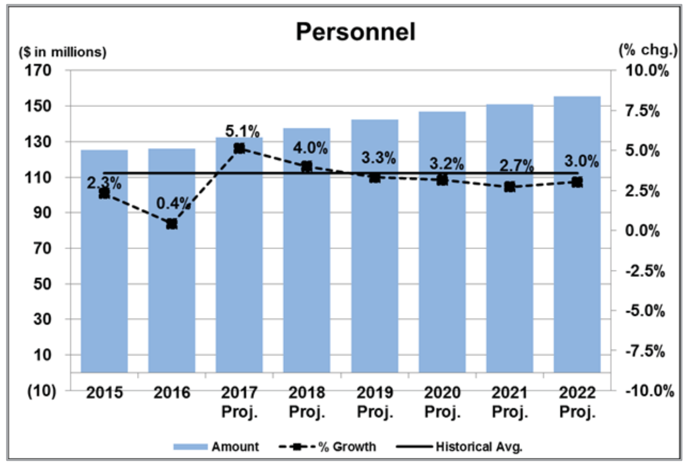


Of the total spent in funds receiving property tax support, the fund with the greatest portion of total expenses is the General Fund with 75 percent of total 2016 expenditures, followed by the Bond & Interest Fund and Emergency Medical Services.



Specific Expenditure Projections in the Financial Forecast

Personnel

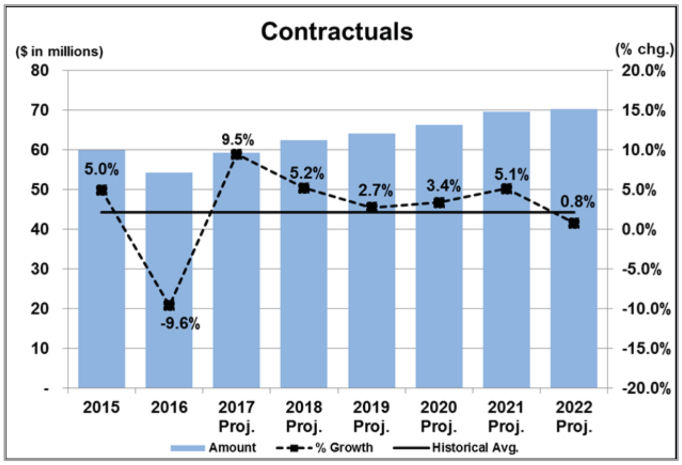


Similar to most government and proprietary entities, personnel expenditures represent the largest cost in delivering services. The projections included in this financial forecast incorporate the following variables:

- A 2.5 percent pay adjustment in 2018, along with 0.5 percent to adjust the full pay structure to assist with recruitment of employees and to provide increased earning capacity for employees who have reached their maximum compensation under the current pay structure
- A 2.5 percent pay adjustment in each year, 2019-2022
- A 3.6 percent increase in the employer-paid portion of health benefit premiums in 2018 and 5.0 percent each year thereafter
- Decreases in retirement rates through the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F) in 2017, followed by increases in 2018 through 2022

	2013	2014	2015	2016	2017	2018
KPERS - Retirement Rates						
	8.94%	9.69%	10.41%	10.18%	8.96%	9.39%
KP&F - Retirement Rates						
Sheriff	17.26%	20.28%	21.72%	20.78%	19.39%	20.22%
Fire	17.26%	19.92%	21.36%	20.42%	19.03%	20.09%
EMS	17.26%	20.08%	21.36%	20.42%	19.03%	20.09%

Contractuals



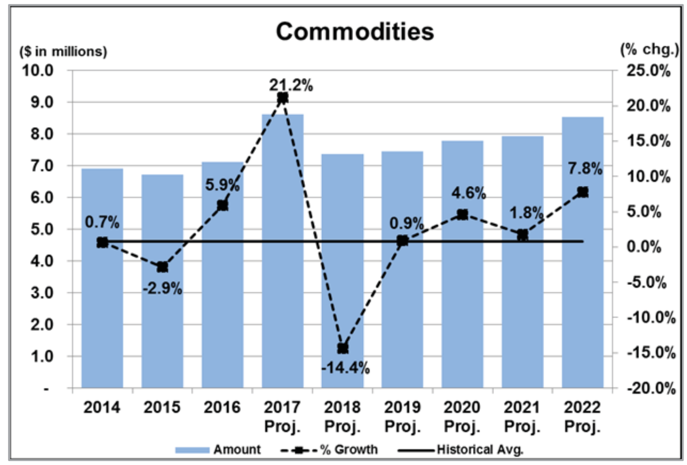
Contractual expenditures, the second largest expenditure category, include services purchased from and delivered by an external entity and internal divisional charges to other funds. These may include utility services, insurance services, software agreements, social services delivered by other community providers, or internal fleet and administrative charges.

Growth in contractual expenditures has averaged 2.7 percent over the past 10 years, with the most significant growth occurring due to the implementation of alternative jail programs and economic development funding. The significant decrease from 2015 to 2016 was due primarily to a one-time payment to assist with a capital improvement project at the Sedgwick County Zoo in 2015.

The increase in 2017 anticipates new costs incurred as a result of the County-City of Wichita code function merger, when the County began receiving all revenue related to the Metropolitan Area Building & Construction Department (MABCD); prior to 2017, the bulk of that revenue was collected by the City. In 2017, as the merged operation began its first year with the County as managing partner, the County has begun reimbursing the City for costs for employees still on the City's staffing table. Those costs, to be paid as a contractual item, are anticipated at $3.6 million in 2018, but may be less as City employees vacate MABCD positions and are replaced with County positions.

Excluding that change, increases included in this forecast anticipate continuing increases in utilities, inmate medical and food service contracts, and software and technology equipment maintenance costs. The cyclical nature of national, State, and local elections also contribute to expenditure variations in this category.

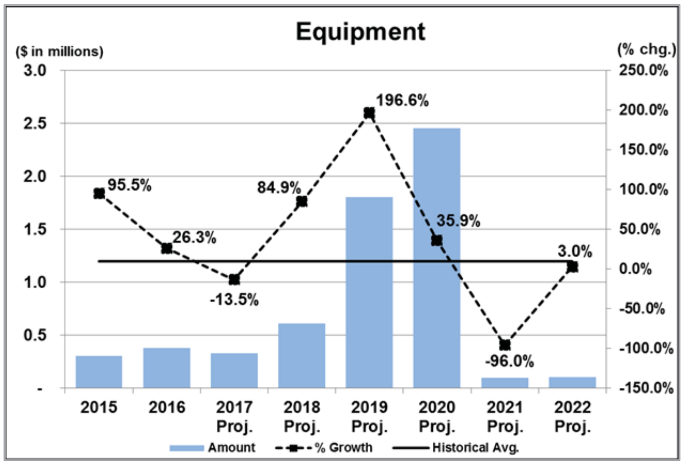
Commodities



This category includes expenditures for the purchase of common tangible items. This may include office supplies, fuel, food, clothing, software, and equipment with acquisition costs of less than $10,000 per unit. The significant anticipated increase in 2017 is due to the replacement of the County's election equipment fleet.

Commodity expenditures often fluctuate from year to year. These fluctuations often are due to the election cycle, when expenses vary from odd years to even year (even years representing either gubernatorial or presidential election cycles).

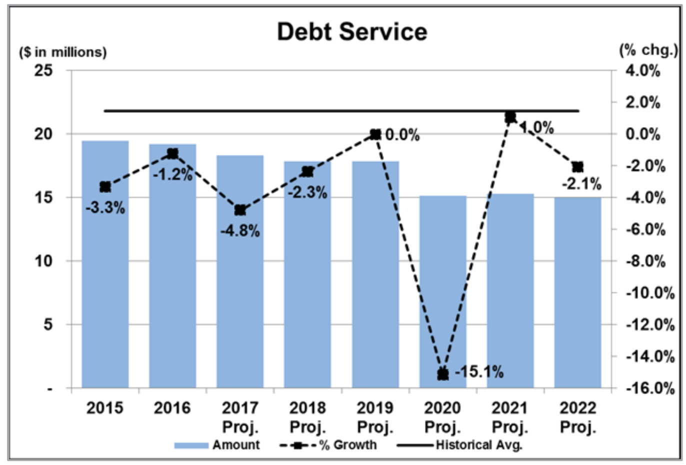
Equipment (Capital Outlay)



Equipment includes expenditures for office, technical, operating, and vehicular equipment that are more than $10,000. Overall, the County spends relatively small amounts for equipment in the property-tax-supported funds, so isolated purchases can often result in sizable year-to-year percentage changes. Over the last several years, those increases have largely been related to enhancements to EMS services.

In the current forecast, equipment expenditures are anticipated to increase in 2018 related to the purchase of equipment for a new Stream Maintenance crew in Public Works, the replacement of a server in the Sheriff's Office, and the purchase of new durable equipment for EMS. In 2019 and 2020, costs are again expected to spike due to mobile and portable radio replacements across the organization as the radios reach the end of support. Costs are anticipated to return to more typical levels in 2021 and 2022.

Debt Service



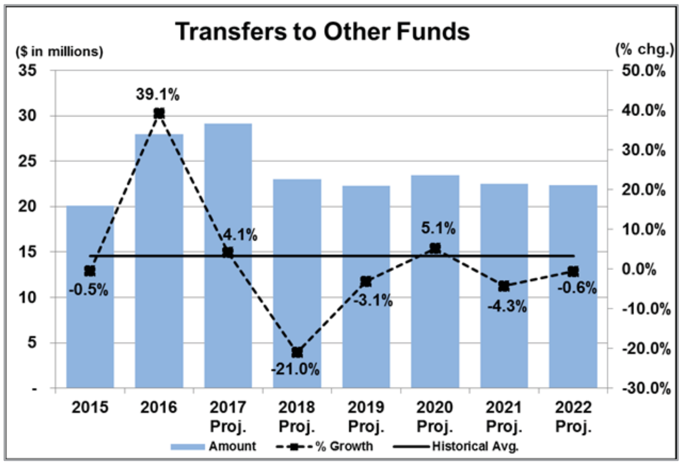
The financial forecast incorporates debt service payments on current debt obligations. Sedgwick County continues to hold high bond ratings from the three most widely used rating agencies: Moody's Investor Services, Standard & Poor's, and Fitch Ratings. In a recent rating evaluation, Standard & Poor's outlined that Sedgwick County's management is "very strong, with 'strong' financial management policies and practices…indicating financial practices are strong, well embedded, and likely sustainable."

Bond Ratings	
Rating Agency	**Rating**
Standard & Poor's	AAA
Moody's	Aaa
Fitch	AA+

As older issues mature, anticipated debt expenses decrease; however, in 2019, the County will repay the balance of a 2009 issue, approximately $3.1 million, which is anticipated to save more than $0.7 million in interest costs through 2029.

The debt service calculations in the financial plan include the projects listed within the Capital Improvement section of the budget book.

Transfers to Other Funds



Within statutory limitations, the County is allowed to transfer funding from property-tax-supported funds to other funds to finance equipment purchases, capital improvements, or grant matches. Traditionally, transfers to other funds are relatively consistent from one year to the next with the exception of transfers for capital improvement projects and transfers for one-time equipment and software purchases to the Equipment Reserve Fund.

Recurring annual transfers to other funds include the following:

- $1,597,566 annually in collected retail sales and use tax revenues from the General Fund to the Bond & Interest Fund to mitigate the cost of debt service on road and bridge projects
- Approximately $14.2 million to $16.6 million annually in collected retail sales and use tax revenues from the General Fund to the Sales Tax Road and Bridge Fund for related capital projects
- Approximately $1.0 million annually from the General Fund to the Risk Management Fund
- Annual transfers of varying amounts for cash-funded capital projects as included in the Capital Improvement Plan (CIP)

As outlined in the adjacent table, significant changes in transfers from one year to the next are largely related to cash-funded capital projects included in the County's CIP.

Primary Recurring Transfers - General Fund

	Sales Tax To LST Road & Bridge Fund	Sales Tax To Bond & Interest Fund	Other Cash Funded Capital Projects	General Fund to Risk Mgmt.
• 2015	12,626,213	1,597,566	2,283,472	1,381,960
• 2016	12,774,437	1,597,566	11,807,593	698,470
• 2017 Proj.	13,027,827	1,597,566	10,478,853	938,728
• 2018 Proj.	13,325,688	1,597,566	1,980,804	1,281,004
• 2019 Proj.	13,670,156	1,597,566	1,161,384	1,158,090
• 2020 Proj.	14,063,801	1,597,566	1,844,245	1,377,999
• 2021 Proj.	14,509,659	1,597,566	1,713,755	1,219,553
• 2022 Proj.	14,968,475	1,597,566	1,028,704	1,489,457

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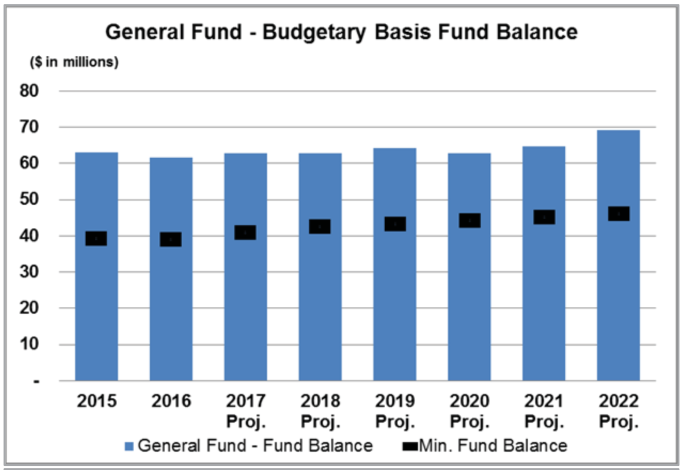
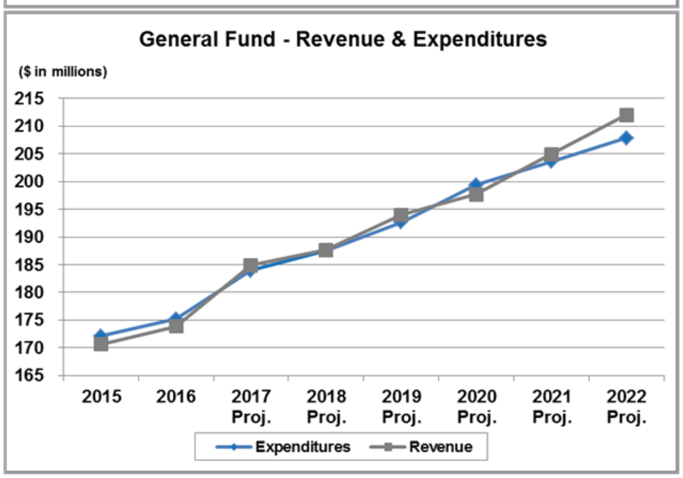
Summary by Fund

The following section will provide a brief discussion of each property-tax-supported fund included in the forecast, outline current and future fund balance projections, and discuss major fiscal challenges anticipated to impact the fund over the planning period.

General Fund





The General Fund is the County's primary operating fund and accounts for County services that do not have a designated fund of their own. The General Fund includes most general government and law enforcement functions and receives the broadest variety of revenues. Currently, the General Fund provides funding for the operations of 42 divisions.

The County's fund balance policy requires the General Fund to maintain a minimum balance equal to 20 percent of the adopted budget. As shown in the table above, the fund has built a balance exceeding this amount, which is projected to continue throughout the forecast.

In addition to the compensation adjustments and standard increases in the costs of doing business that impact all funds, current projections estimate significant one-time costs in the County General Fund in 2018:

- A 3.6 percent increase in employer contributions for health insurance premiums
- Addition of 2.0 FTE positions to Stream Maintenance's staffing table, along with mid-sized equipment, to increase the amount of stream cleaning work performed to address flooding concerns
- Additional Elections funding for new polling locations and increased gubernatorial election costs
- Additional funding for capital improvement projects at the Zoo based on a new five-year funding plan
- $0.2 million for other County facility capital improvement projects
- $0.5 million for the Wichita-Valley Center Flood Control drainage project

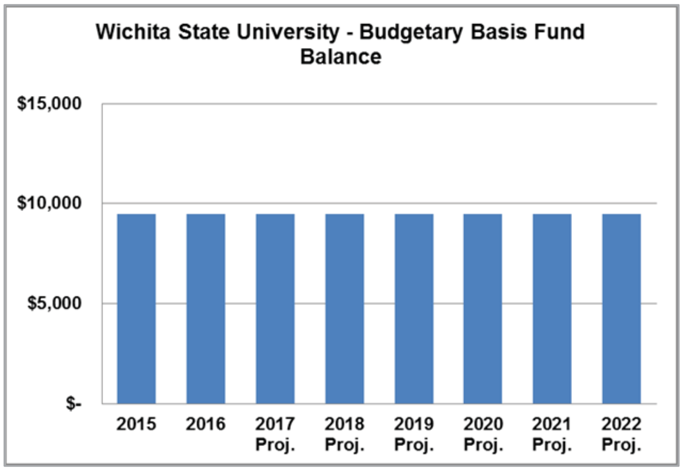
After the significant increase in 2017 due to new revenue received from the result of the merged County-City of Wichita code operations, revenue growth is estimated to be fairly moderated as the result of the gradual phase-out of the mortgage registration fee by 2019, which was referenced earlier in this section. This reduction will be offset somewhat by increased per-page filing fees.

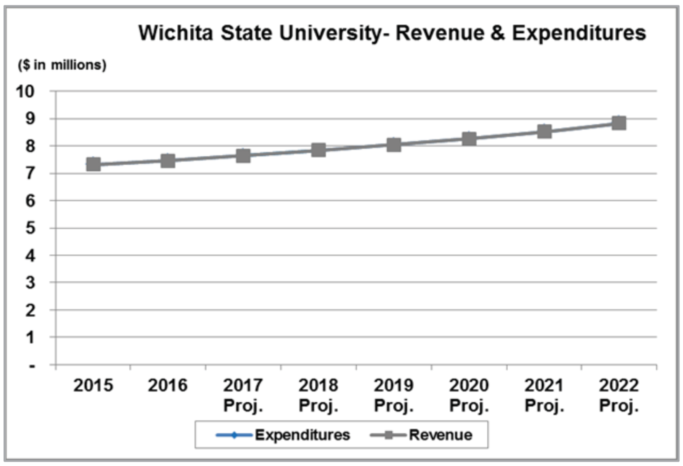
Major fiscal challenges:

- Diminished revenues due to State of Kansas actions, including 2014 legislation that began the phase-out of the mortgage registration fee, a key revenue for the General Fund
- Impact of slowly improving economic conditions on various key revenues, such as property taxes, retail sales tax, and investment income
- Maintaining services and/or service levels as the availability of funding remains limited due to the economic environment
- Limitations in the ability to address unplanned, emergency funding needs when they arise as fund balance is used

This Fund is discussed more fully in the "County General Fund Forecast" section of this document.

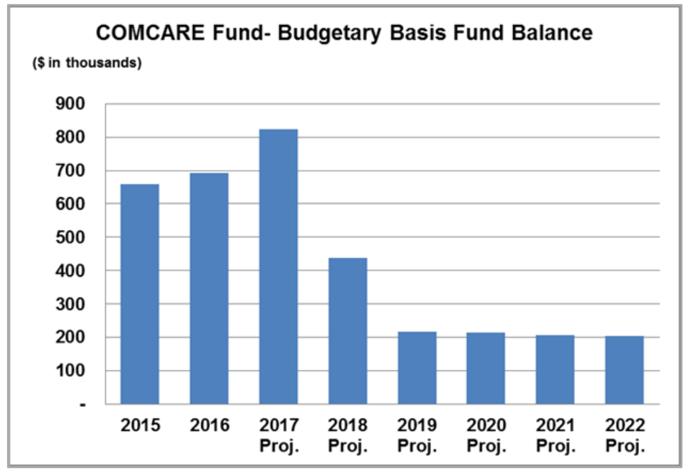
Wichita State University Fund

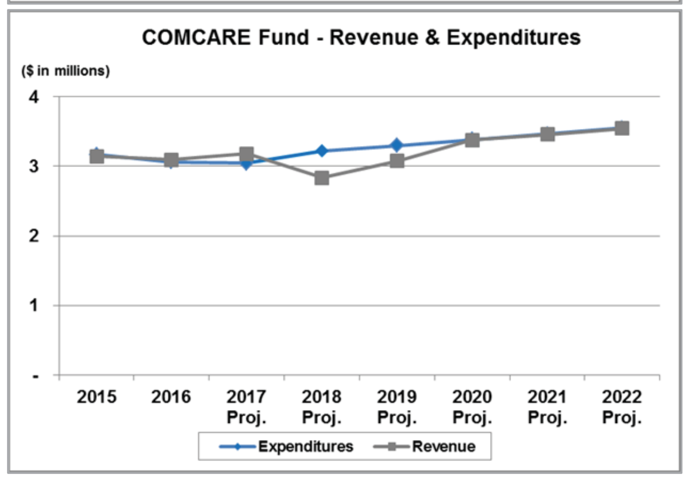




In June 1987, the Board of County Commissioners and the Wichita City Council approved an inter-local agreement in which the City agreed to stop levying its 1.5 mill property tax and the County created a County-wide levy of an equal amount. Increases in projected revenues and expenses are related to anticipated growth in assessed value and motor vehicle tax collections.

COMCARE Fund

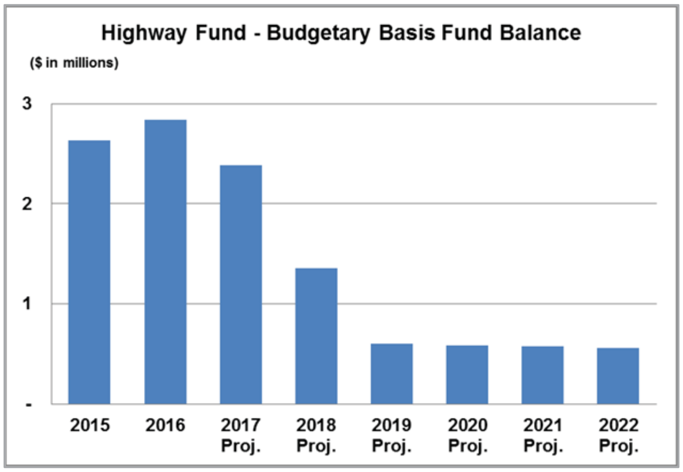


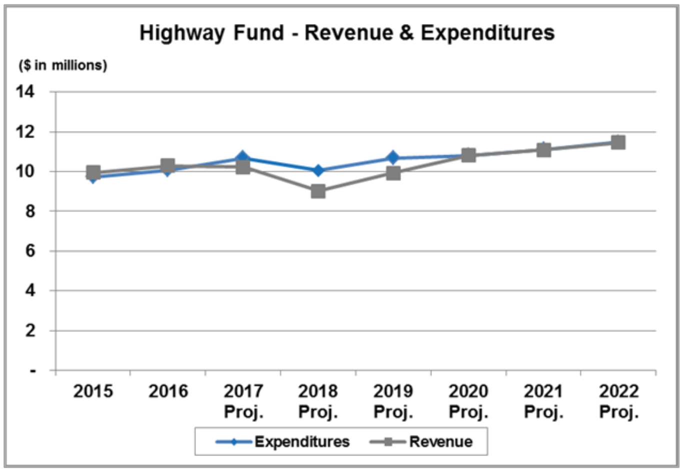


Comprehensive Community Care (COMCARE) provides mental health services and substance abuse treatment to adults, families, and children. COMCARE has existed as a community mental health center (CMHC) since 1962. In 1990, the Legislature enacted the Mental Health Reform Act to shift funding for mental health services from State hospitals to community providers. This Fund supports the majority of administrative costs related to the delivery of mental health services, while a separate grant fund supports the majority of direct services.

Based on the activities in this Fund, targeted fund balance by the end of the forecast period is $0.2 million. A strategic draw-down will occur over the years, after a one-time spike in fund balance in 2017 related to an organizational redesign, which resulted in a portion of a high-level positon in the COMCARE Tax Fund shifting to the County General Fund. However, the timing of the position movement prevented an adjustment of General Fund and COMCARE property tax levies for the 2017 budget, so significant savings are anticipated in the Fund in 2017.

Highway Fund

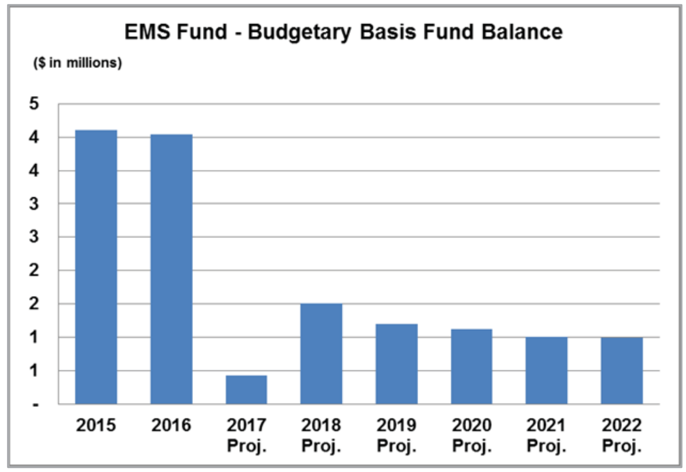


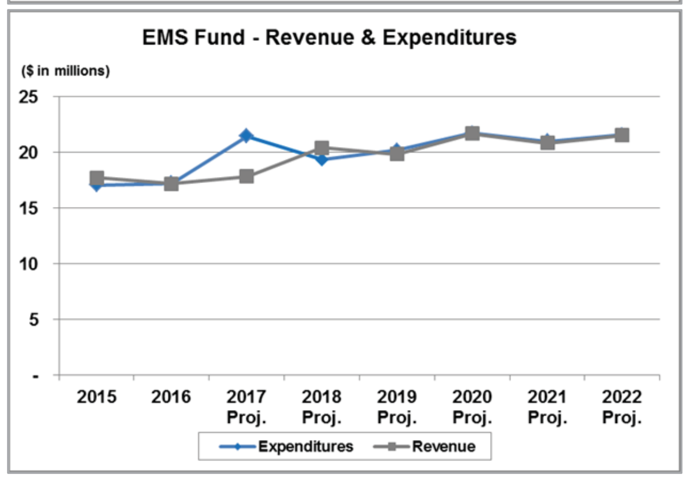


The Highway Division is financed through the Highway Fund to construct and maintain the County's roads, bridges, and intersections. The Fund is primarily supported through a property tax levy and revenue from the State's Special City/County Highway Fund. Projections for 2017 include the use of Highway Fund fund balance to support $1.0 million in road and bridge capital project costs. Estimated expenses return to more typical levels in the outer years of the forecast.

Based on the activities in this Fund, its targeted fund balance by the end of the forecast period is $0.5 million.

Emergency Medical Services Fund





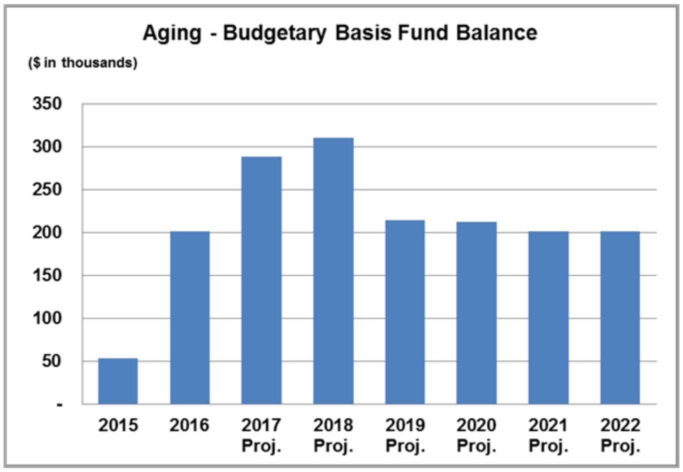
Emergency Medical Services (EMS) was created in 1974 per a City/County agreement to provide emergency response and scheduled ambulatory transfers. Prior to 1974, a private provider delivered EMS services to the community.

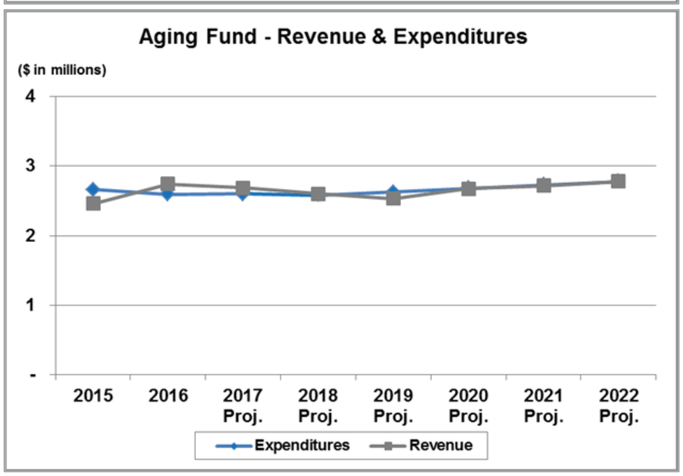
Significant one-time expenditure projections in the EMS Fund forecast include $1.5 million to fund a new northeast post and $1.4 million to fund a new southeast EMS post in 2017, along with $1.0 million to fund a new west post, $1.0 million to replace Post 1, and $0.7 million to fund a new ambulance garage in 2021. The forecast also includes new recurring costs, including the addition of 8.0 FTE new positions in 2017.

Revenue projections include approximately $0.4 million in additional revenue beginning in 2017 related to a new emergency department in southeast Sedgwick County.

Based on the activities in this Fund, its targeted fund balance by the end of the forecast period is $1.0 million.

Aging Fund

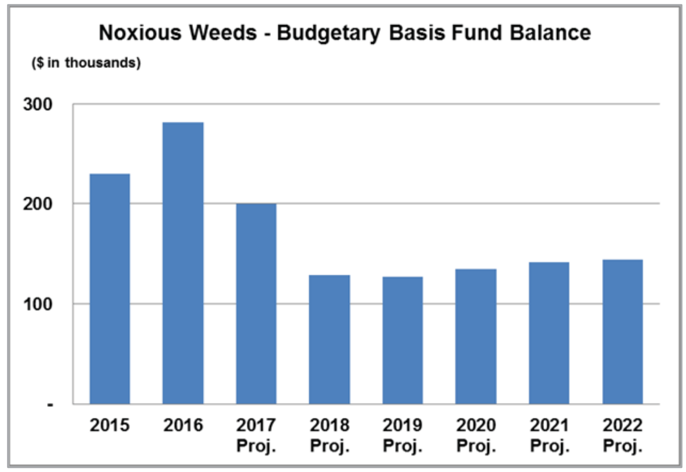


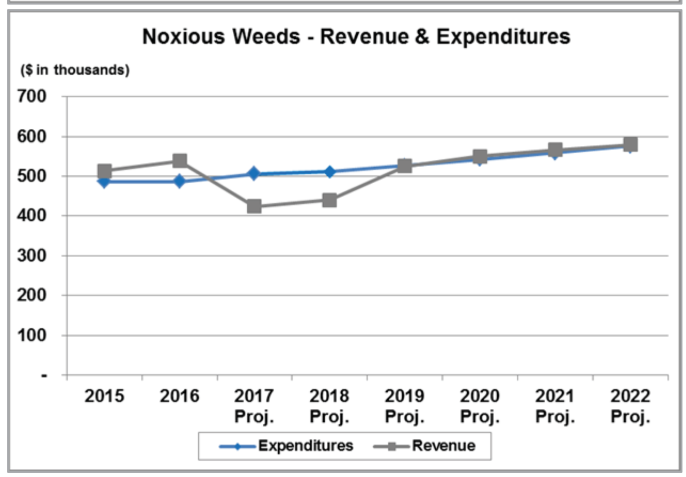


The Division on Aging was created in 1980 to serve older citizens of the County and advocate independence and quality of life. This Fund supports the majority of administrative costs and a variety of direct services, such as funding to local senior centers. The Division also operates within a grant fund in which direct services are also funded.

Based on the activities in this Fund, its targeted fund balance by the end of the forecast period is $0.2 million.

Noxious Weeds Fund

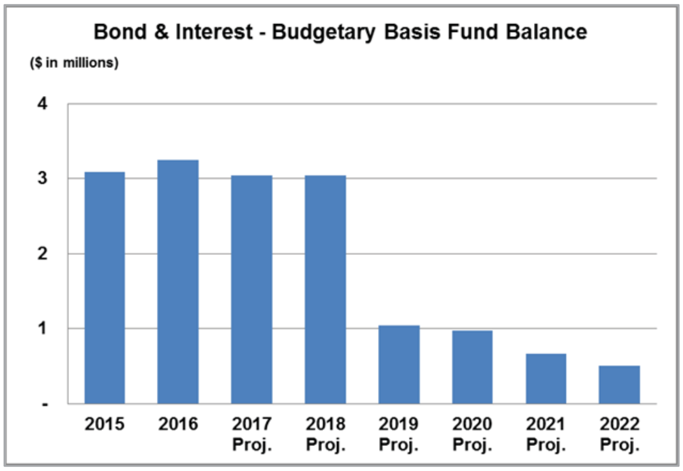


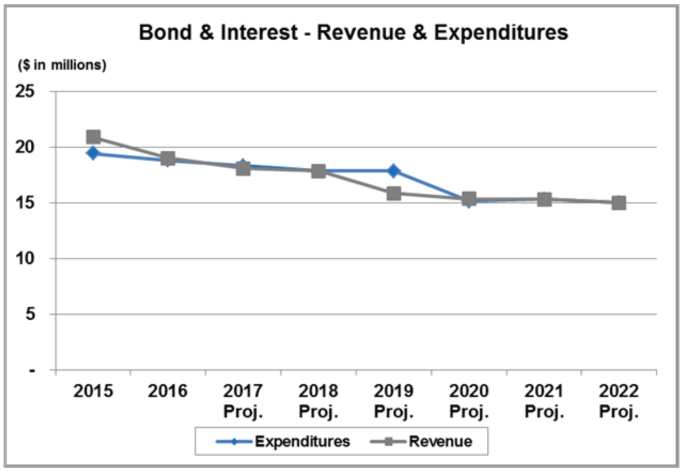


The Noxious Weeds Division was established to eradicate and control noxious weeds as required by K.S.A. 2-1318.

Based on the activities in this Fund, its targeted fund balance by the end of the forecast period is $0.1 million.

Bond & Interest Fund





The Bond & Interest Fund provides for the retirement of the County's general obligation bonds. Each year, the County levies taxes, together with special assessments credited to the Fund, which are sufficient to pay the principal and interest payment due throughout the year.

The 2018-2022 Capital Improvement Program includes projects supported with debt in all five years, to include significant facility projects like a County administrative building, remodeling of space in the main Courthouse to accommodate public safety agency needs, an Elections building, EMS posts, and large road/bridge projects. As older issues mature, anticipated debt expenses decrease; however, in 2019, the County will repay the balance of a 2009 issue, approximately $3.1 million, using a significant portion of the Fund's fund balance that year. The repayment is anticipated to save more than $0.7 million in interest costs through 2029.

Based on the activities in this Fund, its targeted fund balance by the end of the forecast period is $0.5 million.

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Financial Forecast 2014 - 2022

Modified Accrual Basis

All County Property Tax Supported Funds

#		Actual 2014	Actual 2015	Actual 2016	Estimates 2017	Estimates 2018	Estimates 2019	Estimates 2020	Estimates 2021	Estimates 2022
1	***Beginning Fund Balance***	70,436,061	73,172,680	73,798,667	73,165,300	**70,010,500**	69,649,795	67,687,791	66,146,239	67,511,237
2	**Operating Revenue**									
3	**Taxes**	170,943,094	173,537,467	175,944,036	179,948,945	**184,718,473**	189,300,451	194,476,939	200,684,949	207,558,833
4	Current property taxes	121,394,370	123,060,228	124,991,359	128,312,014	132,722,129	135,919,755	139,562,728	144,078,366	149,175,393
5	Back property taxes & warrants	2,935,655	3,041,703	2,688,433	2,678,761	2,506,070	2,380,343	2,260,881	2,147,370	2,039,512
6	Special assessment property taxes	1,617,407	1,108,008	918,786	800,536	920,616	1,058,709	1,217,515	1,400,142	1,610,164
7	Motor vehicle taxes	17,055,204	17,617,142	18,220,476	18,608,435	19,460,705	20,140,359	20,843,801	21,571,863	22,325,408
8	Local retail sales tax	24,809,200	25,515,096	25,719,209	26,104,997	26,574,887	27,132,960	27,784,151	28,534,323	29,304,750
9	Local use tax	2,743,805	2,932,462	3,024,796	3,145,788	3,271,620	3,402,485	3,538,584	3,680,127	3,827,332
10	Other taxes	387,453	262,829	380,976	298,413	304,381	310,469	316,678	323,012	329,472
11	**Intergovernmental**	8,101,655	7,159,737	8,103,556	6,899,967	**6,169,091**	6,448,926	6,511,481	6,579,628	6,649,604
12	**Charges for service**	31,925,295	33,015,934	32,227,801	33,095,742	**34,259,608**	33,575,991	34,386,804	35,220,432	36,078,526
13	**Reimbursements**	5,618,700	5,189,745	5,130,018	5,362,457	**5,262,354**	5,439,161	5,622,084	5,811,334	6,007,132
14	**Use of money and property**	4,763,874	4,619,663	4,712,540	5,047,381	**5,143,326**	5,253,389	5,366,605	5,483,076	5,602,911
15	**Other revenues**	4,737,070	5,376,248	3,880,294	10,108,681	**10,029,747**	10,210,203	10,393,957	10,581,307	10,772,329
16	**Transfers from other funds**	3,824,009	3,731,089	4,170,178	4,565,746	**3,101,724**	3,688,161	3,659,213	3,284,440	3,179,945
17	***Total Revenue***	229,913,696	232,629,883	234,168,422	245,028,919	**248,684,323**	253,916,282	260,417,083	267,645,165	275,849,280
18	**Operating Expenditures**									
19	**Personnel and benefits**	122,615,343	125,438,007	125,982,852	132,426,136	**137,729,017**	142,300,261	146,785,278	150,776,802	155,351,480
20	**Contractual services**	57,120,211	59,960,036	54,205,681	59,333,315	**62,416,757**	64,126,536	66,287,832	69,673,560	70,216,913
21	**Debt service**	20,125,588	19,459,126	19,219,080	18,297,206	**17,867,904**	17,863,598	15,157,589	15,315,528	14,999,277
22	**Commodities**	6,915,662	6,718,427	7,113,088	8,618,631	**7,377,782**	7,445,665	7,788,744	7,927,524	8,544,629
23	**Capital improvements**	7,268	1,462	21,977	14,551	**10,309**	10,475	10,644	10,817	10,993
24	**Capital outlay > $10,000**	154,165	301,440	380,752	329,178	**608,697**	1,805,562	2,453,721	99,107	102,080
25	**Transfers to other funds**	20,238,814	20,130,864	28,011,018	29,164,701	**23,034,563**	22,326,190	23,474,827	22,476,828	22,340,541
26	***Total Expenditures***	227,177,051	232,009,364	234,934,449	248,183,719	**249,045,028**	255,878,287	261,958,635	266,280,167	271,565,914
27	***Operating Income***	2,736,645	620,519	(766,026)	(3,154,800)	(360,705)	(1,962,005)	(1,541,552)	1,364,999	4,283,366
28	***Ending Fund Balance***	73,810,807	74,431,326	73,165,300	70,010,500	**69,649,795**	67,687,791	66,146,239	67,511,237	71,794,603
29	**Assessed valuation**	4,301,084,880	4,348,562,089	4,410,040,706	4,531,486,166	4,675,741,600	4,792,635,140	4,919,639,971	5,077,068,450	5,254,765,846
30	***Assessed valuation % chg.***	0.50%	1.10%	1.41%	2.75%	3.18%	2.50%	2.65%	3.20%	3.50%
31	**Mill levy**	29.377	29.478	29.383	29.393	29.393	29.359	29.359	29.359	29.359
32	***Mill levy change***	(0.069)	0.101	(0.095)	0.010	0.000	(0.034)	0.000	0.000	0.000

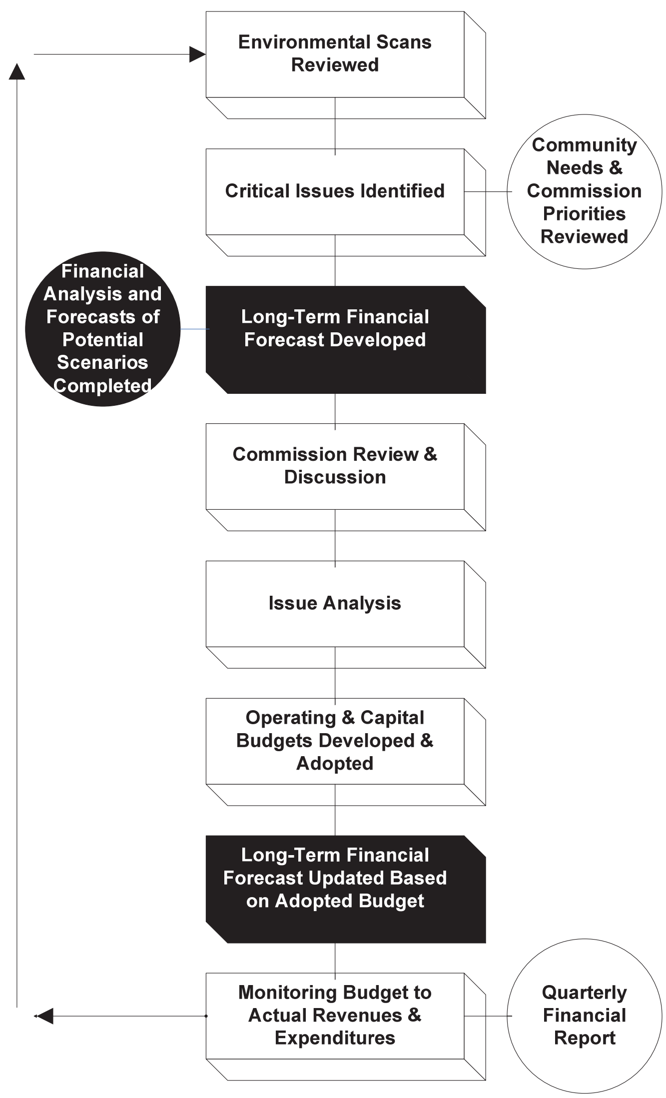
Sedgwick County
General Fund Financial Forecast

For the Period of 2017 - 2022

Introduction

Sedgwick County prepares an annual long-term financial forecast as a fundamental element of the budget process. The purpose of the forecast is to evaluate current and future fiscal conditions to guide policy and program decisions. A financial forecast is a fiscal management tool that presents estimated information based on current and projected financial conditions to identify future revenue and expenditure trends that may have an immediate or long-term influence on County policies, strategic goals, or services. The forecast assists in the formation of decisions that exercise fiscal discipline and deliver essential community services as an integral part of the annual budgeting process.

Financial Forecast and the Budget Process



Financial Forecast vs. Budget

The long-term financial forecast should be distinguished from the annual budget, as the forecast projects expected revenues and expenditures for the current year and five years into the future, while the budget sets the maximum amount of spending for one year. Additionally, the budget typically includes contingencies to provide additional budget authority beyond the amount allocated to an individual division for unanticipated uses. For 2018, General Fund contingencies are nearly $19.1 million. While budgeted, these contingencies typically are not anticipated to be spent in the forecast. To illustrate the difference: the total expenditure budget for the County General Fund is $209,227,480 in 2018. However, the financial forecast projects actual expenses of $187,603,235, a difference of more than $21.6 million. Almost all of the difference can be attributed to the nearly $19.1 million in budgeted contingencies.

The revenue and expenditure estimates included in this financial forecast section pertain only to the County's General Fund. All information is presented on a budgetary basis unless otherwise indicated.

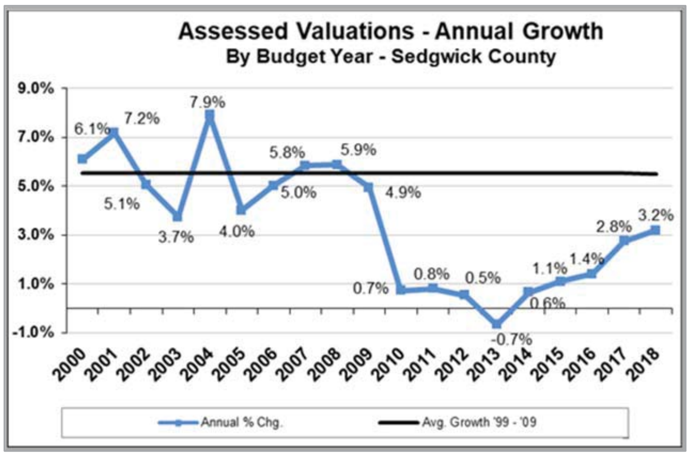
Forecasting Methodology

The estimates included in the forecast are formulated through the use of quantitative and qualitative methods. Quantitatively, historical revenues and expenditures were analyzed primarily through trend analysis and percentage growth patterns. In addition, national, state, and local economic conditions were evaluated to determine what impact they may have on the County's ability to generate specific types of revenue. Qualitatively, the forecast draws upon the experience and knowledge of finance staff, along with input from division managers, to outline the most likely results.

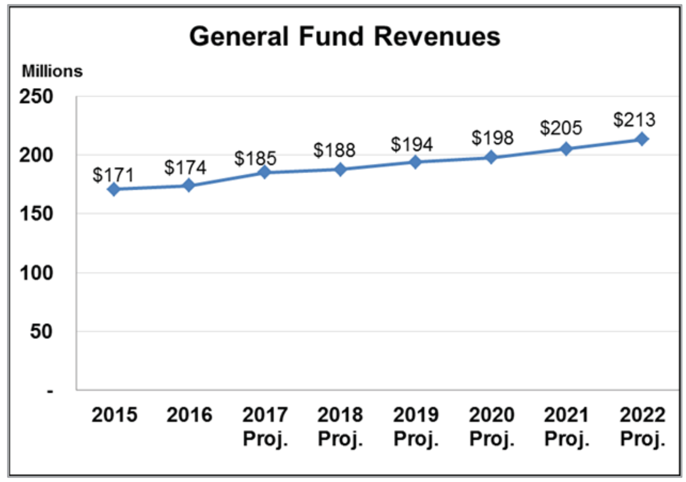
Whenever forecasts are done, even a local weather forecast, one often loses sight that they are performed based on the most recently available variables. For the financial forecast, these variables include economic data through October 2017, along with the changes included in the 2018 budget. Unfortunately, financial variables are constantly changing. The County's forecast is subject to unforeseen and uncontrollable national, state, and local events, in addition to the timing of large capital projects and operational decisions that may make the forecast less accurate.

Executive Summary

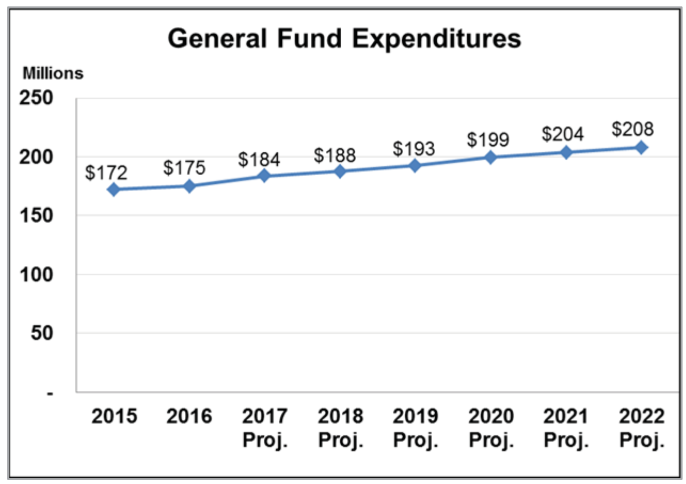
Similar to other state and local governments, Sedgwick County government remains challenged by modest revenue growth, though reports in a few areas point to gradual improvement in the local financial condition. Property taxes, which comprise more than 50 percent of revenues in the General Fund, are largely dependent on growth in the property tax base. From 2010 through 2012, valuations driving property tax, called assessed value, experienced less than one percent growth. Then, for the first time in 20 years, assessed values for the 2013 budget experienced a negative assessment of 0.7 percent. Growth has steadily returned since 2014, with assessed valuation growth of 3.2 percent in the 2018 budget. The table below illustrates changes in Sedgwick County's assessed valuation since 2000.



In 2016, property taxes made up 55 percent of revenues received in the General Fund. Another 33 percent of the revenues received in the General Fund in 2016 came from six key revenue sources, which are highlighted later in this section. These key revenues also are beginning to returning to levels seen just before the Great Recession began in 2008. As shown in the table in the next column, projections outline moderate growth in 2017, with slightly stronger revenue growth in the outer years of the forecast as property valuations slowly improve. However, the Kansas Legislature's decision during the 2014 legislative session to phase out the mortgage registration fee by 2019 has a significant impact on the long-term forecast.



As a result of revenue declines following the Great Recession and modest revenue growth in the financial forecast, along with reduced revenue from the mortgage registration fee due to 2014 legislative action, the County has made great efforts to control expenditures to maintain fiscal integrity.



Since the economic downtown, the County has been responsive to the financial challenges outlined in the financial forecast to not only maintain a positive balance in the General Fund, but to ensure adherence to the County's minimum fund balance policy, which calls for a minimum unrestricted balance of 20 percent of budgeted expenditures and transfers out.

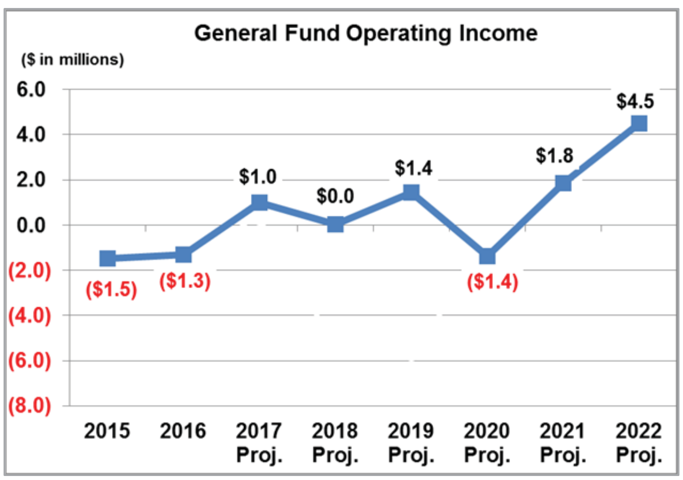
Prior to the national recession, Sedgwick County proactively implemented an initiative to increase its fund balances during the good times to weather significant economic downturns later through a "General Fund reserve". Despite the Great Recession, the County added to the General Fund fund balance in 2012 through 2014, but incurred a $1.5 million deficit in 2015 related to a one-time capital improvement project at the Sedgwick

County Zoo of $5.3 million, and a $1.3 million deficit in 2016, which is the result of an intentional use of fund balance to fund one-time projects.

Because of the challenging revenue environment and flat expenditure growth over an extended period, Sedgwick County has experienced significant changes in both the services it delivers and how those services are delivered. The County continues to work through the current environment to achieve the principles identified by the County Manager:

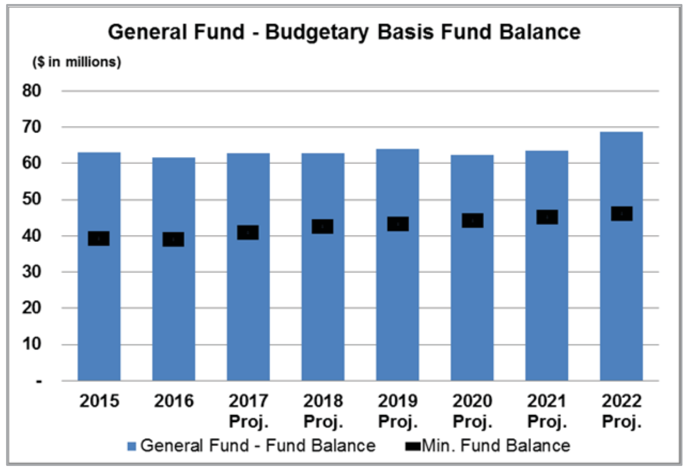
- Continued emphasis on core services;
- Reduce government funding to services that can be provided by non-governmental entities or through private sector or other funding support;
- Reduce debt and reliance on bonding; and
- Maintain the mill levy tax rate at the 2010 level

The table below outlines projected operating results in each year of the forecast. Current projections outline modest surpluses in all years except 2020, largely due to one-time capital improvement projects and radio system replacements for multiple divisions. As illustrated in the table in the next column, the General Fund ending balance is projected to remain above the minimum policy requirement in all years.



Significant one-time expenses in 2015 and 2016 caused operating deficits in those years. For example, in 2016, transfers from the General Fund funded over $6.0 million in capital improvement projects, including $2.1 million for the completion of the Ronald Reagan Building remodel, which will house the Metropolitan Area Building & Construction Division, the Metropolitan Area Planning Department, the Sedgwick County Appraiser, the Division on Aging, and COMCARE Administration; $2.7 million for a law enforcement training facility for the Sheriff, along with additional funding from other sources.

The 2018-2022 Capital Improvement Program (CIP) includes projects supported with a mix of cash and debt in all five years, to include significant facility projects like a County administrative building, remodeling of space in the main Courthouse to accommodate public safety agency needs, and an Elections building. The planned targeted bonding in the CIP reduces the expenses in the General Fund, resulting in modest surpluses and a change from the projections in the 2017 budget where bonding was not included and deficits were projected in each year through 2021.



As outlined previously, the organizaton's strategic efforts are significantly influenced by the forecast. The forecast is a valuable planning tool that is used to ensure the long-term continuity of essential services. Due to the County's previous actions to develop a "General Fund reserve", the County has been able to make strategic decisions regarding how and when to make service changes to minimize the impact on community services. With the extended recovery, the sustainability of the County is placed at risk if existing operations are not monitored and adjusted to address current economic conditions and revenue collections that appear to be slowly rebounding.

Over the planning horizon of the financial forecast, the County will continue to confront a variety of challenges. In addition to challenges from an uncertain economy, actions at the Federal and State levels continue to cause concern to County management. These challenges will require the County to continue to concentrate on a variety of core financial guidelines, as outlined in the following section.

- **Revenue Core Guidelines**
  - Maintain the mill levy rate imposed on properties in Sedgwick County at the 2010 level
  - Maintain a diversified revenue base, which requires diligence. Adjust current fees when appropriate
  - Effective governance is the result of effective partnerships. County services mandated by another government should be funded by that government

- **Expenditure Core Guidelines**
  - Concentrate public services on those strategic priorities identified in the new strategic plan
  - Reduce government funding to services that can be provided by non-governmental entities or through private sector or other funding support
  - Reduce debt and reliance on bonding
  - Seek innovative programs for delivering public services beyond current operating standards
  - Educate State legislators on the impact of new and pending State mandates

■ Minimum Fund Balance Requirement

When determining the appropriate level of fund balance and evaluating the use of fund balance, Sedgwick County adheres to standards set by the Governmental Accounting Standards Board (GASB). In 2010, GASB updated its fund balance reporting standards through a document called Statement No. 54. The standard establishes six different categories of fund balance to provide clear and consistent classifications: non-spendable, restricted, committed, assigned, unassigned, and unrestricted. Classifications are based on the strength of limitations and the extent to which the government is bound to honor such limitations.

When the County evaluates its General Fund fund balance in the context of the GASB standards, it does so on an accounting basis referred to as the Generally Accepted Accounting Principles (GAAP), rather than the budgetary basis used in budget materials.

On a GAAP basis, the County must account for more than just revenues received by the County's General Fund; it also must take into account assets in terms of cash, accounts receivable, inventories, and amounts due from other funds. It must account for more than just payroll and costs paid to vendors; it also must take into account all liabilities, including accounts payable and unearned revenues. This is done by classifying six types of fund balance:

- Nonspendable: amounts not in spendable form (i.e., inventories, prepaid amounts, long-term amounts for loans, and notes receivable), or legally or contractually required to be maintained
- Restricted: constrained by creditors, grantors, and contributors, through constitution or legislation. Such limitations are externally enforceable by constitution or legislation.
- Assigned: used for specific purposes which do not meet the criteria of restricted or committed. Limitations are self-imposed by government or management.
- Committed: used for specific purposes. Limitations are self-imposed and determined by formal action of the BOCC. Restrictions are removed in the same manner in which formal action was taken.
- Unassigned: excess portion of fund balance over nonspendable, restricted, committed, and assigned fund balances.
- Unrestricted: combined balances of committed, assigned, and unassigned fund balances

The County's Board of County Commissioners (BOCC) adopted a revised minimum fund balance policy in 2011. The policy outlines that, "County finances will be managed so as to maintain balances of the various funds at levels sufficient to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures, ensure stable tax rates, and protect the County's creditworthiness."

The policy further states that the County's General Fund will be managed to maintain a minimum unrestricted fund balance equal to at least 20 percent of budget annual expenditures and transfers out. If fund balance exceeds the minimum requirement at the end of a fiscal year, the policy outlines how the excess may be used:

- Appropriated in the following budget cycle to lower the amount of bonds needed to fund capital projects in the County's Capital Improvement Program.
- Appropriated in the following budget cycle to fund the County's expected liabilities in risk management and workers compensation.
- Appropriated in the following budget cycle as one-time expenditures that do not increase recurring operating costs that cannot be funded through current revenues. Emphasis will be placed on one-time uses that reduce future operating costs.
- Appropriated in the following budget cycle to increase reserves for equipment replacement.
- Start-up expenditures for new programs, provided that such action is approved by the Board of County Commissioners and is considered in the context of multi-year projections of revenue and expenditures as prepared by the Finance Division.

At the beginning of the 2018 budget development process in January 2017, the General Fund's unrestricted fund balance was $54,030,792 on a GAAP basis. Based on the policy outlined above, the minimum required in 2017 is $39,101,235, resulting in excess, "spendable" fund balance of $14.9 million. To compare, on a budgetary basis, the fund balance was $62,556,586 in January 2017.

Based on 2017 activity, revenues are estimated to exceed expenditures by $1.0 million at year-end, which would result in an unrestricted fund balance of $55.0 million to start 2018, $15.9 million more than the minimum required by policy. This surplus is primarily due to the timing of payments for Sheriff prisoner housing/care fees ($0.5 million), and an increase in the Heritage Trust Fund fees in the Register of Deeds Office ($0.3 million).

Financial management actions the County has taken in the 2018 budget to reach the BOCC's stated intention to not have a deficit in the General Fund has resulted in a modest projected operating surplus of approximately $24,000 in the County General Fund's financial forecast.

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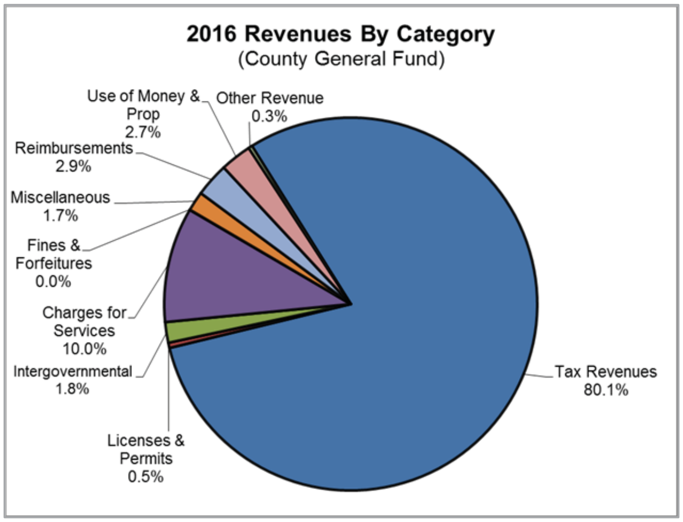
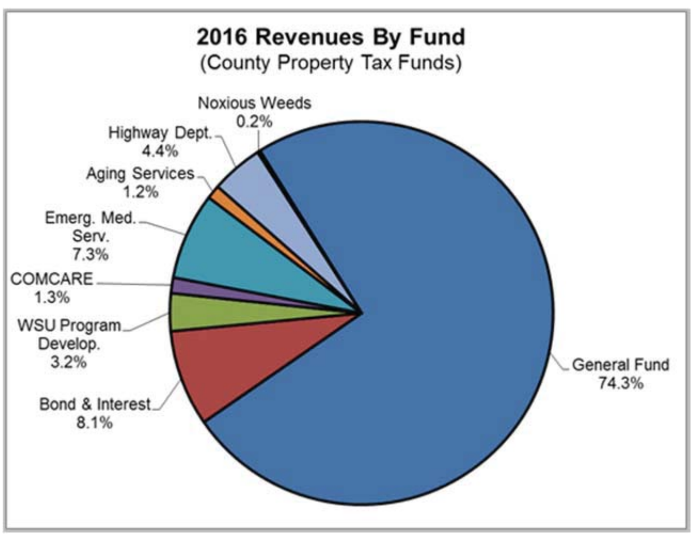
Revenues & Transfers In

Sedgwick County's revenue structure for the General Fund groups the revenues into seven primary revenue categories, with aggregate tax collections as the largest revenue source, followed by charges for service, reimbursements, and uses of money and property. These revenue categories are shown in the chart below. In 2016, a total of $173,894,066 in revenue and transfers in was received in the General Fund, with 80 percent collected from multiple tax sources. These actual results are the baseline from which financial estimates in the financial forecast are made.



Of the funds receiving property tax support, the largest is the General Fund, with 74 percent of total revenue collections in 2016. Revenues by fund are outlined in the chart below.



Specific Revenue Projections in the Financial Forecast

Of the total revenue collections and transfers from other funds in the General Fund, about 86 percent is collected through seven distinct revenue sources. The following discussion on revenue projections included in the financial forecast will concentrate on these key revenues, which are listed in the table below.

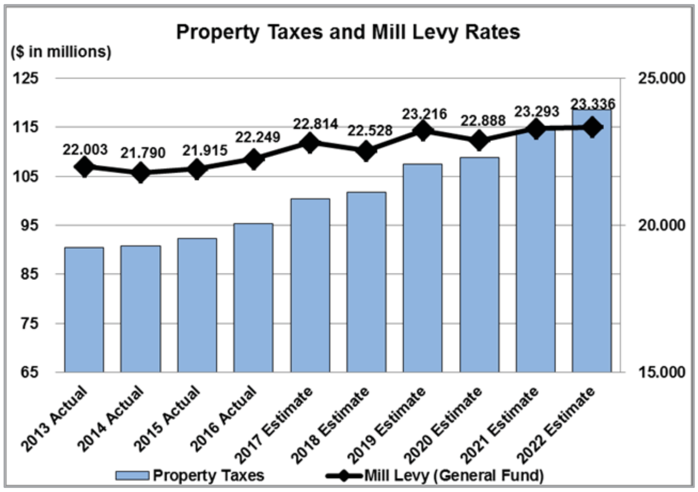
Key Revenues
County General Fund

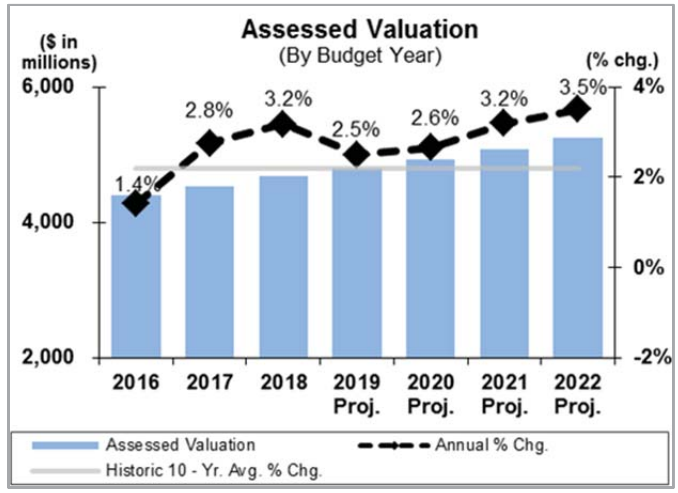
	2016	2017	2018	% of Total
Total Revenues & Transfers In	$ 173,894,066	$ 184,921,786	$ 187,627,504	100%
Current property taxes	$ 94,623,180	$ 99,584,443	$ 100,913,312	54%
Local sales & use tax	28,744,006	29,250,786	29,846,507	16%
Motor vehicle tax	13,546,562	14,099,797	15,099,935	8%
Administrative reimbursements	4,754,562	5,050,151	4,967,366	3%
Mortgage reg. & officer fees	6,831,259	6,201,387	5,032,990	3%
Prisoner housing fees	3,823,397	4,122,529	4,245,571	2%
Investment income	1,838,325	2,101,188	2,163,278	1%
Key Revenues Sub-Total	$ 154,161,291	$ 160,410,281	$ 162,268,959	86%

Though not listed above, an additional revenue stream that likely will become a key revenue is code enforcement licenses and permit fees, as the County took on its role as managing partner of the joint Metropolitan Area Building & Construction Department. As of October 2016, the County began receiving all revenues for both City of Wichita and County code functions, and began reimbursing the City for its continued costs. Current estimates for the additional revenue are at $6.6 million for 2017. This, along with growth in key revenues, accounts for the $11.0 million increase in total revenue projections from 2016 to 2017, shown below.

Property Taxes

Property taxes play a vital role in financing essential public services. Property tax revenues are used to fund services County-wide in the General Fund. This reliable revenue source has no attached mandates as many other State and Federal revenues often do. The table on the next page shows the estimated mill levy rate and property tax levy in the General Fund throughout the forecast. The table reflects the total property tax levy, not just estimated collections, which are shown in the table above. Collections are often significantly less than the levy due to delinquent taxpayers and certain economic development incentives that allow property owners to divert property taxes in a defined area toward an economic development or public improvement project.





The 2018 budget includes a total mill levy rate of 29.393 mills, despite the targeted rate of 29.359 mills which was included in the Recommended Budget. This forecast assumes that the property tax rate will remain unchanged at the targeted level of 29.359 mills over the planning horizon. However, as illustrated in the table above, the mill levy rate assigned to the General Fund will shift as resources are needed across the eight total County property-tax-supported funds.

Projected revenue from property tax collections in this financial plan are based on:

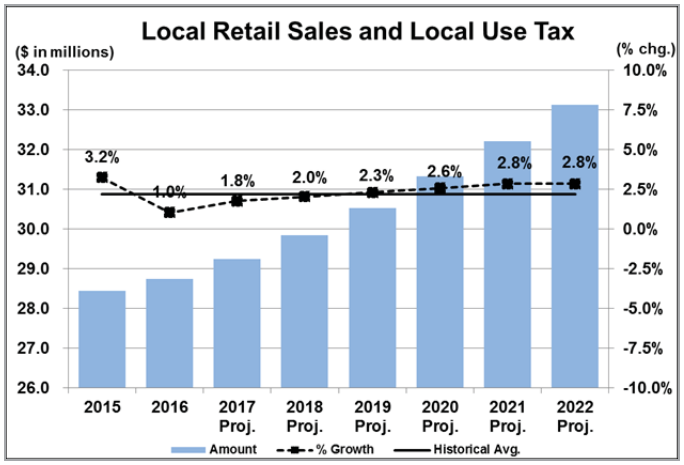
- An assumption that the property tax rate will remain unchanged through the planning period at 29.359 mills, absent technical adjustments. The tax rate to support the 2018 budget is 29.393 mills, after technical adjustments. The intended mill levy rate was 29.359 mills at the time of budget adoption. However, final assessed valuation as of November 1, 2017, was lower than originally estimated in July 2017, and a technical adjustment to the mill levy rate was necessary to generate the amount of property tax needed to fund the 2018 budget.
- Increases or decreases in property tax revenues after 2017 will result from estimated changes in assessed valuations and not changes to the mill levy rate.
- An assumption that collection delinquencies will return to more typical historical levels, after the delinquency rate reached 4.2 percent in 2010.

Over the past 10 years, Sedgwick County's assessed valuation has grown an average of 1.9 percent annually. Like many other jurisdictions, the County experienced strong valuation growth between the years of 2000 to 2009 with an average growth rate of 5.6 percent. That trend changed notably in 2010 when valuation increased by less than a percent. Growth was less than one percent through 2012; then, for the first time in 20 years, assessed valuation decreased for the 2013 budget year. Growth returned at a rate of 0.6 percent in the 2014 budget year, then grew at 1.1 percent for the 2015 budget year, 1.4 percent for the 2016 budget year, 2.8 percent for the 2017 budget year, and the 2018 budget includes growth of 3.2 percent. Estimates for assessed valuation growth in the outer years of the forecast are shown in the table above.

Within the financial forecast, property tax rates among different County property-tax-supported funds can be and are distributed based on the total available resources to achieve the greatest outcomes in service delivery. In some instances, distribution of the total property tax rate is adjusted due to changing operations, one-time projects such as capital improvements, or the availability of unexpected resources. The table below outlines the property tax rate movements estimated within this plan for all County property-tax-supported funds.

Property Tax Rates by Fund (in mills)	2017	2018	2019 Est.	2020 Est.	2021 Est.	2022 Est.
General	22.814	22.528	23.216	22.888	23.293	23.336
Bond & Int.	2.604	2.625	2.010	1.852	1.830	1.702
WSU	1.500	1.500	1.500	1.500	1.500	1.500
Highw ay	1.026	0.780	0.980	1.092	1.084	1.106
EMS	0.277	0.906	0.557	0.874	0.527	0.595
Aging	0.523	0.494	0.469	0.489	0.477	0.473
COMCARE	0.590	0.495	0.547	0.585	0.573	0.570
Noxious Wds	0.059	0.065	0.080	0.079	0.075	0.077
Total	**29.393**	**29.393**	**29.359**	**29.359**	**29.359**	**29.359**

Local Retail Sales and Use Tax



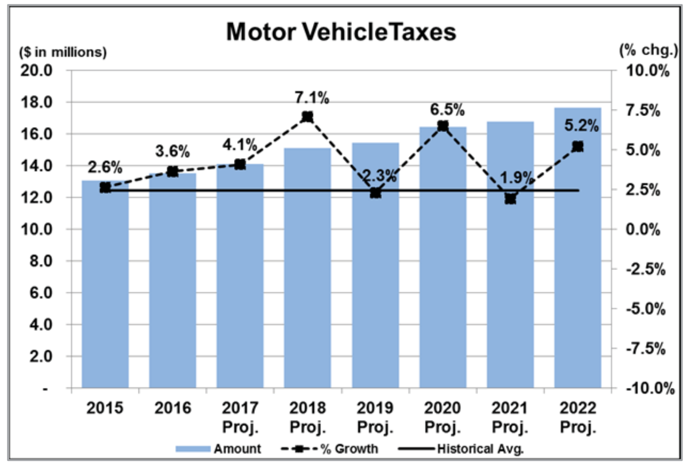
Local retail sales tax is generated from a County-wide one-percent tax on retail sales, imposed pursuant to voter approval in July 1985. Local use tax, per State statute K.S.A. 12-198, is a tax paid on tangible personal property purchased from other states and used, stored, or consumed in Kansas on which no sales tax was paid. Use tax is also applied if a taxable item is relocated to Sedgwick County from another state and that state's sales tax rate is less than the Kansas rate.

Distribution of these revenues to the County and cities is based half on their individual population levels and half on property tax levies per State statute K.S.A 12-187. Sedgwick County receives 28.5 percent of the revenue produced by the County-wide sales tax in its General Fund; the balance is distributed by the State government to the 20 cities located within the county. There are three principal factors that influence the County's collection of local retail sales tax revenue:

- Total taxable retail sales in Sedgwick County
- Population in the unincorporated areas of the County as a percentage of total County population
- The County's property tax levies as a percentage of total taxes levied by all governmental entities

Historically, retail sales and use tax collections have experienced an average growth rate of 1.7 percent over the past 10 years, but averaged 5.7 percent from 2004 to 2008. As a result of economic stress and the County's reduction in its mill levy over three consecutive years, collections declined from a high of $26.8 million in 2008 to $25.7 million in 2012; however, as the economy has improved, revenues in this category have increased. Total revenues of $28.7 million were collected in 2016.

Motor Vehicle Taxes



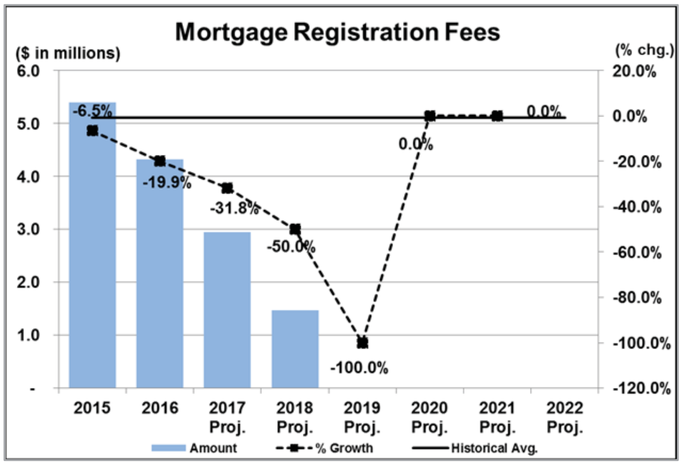
The State statute describing the collection and distribution of Motor Vehicle Taxes is outlined in K.S.A. 79-5101 et seq. Motor vehicles are distinguished by 20 vehicle classes, and then taxed at 20 percent of the class value based on the average County-wide mill levy during the previous year. State statutes define the average county-wide mill levy as the amount of general property taxes levied within the county by the State, county, and all other property taxing subdivisions; and then divided by the county's total assessed valuation.

The 2012 Legislature enacted legislation requiring that an annual commercial vehicle fee be paid in lieu of current property taxes for both interstate and intrastate commercial vehicles registered in Kansas.

Collected taxes are distributed by the County Treasurer to the taxing jurisdictions based on the owner's residency and the ratio of levied taxes by the jurisdiction to the total taxes levied. Once the County's portion is distributed, statute further directs revenues be shared across the eight County property-tax-supported funds based on each fund's mill levy rate for the previous year.

Collections are dependent not only on economic conditions and vehicle sales, but also on the ratio of County property taxes to all of the other property taxing jurisdictions. Previously, motor vehicle taxes have been a consistent and reliable revenue source. However, with the changing economy and impact of past tax reductions it has become more inconsistent. This revenue source reached a historical high of $17.2 million in 2009; however, collections surpassed the historical high in 2016, with $18.2 million received across all funds. Of this amount, $13.5 million is anticipated to be received in the General Fund.

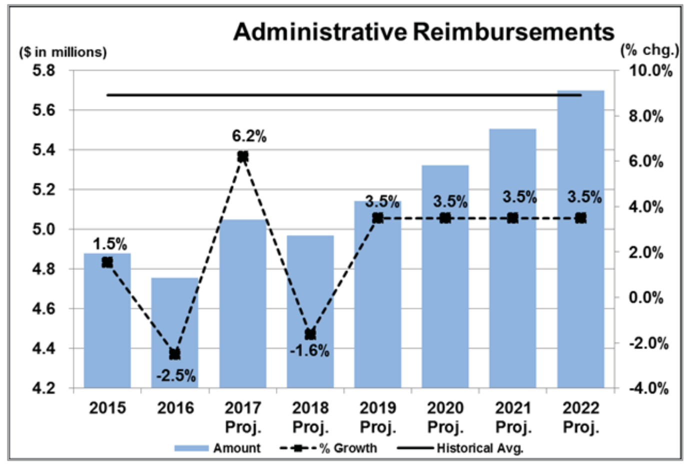
Mortgage Registration Fees



Mortgage registration fees are collected by the Register of Deeds. Mortgage registration fees are established under K.S.A. 79-3102, which set the fee rate at 26 cents per $100 of mortgage principal registered through 2014; the County General Fund received 25 cents. However, legislative action in 2014 began a phase-out of the fee in 2015, with complete elimination by 2019. Additional per-page mortgage filing fees were implemented by that legislative action, recorded as officer fees in the County's financial system. The estimated impact of the reduction is $4.3 million in 2019, when per-page fees of $3.4 million offset projected mortgage registration fee loss of $7.6 million.

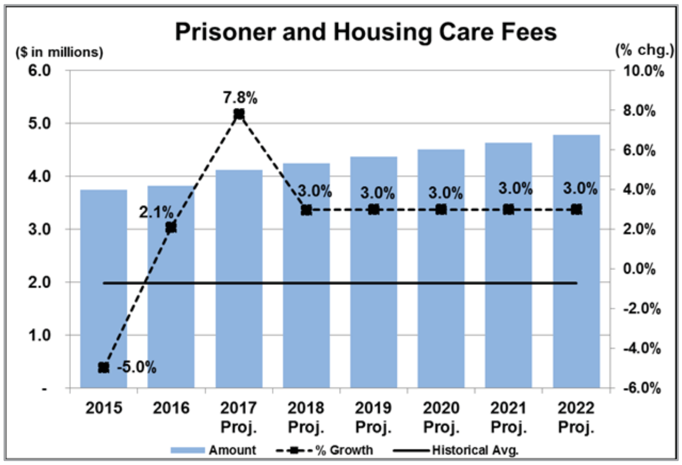
Within this revenue source, collection levels historically have been strongly correlated with the strength of the local real estate and refinancing market. Mortgage registration fees reached a high of $8.7 million in 2003 and generated $5.8 million in 2014, the last year where the fee was at its historic level.

Administrative Reimbursements



Administrative reimbursements to the General Fund are charges that are passed along to divisions operating outside of the General Fund for the indirect support of those operations. Consultants prepare a Cost Allocation Plan annually as a basis for budgeted reimbursements. For the General Fund to receive reimbursement revenue from those funds receiving grants from the Federal government, an annual allocation plan following specific accounting guidelines is required.

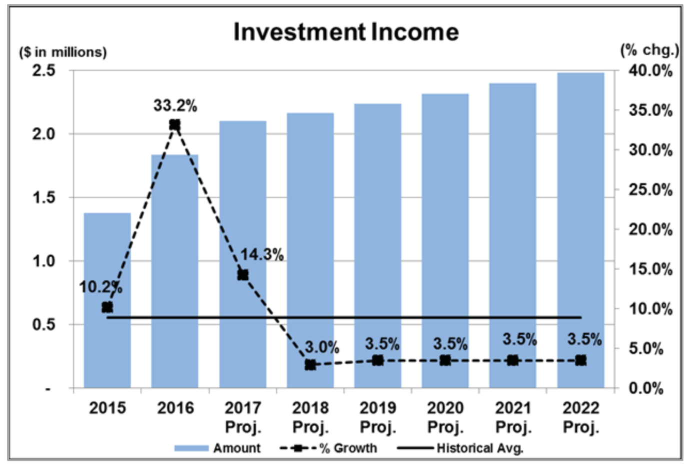
Prisoner Housing and Care Fees



Prisoner housing and care fees are received from Federal, State, and local authorities for housing their prisoners in the Sedgwick County Adult Detention Facility and care in Sedgwick County Correction facilities.

In 2007, the BOCC adopted a municipal housing fee for all cities located within Sedgwick County to mitigate the overcrowding issues in the Adult Detention Facility. Collections began in 2008. Some cities chose not to pay immediately, including the City of Wichita, resulting in litigation. In 2010, the County settled its claims against the cities that had not paid for less than what was owed and gave rebates of 85 percent to those cities that had paid, resulting in lower revenues.

Investment Income



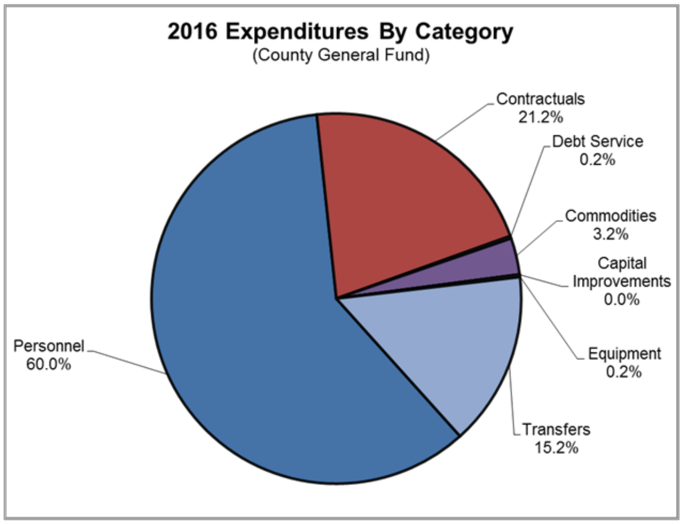
Investment income accounts for revenues generated from the investment of idle County funds. Traditionally, this revenue source can be volatile with collections dependent on interest rates in investment markets, the timing in which investments mature, and the size of the investment portfolio. State law outlines that all investment income is to be deposited in the General Fund unless otherwise directed by statute.

The County has an investment portfolio that ranges from \$225 million to \$500 million depending on the time of year. By law, the County's investments are restricted to short maturities having little or no risk. Since the Great Recession, investment income has been very low due to very low interest rates. In 2014, collections increased for the first time since 2007, though the amount of revenue generated was \$1.3 million. The forecast projects revenue of \$2.1 million in 2017.

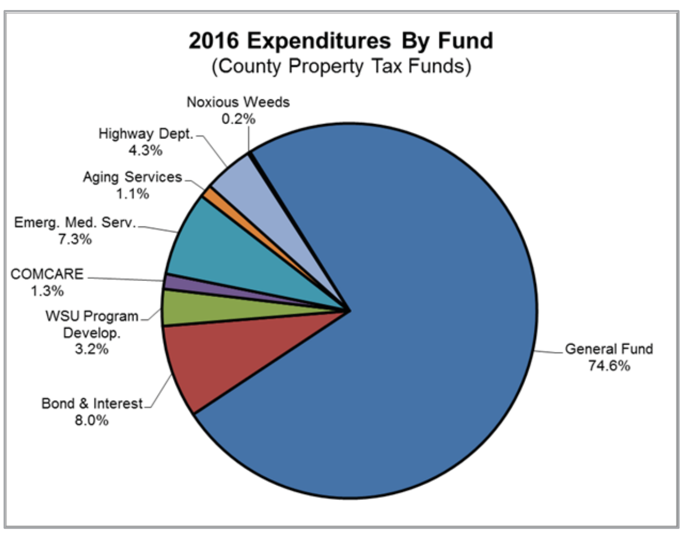
■ Expenditures

Sedgwick County's expenditure structure is divided into seven primary spending categories: personnel, contractuals, debt service, commodities, capital improvements, equipment, and interfund transfers. Total expenditures incurred in 2016 in the County General Fund were $175,192,907. Of those, 60 percent were for personnel costs and 21 percent for contractual services.

As with revenues, these actual results are the baseline from which the current financial forecast was developed.

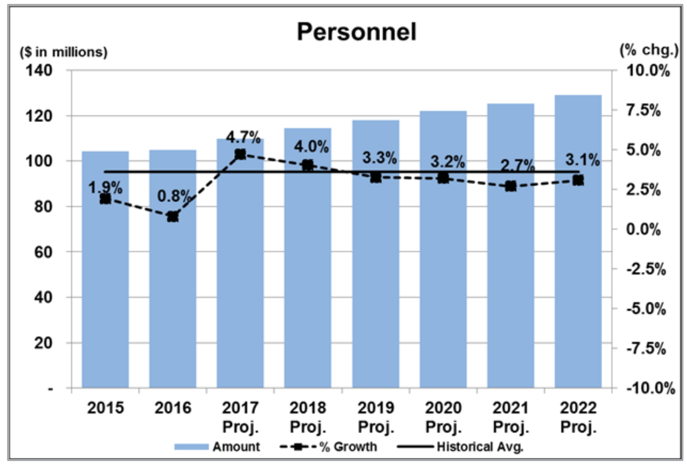


Of the total spent in funds receiving property tax support, the fund with the greatest portion of total expenses is the General Fund with 75 percent of total 2016 expenditures.



Specific Expenditure Projections in the Financial Forecast

Personnel

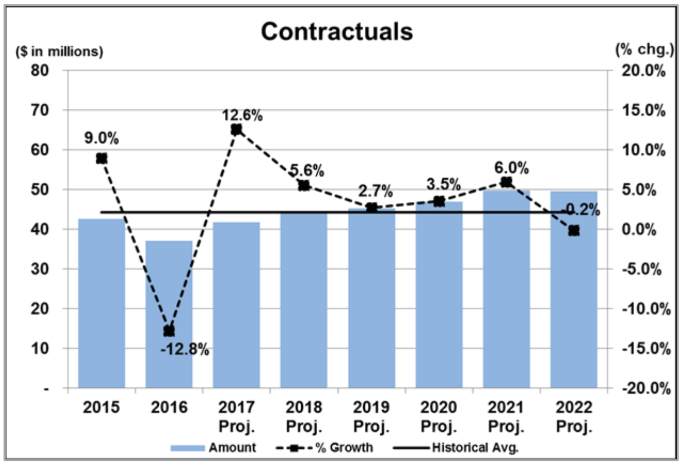


Similar to most government and proprietary entities, personnel expenditures represent the largest cost in delivering services. The projections included in this financial forecast incorporate the following variables:

- A 2.5 percent pay adjustment in 2018, along with 0.5 percent to adjust the full pay structure to assist with recruitment of employees and to provide increased earning capacity for employees who have reached their maximum compensation under the current pay structure
- A 2.5 percent pay adjustment in each year, 2019-2022
- A 3.6 percent increase in the employer-paid portion of health benefit premiums in 2018 and 5.0 percent each year thereafter
- Decreases in retirement rates through the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F) in 2017, followed by increases in 2018 through 2022

	2013	2014	2015	2016	2017	2018
KPERS - Retirement Rates						
	8.94%	9.69%	10.41%	10.18%	8.96%	9.39%
KP&F - Retirement Rates						
Sheriff	17.26%	20.28%	21.72%	20.78%	19.39%	20.22%
Fire	17.26%	19.92%	21.36%	20.42%	19.03%	20.09%
EMS	17.26%	20.08%	21.36%	20.42%	19.03%	20.09%

Contractuals



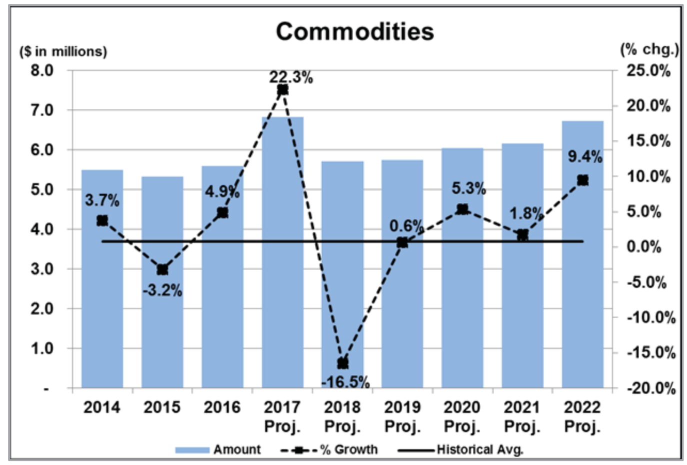
Contractual expenditures, the second largest expenditure category, include services purchased from and delivered by an external entity and internal divisional charges to other funds. These may include utility services, insurance services, software agreements, social services delivered by other community providers, or internal fleet and administrative charges.

Growth in contractual expenditures has averaged 2.7 percent over the past 10 years, with the most significant growth occurring due to the implementation of alternative jail programs and economic development funding. The significant decrease from 2015 to 2016 was due primarily to a one-time payment to assist with a capital improvement project at the Sedgwick County Zoo in 2015.

The increase in 2017 anticipates new costs incurred as a result of the County-City of Wichita code function merger, when the County began receiving all revenue related to the Metropolitan Area Building & Construction Department (MABCD); prior to 2017, the bulk of that revenue was collected by the City. In 2017, as the merged operation began its first year with the County as managing partner, the County has begun reimbursing the City for costs for employees still on the City's staffing table. Those costs, to be paid as a contractual item, are anticipated at $3.6 million, but may be less as City employees vacate MABCD positions in 2018, and are replaced with County positions.

Excluding that change, increases included in this forecast anticipate continuing increases in utilities, inmate medical and food service contracts, and software and technology equipment maintenance costs. The cyclical nature of national, State, and local elections also contribute to expenditure variations in this category.

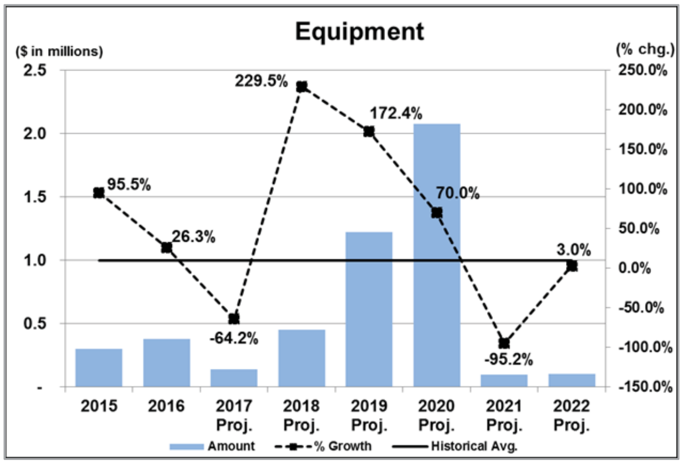
Commodities



This category includes expenditures for the purchase of common tangible items. This may include office supplies, fuel, food, clothing, software, and equipment with acquisition costs of less than $10,000 per unit. The significant anticipated increase in 2017 is due to the replacement of the County's election equipment fleet.

Commodity expenditures often fluctuate from year to year. These fluctuations often are due to the election cycle, when expenses vary from odd years to even year (even years representing either gubernatorial or presidential election cycles).

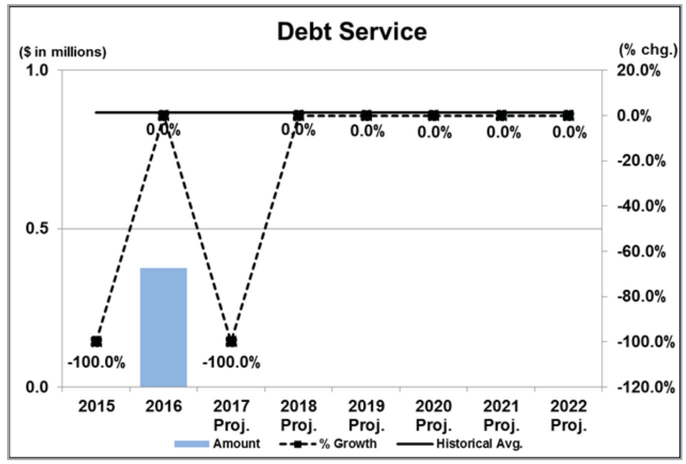
Equipment (Capital Outlay)



Equipment includes expenditures for office, technical, operating, and vehicular equipment that are more than $10,000. Overall, the County spends relatively small amounts for equipment in the property-tax-supported funds, so isolated purchases can often result in sizable year-to-year percentage changes.

In the current forecast, equipment expenditures are anticipated to increase in 2018 related to the purchase of equipment for a new Stream Maintenance crew in Public Works and the replacement of a server in the Sheriff's Office. In 2019 and 2020, costs are again expected to spike due to mobile and portable radio replacements across the organization as the radios reach the end of support. Costs are anticipated to return to more typical levels in 2021 and 2022.

Debt Service



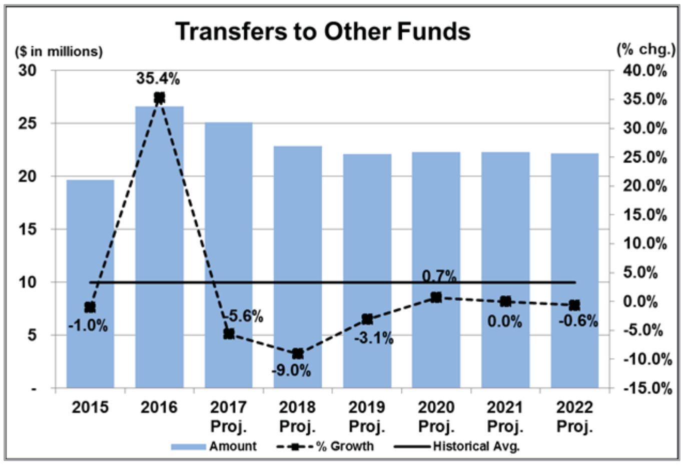
The financial forecast incorporates debt service payments on current debt obligations. While the majority of these costs are paid from the County's Bond & Interest Fund, some issuances late in 2015 resulted in higher than budgeted costs in the Bond & Interest Fund. Due to strict budget amendment laws, the payments due on the 2015 issuances were paid from the General Fund.

Sedgwick County continues to hold high bond ratings from the three most widely used rating agencies: Moody's Investor Services, Standard & Poor's, and Fitch Ratings. In a recent rating evaluation, Standard & Poor's outlined that Sedgwick County's management is "very strong, with 'strong' financial management policies and practices…indicating financial practices are strong, well embedded, and likely sustainable."

Bond Ratings	
Rating Agency	**Rating**
Standard & Poor's	AAA
Moody's	Aaa
Fitch	AA+

The debt service calculations in the financial plan include the projects listed within the Capital Improvement section of the budget book.

Transfers to Other Funds



Within statutory limitations, the County is allowed to transfer funding from the General Fund to other funds to finance equipment purchases, capital improvements, or grant matches. Traditionally, transfers to other funds are relatively consistent from one year to the next with the exception of transfers for capital improvement projects and transfers for one-time equipment and software purchases to the Equipment Reserve Fund.

Recurring annual transfers from the General Fund to other funds include:

- $1,597,566 annually in collected retail sales and use tax revenues to the Bond & Interest Fund to mitigate the cost of debt service on road and bridge projects
- Approximately $14.2 million to $16.6 million annually in retail sales and use tax revenues to the Sales Tax Road & Bridge Fund for capital projects
- Approximately $1.0 million annually to the Risk Management Fund
- Annual transfers of varying amounts for cash-funded capital projects as included in the CIP

As outlined in the table, significant changes in transfers from one year to the next are largely related to cash-funded capital projects included in the County's CIP.

Primary Recurring Transfers - General Fund

	Sales Tax To LST Road & Bridge Fund	Sales Tax To Bond & Interest Fund	Other Cash Funded Capital Projects	General Fund to Risk Mgmt.
• 2015	12,626,213	1,597,566	2,283,472	1,381,960
• 2016	12,774,437	1,597,566	11,807,593	698,470
• 2017 Proj.	13,027,827	1,597,566	10,478,853	938,728
• 2018 Proj.	13,325,688	1,597,566	1,980,804	1,281,004
• 2019 Proj.	13,670,156	1,597,566	1,161,384	1,158,090
• 2020 Proj.	14,063,801	1,597,566	1,844,245	1,377,999
• 2021 Proj.	14,509,659	1,597,566	1,713,755	1,219,553
• 2022 Proj.	14,968,475	1,597,566	1,028,704	1,489,457

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Financial Forecast 2014 - 2022

Modified Accrual Basis

County General Fund

#		Actual			Estimates					
		2014	2015	2016	2017	2018	2019	2020	2021	2022
1	***Beginning Fund Balance***	*62,754,047*	*64,504,393*	*63,006,684*	*73,165,300*	***74,154,718***	*74,178,986*	*75,610,578*	*74,218,486*	*76,060,434*
2	**Operating Revenue**									
3	**Taxes**	132,864,261	135,494,593	139,297,377	145,258,886	**148,108,327**	154,785,566	157,888,706	164,526,394	170,542,584
4	Current property taxes	90,012,855	91,461,249	94,623,180	99,584,443	101,723,680	107,480,262	108,801,789	114,309,663	118,572,055
5	Back property taxes & warrants	2,177,447	2,252,652	2,002,654	2,025,447	1,944,192	1,823,354	1,786,844	1,672,989	1,617,055
6	Special assessment property taxes	-	-	-	-	-	-	-	-	-
7	Motor vehicle taxes	12,733,500	13,070,305	13,546,562	14,099,797	15,099,935	15,449,084	16,476,467	16,824,930	17,713,498
8	Local retail sales tax	24,809,200	25,515,096	25,719,209	26,104,997	26,574,887	27,132,960	27,784,151	28,534,323	29,304,750
9	Local use tax	2,743,805	2,932,462	3,024,796	3,145,788	3,271,620	3,402,485	3,538,584	3,680,127	3,827,332
10	Other taxes	387,453	262,829	380,976	298,413	304,381	310,469	316,678	323,012	329,472
11	**Intergovernmental**	3,142,527	2,486,936	3,109,324	1,895,214	**1,127,650**	1,371,946	1,399,643	1,427,957	1,456,901
12	**Charges for service**	17,380,859	17,430,942	17,340,735	16,691,557	**17,360,157**	16,191,741	16,503,412	16,822,886	17,150,375
13	**Reimbursements**	5,607,666	5,183,494	5,110,994	5,353,248	**5,256,421**	5,433,170	5,616,032	5,805,222	6,000,959
14	**Use of money and property**	4,763,874	4,619,663	4,712,540	5,047,381	**5,143,326**	5,253,389	5,366,605	5,483,076	5,602,911
15	**Other revenues**	4,689,502	5,350,682	3,766,215	10,042,538	**9,965,605**	10,144,924	10,327,520	10,513,691	10,703,512
16	**Transfers from other funds**	208,320	43,671	556,881	632,962	**666,016**	902,525	878,257	863,346	838,514
17	***Total Revenue***	*168,657,009*	*170,609,981*	*173,894,066*	*184,921,786*	***187,627,504***	*194,083,261*	*197,980,175*	*205,442,571*	*212,295,756*
18	**Operating Expenditures**									
19	**Personnel and benefits**	102,232,262	104,220,431	105,069,803	110,017,973	**114,454,200**	118,200,001	122,002,283	125,296,084	129,148,275
20	**Contractual services**	39,096,788	42,596,904	37,144,454	41,813,431	**44,136,295**	45,337,726	46,945,514	49,750,432	49,655,052
21	**Debt service**	62,783	-	375,100	-	**-**	-	-	-	-
22	**Commodities**	5,500,622	5,326,347	5,587,649	6,834,231	**5,706,217**	5,742,163	6,048,326	6,154,403	6,734,341
23	**Capital improvements**	7,268	1,462	21,977	14,551	**10,309**	10,475	10,644	10,817	10,993
24	**Capital outlay > $10,000**	154,165	301,440	380,752	136,155	**448,697**	1,222,162	2,077,721	99,107	102,080
25	**Transfers to other funds**	19,852,749	19,661,132	26,613,171	25,116,026	**22,847,516**	22,139,143	22,287,780	22,289,781	22,153,494
26	***Total Expenditures***	*166,906,637*	*172,107,717*	*175,192,907*	*183,932,369*	***187,603,235***	*192,651,669*	*199,372,267*	*203,600,624*	*207,804,235*
27	***Operating Income***	*1,750,372*	*(1,497,736)*	*(1,298,842)*	*989,418*	*24,268*	*1,431,592*	*(1,392,092)*	*1,841,947*	*4,491,521*
28	***Ending Fund Balance***	*73,810,807*	*74,431,326*	*73,165,300*	*74,154,718*	***74,178,986***	*75,610,578*	*74,218,486*	*76,060,434*	*80,551,954*
29	**Assessed valuation**	4,301,084,880	4,348,562,089	4,410,040,706	4,531,486,166	4,675,741,600	4,792,635,140	4,919,639,971	5,077,068,450	5,254,765,846
30	***Assessed valuation % chg.***	0.50%	1.10%	1.41%	2.75%	3.18%	2.50%	2.65%	3.20%	3.50%
31	**Mill levy**	21.790	21.915	22.249	22.814	22.528	23.216	22.888	23.293	23.336
32	***Mill levy change***	(7.656)	0.125	0.334	0.565	(0.286)	0.688	(0.328)	0.405	0.043