Financial Plan

For the Period of 2005 - 2010

The following Financial Plan was completed in early February prior to the recommended budget to guide the 2006 budget process.

MANAGEMENT DISCUSSION

Over the past several years, Sedgwick County has confronted an uncertain national and local economy with difficult decisions to correct a previous imbalance between revenues and expenditures. Between 2003 and 2004, the County has eliminated positions, reduced assistance to local partners, eliminated operating costs, delayed various capital projects, and enhanced revenues. Combined, these actions have contributed to an operating income of $9.1 million in 2004, compared to a $5.2 million operating loss in 2003.

Nevertheless, the Financial Plan outlines, beginning in 2006, that expenditures for all operating funds are again projected to exceed revenues. The operating deficits, however, are created from a projected imbalance primarily in funds supporting grant programs. The projections in the Financial Plan reflect a trend witnessed for several years of grant funding from the federal and state levels that do not keep pace with inflationary growth. To avoid the operating deficits projected as a result of grant funded programs, the County is considering implementing a variety of policy options over the planning horizon that concentrate on:

- What are the County's core services?
- Can services be further outsourced to external agencies at a lower cost to the community?
- What fees may the County be able to increase?
- Can non-core services be decreased or eliminated?
- Do we maintain grant programs at current levels?

Purpose of a Financial Plan

The purpose of the Financial Plan is to evaluate current and future fiscal conditions to guide policy and programmatic decisions relating to *where we are, where do we want to go, and how do we get there*. A financial plan is a fiscal management tool that presents forecasted 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 Financial Plan assists in the formation of decisions that exercise fiscal discipline and deliver essential community services.

Forecasting Methodology

Beginning in 2002, Sedgwick County completed the transition to a new financial data system. As a result of this transition, the County's financial practices, fund structure, and general ledger accounts were thoroughly reviewed and many were adjusted to accommodate the new system. Consequently, direct comparisons of aggregate financial data from the fiscal years prior to 2002 and may lead to inaccurate conclusions regarding historical patterns. In the process of completing the Financial Plan, all possible efforts have been made to present the financial information in a way that will provide valuable information on the County's historical revenues and expenditures but not compare items that may result in inaccurate conclusions.

The forecasts included in the Financial Plan are formulated through the utilization of both quantitative and qualitative methods. Quantitatively, historical revenues and expenditures were analyzed primarily through the use of 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 to outline the most likely projections.

Whenever forecasts are performed, such as your local weather forecast, we often lose sight that these forecasts are performed based on the most recently available variables. For the Financial Plan, these variables include economic data and decisions by the Board of County Commissioners as of February 1 2005. In addition, the estimates incorporate the financial guidelines included in the 2005 adopted budget. Unfortunately, finance variables, just like the weather, are constantly changing. The forecasts included in the Strategic Financial Plan are subject to unforeseen and uncontrollable national, state, and local events that may make the forecasts less accurate.

Revenue Forecast Assumptions

- Tax Revenues
  - Property taxes
    - Assessed valuation countywide will grow 4.0 percent in 2005, 4.5 percent in 2006, and 5.0 percent each year thereafter.
    - Mill levy will remain the same at 28.763 countywide and 18.579 for the Fire District.
  - Local retail sales taxes and local use tax will increase by 4.0 percent in 2005 and 3.0 percent each year thereafter. Estimates for the annual transfer of local retail sales tax revenue from the General Fund to the Sales Tax Road and Bridge Fund are based on the projected local retail sales tax revenue in that specific year.
  - Motor vehicle taxes will increase by approximately 3.0 percent annually.
- Intergovernmental revenue will decline in 2005 as a result of the ending of the City of Wichita's contractual agreement to contribute financial support for the operation of the Sedgwick County Health Department. In addition, SRS revenues collected from the State of Kansas are also expected to decline as a result of the timing of grant receipts in COMCARE. In the following years, intergovernmental revenue is projected to grow by 4.4 percent in 2006 and approximately 3.0 percent annually thereafter.
- Charges for service are also expected to decline moderately in 2005, again due to the timing of Medicaid waiver receipts in COMCARE. On average, charges for service will grow by approximately 4.0 percent each year thereafter.
- Use of money & property will increase in 2005 as the interest rate on investments gradually improves. However, in 2006 and 2007 total revenue collections will decline as citizens reduce delinquent property taxes as the economy improves, resulting in fewer receipts in the category of penalty and interest on back taxes.

Expenditure Forecast Assumptions

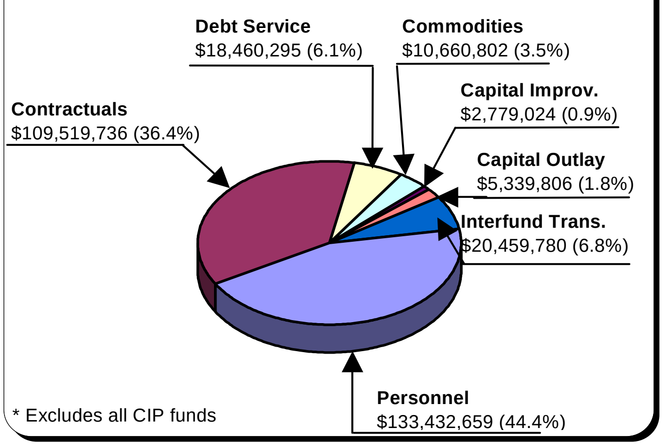
- Personnel costs will increase an average of $7.4 million annually after 2004. Personnel wages will grow by approximately 3.5 percent in 2005 and 5.0 percent each year thereafter. Health and dental insurance will grow by 8.0 percent annually. Retirement rates through KPERS are projected to remain high as it pursues closing the gap between resources and committed contributions to retires.
- Contractuals will increase at a rate of approximately 3.0 percent in 2005 and 2006 and 4.0 percent thereafter because of inflation, general growth in County operations, and the growing costs of health insurance.
- Debt service on current debt obligations and future projects per the most recently adopted CIP plan are projected at $18.0 million in 2005, $18.6 million in 2006, $18.3 million in 2007, $18.3 million in 2008, $17.9 million in 2009, and $17.2 million in 2010.
- Commodities will increase at an average rate of 11.0 percent in 2005 and 2006 as a result of inflation and expanded operations in the new Juvenile Detention Facility and the Adult Detention Center through the implementation of double bunking.
- Capital improvement expenditures are projected based on the adopted 2005 CIP plan for the periods of 2005 through 2009. Projections for 2010 are based on historical trends and the expected capital needs of the County at that time.
- Capital Outlay expenditures will grow in 2005 by 45.0 percent and 5.0 percent in 2006 due to supplemental appropriations adopted in the 2005 budget, implementation of double bunking in the Adult Detention Center, and expanded operations in the new Juvenile Detention Facility. In 2007, expenditures will decline due to the elimination of these one-time expenditures and then moderately grow each year thereafter by approximately 3.0 percent.

FINANCIAL REVIEW

Financial Structure

In 2004, Sedgwick County's operating expenditures totaled $300.7 million to support the services of nine organizational divisions financed through fifty-three separate funds. Of all the organizational divisions, the three largest include Public Safety, Human Services, and Financial Management. Of the total resources available, the County devoted 30.1 percent or $90.6 million to the Division of Public Safety. Public Safety functions include services provided by the County Sheriff, Detention Facilities, Fire Department, Emergency Medical Services, District Coroner, and others.

2004 Operating Expenditures by Category*

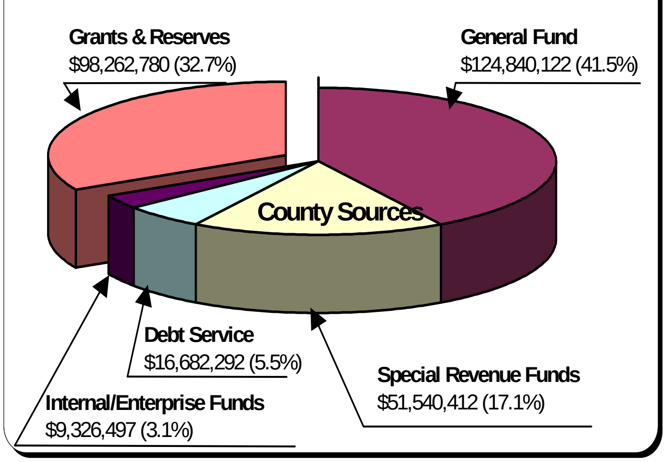


* Excludes all CIP funds

Expenditures in Sedgwick County are assigned to one of seven categories. These categories include personnel, contractuals, debt service, commodities, capital improvements, capital outlay, and interfund transfers. The largest expenditure category in 2004 was personnel at 44.4 percent of all expenditures or $133.4 million. Because labor costs require the largest allocation of resources, personnel raises, cost of living adjustments, and escalating benefit costs often have a large impact on the County's overall financial stability. The second largest expenditure category includes contractual expenditures at 36.4 percent, followed by interfund transfers at 6.8 percent.

Although the County's fund structure is comprised of fifty-three separate funds, these funds can be consolidated into a variety of different fund types and two main expenditure segments. These expenditure segments include County Sources and Grants and Reserves. County Sources include all the legal funds the County is required to report on annually to the State of Kansas under what is commonly known as the budget law, K.S.A 79-2925 to 79-2937, and internal/enterprise funds. Grants and Reserves include all the funds that support grant funded programs or deliver services through reserved funding resources, such as the Equipment Reserve Fund. Of the total 2004 operating expenditures, 67.3 percent or $202.4 million was expended in County Sources and 32.7 percent or $98.3 million was expended in Grants and Reserves.

2004 Operating Expenditures by Fund Type



Revenues, Expenditures, and Fund Balances

In 2004, total operating revenues of $309.7 million were more than total operating expenditures of $300.7 million, creating an operating income of $9.1 million. The actions taken by the Board of County Commissioners in 2003 and 2004 to reduce expenditures and enhance revenue collections have corrected the previous imbalance between revenue and expenditure growth.

Revenues

Revenue growth in Sedgwick County slowed in 2002 and 2003 but gained stability in 2004. The growth in aggregate revenues generated by all operating funds improved from 1.8 percent and 2.0 percent in 2002 and 2003 to 9.1 percent in 2004. With the exception of investment income, as reflected in the category of use of money and property, all other revenue categories experienced an increase in 2004 from the previous year.

Actual and Projected Revenue for All Operating Funds*

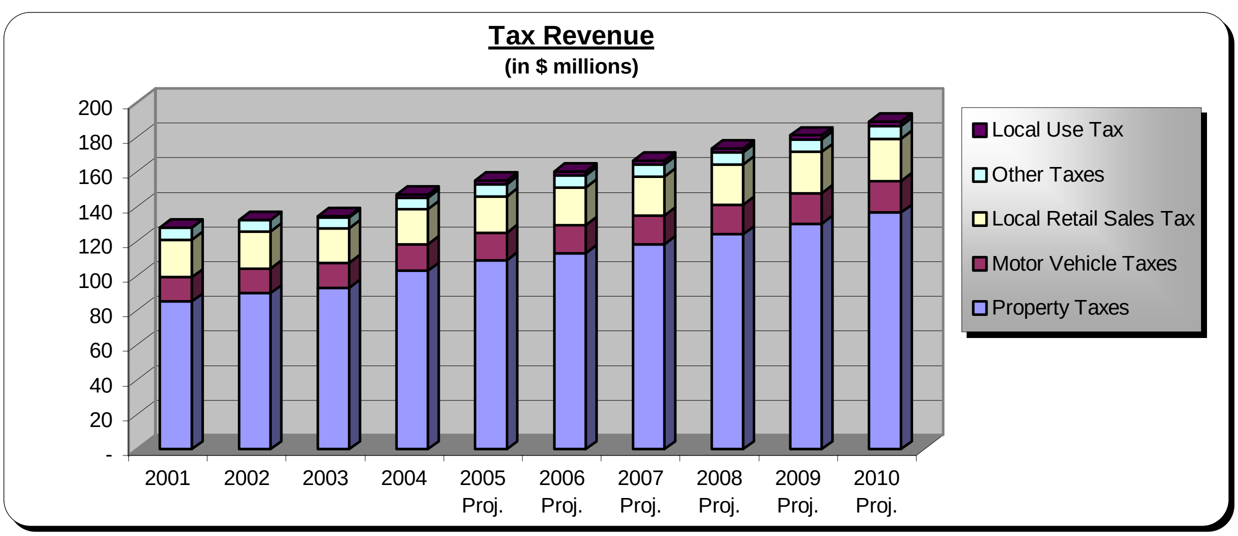
	2004 Actual	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.	%Chg. 04-10
Tax Revenue								
Property Taxes	102,945,942	109,155,137	113,096,313	118,262,054	123,971,677	130,097,782	136,529,621	4.8%
Local Retail Sales Tax	20,358,110	21,172,435	21,807,608	22,461,836	23,135,691	23,829,762	24,544,655	3.2%
Local Use Tax	2,008,871	2,089,226	2,151,902	2,216,459	2,282,953	2,351,442	2,421,985	3.2%
Motor Vehicle Taxes	15,261,318	15,701,351	16,168,041	16,648,640	17,143,561	17,653,233	18,178,096	3.0%
Other Tax Revenues	6,573,629	7,023,266	7,062,419	7,122,060	7,183,117	7,245,608	7,309,551	1.8%
Total Tax Revenue	**147,147,870**	**155,141,415**	**160,286,283**	**166,711,049**	**173,716,999**	**181,177,827**	**188,983,908**	**4.3%**
Non-Tax Revenue								
Intergovernmental Revenues	45,944,201	42,822,033	44,742,712	45,922,533	47,129,718	48,468,174	49,848,943	1.4%
Charges for Service	94,792,694	94,459,819	98,430,433	102,020,249	104,024,242	107,791,670	111,773,452	2.8%
Use of Money and Property	5,629,971	5,875,691	5,331,615	5,140,952	5,159,834	5,278,938	5,401,304	-0.7%
Interfund Transfers	8,577,199	7,593,531	6,527,975	6,673,327	6,064,524	6,150,767	6,231,059	-5.2%
Other Revenues	7,619,618	6,058,531	6,236,786	6,420,685	7,609,548	7,804,900	8,005,952	0.8%
Total Non-Tax Revenue	**162,563,683**	**156,809,605**	**161,269,521**	**166,177,746**	**169,987,866**	**175,494,449**	**181,260,710**	**1.8%**
Total Revenue	**$ 309,711,553**	**$ 311,951,020**	**$ 321,555,804**	**$ 332,888,795**	**$ 343,704,865**	**$ 356,672,276**	**$ 370,244,618**	**3.0%**

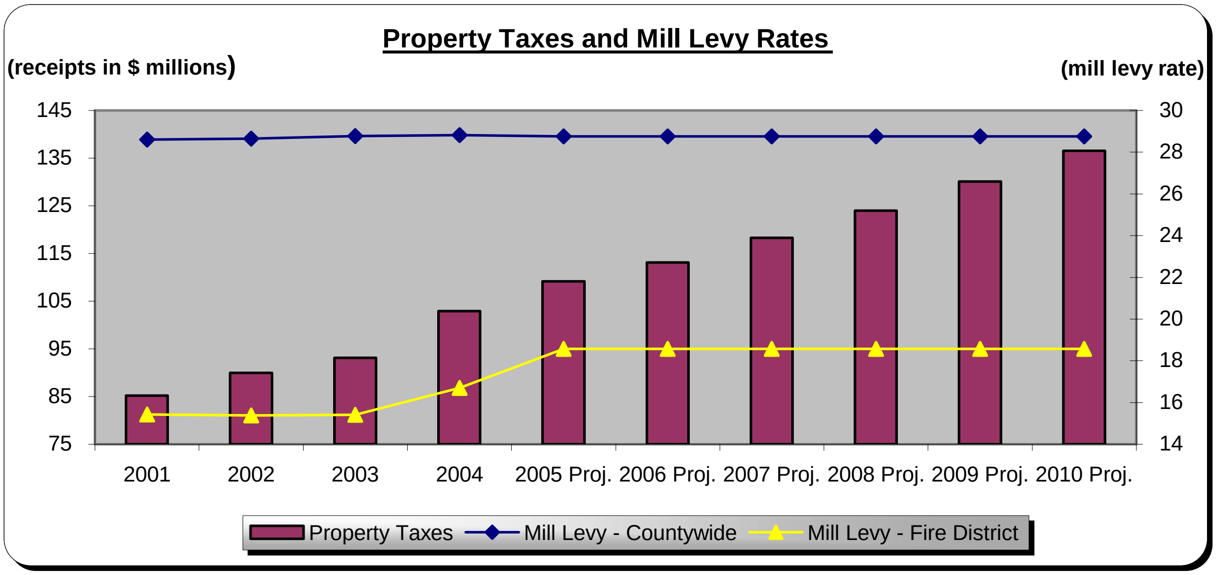
* Note: Outlines comparsion of actual revenues for all operating funds and excludes all CIP funds.

The Financial Plan projects aggregate revenue for all operating funds will grow by less than 1.0 percent in 2005 and then grow by more than 3.0 percent each following year. The marginal increase in revenue collections reflected in the 2005 projection results from an anticipated decrease in intergovernmental revenues and charges for service. Both are a result of the timing of receipts in COMCARE, Sedgwick County's Community Mental Health Center. In 2004, COMCARE received five quarterly grant payments instead of four and the department was paid at a rate exceeding the federal rate for clients qualifying for Medicaid waiver services. Although these issues will reduce 2005 revenue collections in the COMCARE grant fund, its fund balance remains strong.

Tax Revenue

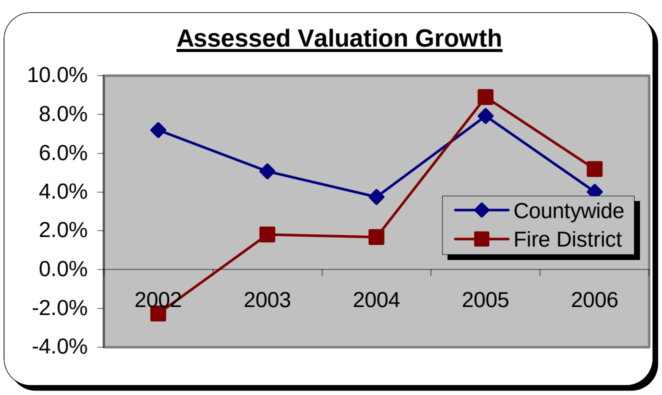
Of Sedgwick County's total revenue collections in 2004, 47.5 percent was generated through tax collections. Tax revenue collections are comprised of five primary sources: property, motor vehicle, local retail sales, local use, special assessment, and other taxes, such as 911 taxes. Of the total 2004 tax revenues received, property taxes comprised 69.9 percent, followed by local retail sales and local use tax at 15.2 percent, motor vehicle taxes at 10.4 percent, and other tax revenues at 4.5 percent. Over the next six years, tax revenues are estimated to have a compound rate of growth of 4.3 percent with the greatest growth occurring in property taxes, followed by local retail sales and local use taxes.





Property taxes play a vital role in financing essential public services. Property tax revenues are primarily used to fund services countywide 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. In addition, the County also levies a property tax in the Fire District. This reliable revenue source has no attached mandates, as many other state and federal revenues often do. In 2004, property tax collections grew by 10.5 percent from 2003 to $102.9 million.

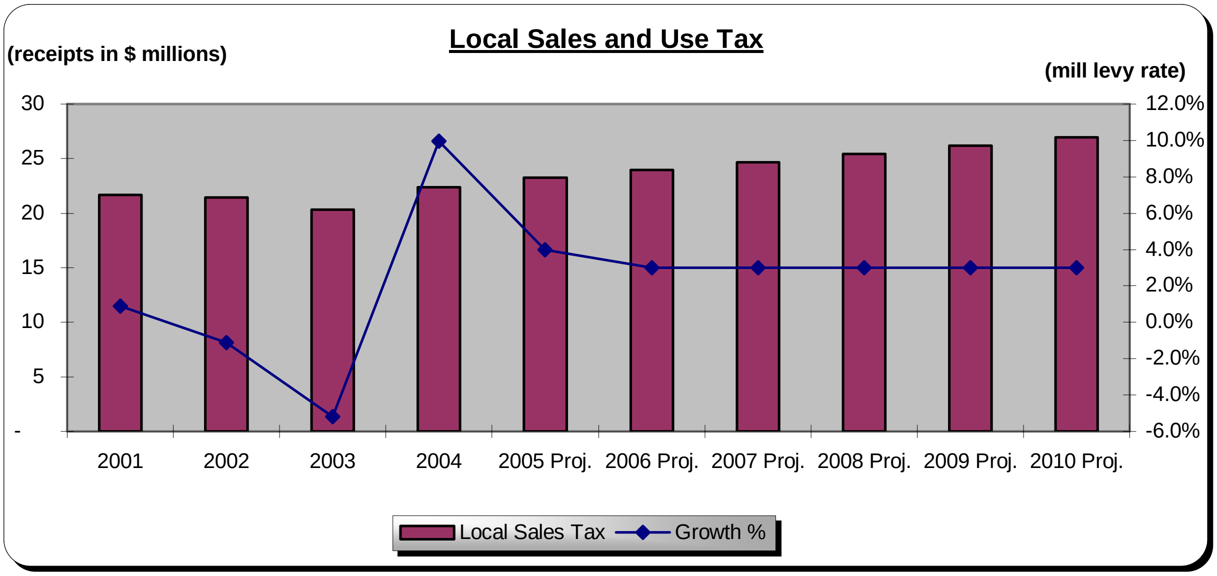
As shown in the graph above, the countywide mill levy rate has slowly edged up from 28.60 mills in 2001 to the 28.763 mills adopted in the 2005 budget. For the Fire District, the mill levy rate has grown from 15.426 mills in 2001 to the 18.579 mills adopted in the 2005 budget. The mill levy increase will allow the Fire District to pursue the relocation of five fire stations to maximize response times.



The estimates included in the Financial Plan assume the countywide mill levy rate will remain at 28.763 and 18.579 for the Fire District during the planning period. Consequently, the growth in property tax revenues is projected as a result of the estimated growth in assessed valuations and not a planned increase in the mill levy rate.

Local retail sales and use tax generated 7.2 percent of total operating revenues and 15.2 percent of tax revenues in 2004. Local retail sales tax collections have consecutively declined between 2001 and 2003 but increased by 3.1% in 2004 to $20.4 million as a result of an improving local economy. Local use tax of $2.0 million in 2004 was a 241.6 percent increase from the previous year. The considerable increase was the result of statuory changes to the application of the tax adopted by the 2003 Kansas Legislature.

Local retail sales tax is generated from a countywide 1.0 percent tax on retail sales, imposed pursuant to voter approval in July of 1985. Distribution of sales tax revenue 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. There are three principal factors that influence the County's collection of local retail sales tax revenue: (1) total taxable retail sales in Sedgwick County, (2) population in the unincorporated areas of the County as a percentage of total County population, and (3) the County's property tax levies as a percentage of total taxes levied by all governmental entities. 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.



The use tax is also applied if the other state's sales tax rate is less than the Kansas rate.

Changes in both State statues that define the scope of taxable sales and the economy have a large impact on local retail sales tax collections. In 1993, when materials used in construction of new buildings and utilities used in manufacturing became taxable, revenue increased by more than 10.0 percent. When the 1995 Legislature again exempted these items from sales taxation, collections declined.

Motor vehicle taxes were assessed at 30.0 percent of a vehicle's appraised value until 1996 when the State Legislature gradually reduced that assessment ratio to 20.0 percent by 2000. In 2004, motor vehicle tax showed a strong recovery with collections of $15.2 million or a 5.6 percent increase from 2003. Over the planning period, collections are projected to increase by approximately 3.0 percent annually.

Intergovernmental Revenue

Intergovernmental revenue accounts for revenue received from other government entities. Of the $45.9 million received in 2004, 72.0 percent was received from the State of Kansas, 25.7 percent from the Federal government, and 2.3 percent from the City of Wichita. In 2005, intergovernmental revenue is projected to decrease by 6.8 percent as a result of the timing of receipts in COMCARE, Sedgwick County's Community Mental Health Center. In 2004, COMCARE received five quarterly grant payments instead of four. Consequently, only three payments will be received in 2005. Although this reduces 2005 revenue collections in the COMCARE grant fund, its fund balance remains strong.

Charges for Service

Charges for service is the second largest revenue source for Sedgwick County after property taxes, contributing 30.6 percent of total operating revenues. The category accounts for receipts in which individuals pay for part or all of the services received. This may include medical services through the Health Department, spraying for noxious weeds, or emergency services through EMS. In addition, this category also accounts for internal service charges, such as charges for health insurance and fleet services. In 2004, these internal service charges accounted for 28.2 percent of the revenue in this category. As the County continues to expand and enhance the delivery of specialized services, service charges are expected to continue to be one of the fastest growing revenue categories.

Use of Money and Property

The use of money and property category accounts for revenues generated from the investment of idle County funds. In 2004 the County experienced a 10.1 percent decline in earned revenue from $6.3 million in 2003 to $5.6 million. The decline was the result of an overall decrease in the interest rates on eligible investments and not from a reduction in invested principal. Interest rates are expected to remain low but gradually increase over the planning period.

Actual and Projected Expenditures for All Operating Funds*

	2004 Actual	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.	% Chg. 04-10
Personnel	133,432,659	140,544,199	148,887,082	156,062,839	161,996,971	169,730,529	177,861,658	4.9%
Contractuals	109,519,736	112,711,229	115,845,524	120,295,608	124,480,335	129,534,996	134,966,834	3.5%
Debt Service	18,460,295	17,983,079	18,560,466	18,305,488	18,282,047	17,859,231	17,160,441	-1.2%
Commodities	10,660,802	11,952,605	13,294,232	12,960,247	13,175,729	13,827,477	14,529,512	5.3%
Capital Improvements	2,779,024	1,052,928	210,799	213,672	216,587	219,547	222,550	-34.3%
Capital Outlay	5,339,806	7,781,114	8,194,280	6,827,121	6,865,811	7,097,981	7,315,163	5.4%
Interfund Transfers	20,459,780	18,285,693	18,850,009	18,818,192	19,306,450	19,432,745	20,125,318	-0.3%
Total Expenditures	**$ 300,652,102**	**$ 310,310,847**	**$ 323,842,392**	**$ 333,483,167**	**$ 344,323,930**	**$ 357,702,506**	**$ 372,181,476**	**3.6%**

* Note: Outlines comparsion of actual revenues for all operating funds and excludes all CIP funds.

Expenditures

In 2002 and 2003, Sedgwick County implemented a variety of budget reductions to align expenditure and revenue growth during a weak economic period. These expenditures adjustments continue to impact the County's financial stability. In 2004 the growth in aggregate expenditures incurred by all operating funds was 3.9 percent.

Sedgwick County's expenditure structure is divided into seven primary categories, they include: personnel, contractuals, debt service, commodities, capital improvements, capital outlay, and interfund transfers. Of the total expenditures for all operating funds incurred in 2004, 44.4 percent was attributed to personnel and 36.4 to contractuals. Not only are these the two largest expenditure categories but also the two fastest growing.

Personnel

Similar to most government and proprietary entities, personnel expenditures represent the largest cost in delivering services. Over the past several years, these costs have been further enlarged by the growing costs of benefits, specifically health and dental insurance. Of the total personnel expenditures in 2004, 11.4 percent were for health and dental insurance benefits.

To offset the rising costs of health benefits, the County implemented a four-year plan of phasing in an increase in the portion of health insurance costs paid by employees from 17.0 percent in 2002 to 20.0 percent by 2005. In addition, the County has implemented contracts with its two providers to implement co-payments to further reduce the health insurance costs covered by the County. Over the planning period, health insurance costs are estimated to increase by approximately 8.0 percent annually.

The Financial Plan assumes salary adjustments for personnel will remain moderate. Consequently, employee wages are estimated to increase by 3.5 percent in 2005 and 5.0 percent annually for each year thereafter.

Contractuals

Contractual expenditures include those services purchased from and delivered by an external entity. This may include utility services, insurance services, consulting fees, and social services delivered by other community providers. Over the planning period contractual expenditures are projected to grow by an average annual rate of 4.0 percent.

Commodities

The category of commodities includes expenditures for the purchase of common tangible items. This may include office supplies, fuel, food, and clothing. Over the planning period, commodity expenditures are projected to increase by an average rate of 11.0 percent in 2005 and 2006. The strong growth results from expanded operations in the new Juvenile Detention Facility and implementing double bunking in the Adult Detention Center. Although the category is increasing, growth in contractual expenditures is mitigated as the increased capacity in the two facilities reduces the need for contractual payments to external agencies to house juveniles and adult inmates.

Capital Outlay

Capital outlay includes expenditures for items with a normal life span of approximately five years and traditionally cost more than $1,000. These items may include vehicles, computer equipment, and security hardware. Over the planning period, capital outlay expenditures are projected to increase by 45.0 percent in 2005 as a result of expended operations in the new Juvenile Detention Facility and implementation of double bunking in the Adult Detention Center. Although the category is increasing, growth in contractual expenditures is mitigated as the increased capacity in the two facilities reduces the need for contractual payments to external agencies to house juveniles and adult inmates. In 2006, capital outlay is projected to grow by 5.0 percent and then 3.0 percent each year thereafter.

Debt Service

The Financial Plan incorporates debt service payments on current debt obligations and includes forecasted debt payments for CIP projects, as outlined in the most recently adopted CIP plan. The debt service calculations in the Financial Plan include the following major projects (in millions of dollars):

Year	Project	Estimated Bonded Amount
2005	Public Safety Center	8.9
2005	Fire Dist. Station Relocation	3.7
2006	Juvenile Court Complex	13.7
2007	Forensic Science Addition	2.1
2005- 2010	Road & Bridge Projects	24.0

Operating Income

The Financial Plan outlines that operating income for all county sources, those funds generally receiving statutorily authorized tax support, is projected to remain strong throughout the planning horizon. Nevertheless, other funds, particularly grant funds, are projected to experience operating deficits. After 2005, the operating deficits in the grant funds are projected to exceed the operating income generated in the legal funds. Consequently, the Financial Plan outlines a mild operating deficit could be realized for all operating funds if adjustments to grant funded operations are not implemented over the planning horizon.

The projections in the Financial Plan reflect a trend witnessed for several years of grant funding from the federal and state levels that do not keep pace with inflationary growth. To avoid the operating deficits projected as a result of the grant funds, implementation of some or all of the following policy options may be required.

- Increase Revenues
  - Seek new revenue sources.
  - Increase fees when possible.

- Reduce Expenditures
  - Increase department accountability by connecting funding allocation to strategic plans and Commission priorities.
  - Concentrate on core services.
  - Out-source services where an outside agency can provide the same service at less cost.
  - Assess the needs of the community prior to implementing grant programs.