



Polk County, Wisconsin

2011 Budget Recommendation



Dana Frey – County Administrator
September 21, 2010

Table of Contents

Administrator's Letter of Transmittal.....	1
Summary of 2011 Budget Recommendation.....	10
2011 Budget and Levy by Department.....	11
Tax Rates and Levies.....	12
Staffing Summary.....	13
Budget Presentation.....	14

September 21, 2010

TO: Polk County Board of Supervisors

FROM: Dana Frey, County Administrator

SUBJECT: Polk County 2011 Operating and Capital Budget Recommendations

It is my honor to present you with this draft budget recommendation for 2011 for your consideration and in compliance with my responsibilities under Wisconsin Statutes. A summary of this budget recommendation is attached along with supporting documentation; full detailed information is available from the Administration Department on any department or expenditure category.

2011 is an extremely challenging budget year due to the economic environment, the future outlook for the economy and local government finances, and the net effect of past actions that increased future costs. In developing a budget recommendation, it was therefore critical that this budget be balanced, relying to the minimum extent possible on property tax dollars, and have a view towards future sustainability. Appropriately, this budget recommendation is also a turning point in budget development and preparation, the first to begin to develop programmatic and performance data to assist you and county staff in making better informed decisions on expenditure effectiveness and to enable budgeting for results.

Our budget recommendation development began with an initial projected deficit of approximately \$1.4 million. The source of this deficit was built-in wage and benefit increases, increased debt service, and past use of fund balance. To close this gap, we relied on initial efficiency savings from a universal 1.5% reduction in county levy support, detailed review of individual budgets, new revenue sources, and the creativity and innovation of county staff to find more efficient ways of delivering services or new ways to reduce costs. Without this active participation by county staff the budget process would have been far more difficult and far less likely to produce such positive results.

The overall budget recommendation is \$55,800,489, an increase of \$1,060,557 or 1.9% from 2010. With respect to levy, the final recommendation is \$21,045,812, an increase of \$379,749 or 1.8% from the 2010 actual amount. This levy increase is well within the state imposed levy cap of \$21,290,829 and is below the combined rate of inflation and

increase due to new construction, meaning that the average taxpayer will see an increase of 1.3%, or less than the rate of increase in inflation.

This budget recommendation also takes steps to increase the general fund undesignated fund balance in keeping with your directive that this balance equal at least 20% of expenditures. We are recommending the addition of approximately \$380,000 in savings from unused bond proceeds and payment timing, of which \$100,000 will go into a contingency fund, and another \$300,000 or more from the elimination of non-lapsing accounts where clear dedication is not required or where funds are unbudgeted. We estimate that the addition to the 2011 ending fund balance will be approximately 3-4%, and that, beyond, the ongoing improvement in the economy and reduction in real estate tax delinquencies will result in the 20% balance being reached within the next few years.

Budget goals and objectives:

This budget process was aimed at three specific objectives: to improve fiscal discipline and budget transparency, to allocate funds in accord with County Board priorities, and to improve the effectiveness and efficiency of public expenditures. We are pleased to report some modest progress towards these objectives. With respect to fiscal discipline, this budget is as sustainable as possible, increases budget reserves using one-time funds, assigns responsibility for monitoring every fund to a department eliminating unmanaged “orphan” funds, and is based on realistic revenues. Fiscal transparency is enhanced by the elimination of most non-lapsing accounts or dedicated funds, ensuring that all budgets are reviewed by the County Board and that all funds are budgeted. In addition, all fund balances have been consolidated, and the proposed budget recommends setting aside at least \$225,000 as a contingency fund under the control of the County Board.

Allocation in accord with County Board priorities is approached through the department narratives, which contain mission statements – why the department exists – and a list of programs implemented – what the department does and why it does it. Each of these programs are tied to the goals set by the County Board through the mission statement and/or strategic plan. Further, any request for additional levy is made on a separate form, to be reviewed by the Finance Committee or governing committee. The final objective, to improve the efficiency and effectiveness of programs, is being approached through the inclusion of performance indicators in the departmental narratives as well as a focus on prevention in many of the individual department budgets.

A related goal was to maximize the opportunity for County Board input in the budget process. This was severely affected by the lack of time available, but nonetheless governing committees will receive at least three opportunities to review and discuss budgets. In the regular July meeting, departments were asked to discuss budget goals and objectives with their committees; in August, committees were given draft budgets (baseline recommendations) for review, and in the September meetings committees are asked to review and approve (or recommend amendments to) the 2011 budget recommendation. Budget information is also improved, with summary tables listing revenue source, expenditure classification and FTE request for 2011, 2010 budget, and 2007-2009 actual. As the data are now incorporated in the county's accounting system, current updates for year-to-date expenditures and revenues are also readily available.

Summary of Recommendations

These budget recommendations were developed through a process that began in early June, 2010. Every department was asked to submit an initial budget request that met a required reduction in expenditures equal to 1.5% of 2010 levy support. Every levy-supported department complied, either with current funds or a transfer of other, far larger, resources. It is believed that most of these reductions are sustainable, and will be carried forward as a baseline for 2012 budget preparations.

Following this initial submission, administration met with every department to determine potential opportunities for savings above and beyond the baseline reduction. In a number of cases, departments developed alternative and more efficient methods of achieving results that brought about substantial savings. All departments were also asked to review revenues, to determine whether these revenues covered the related costs; two such revisions will result in an additional \$80,000 in levy savings. Finally, this budget proposes the elimination of most non-lapsing accounts, so that all funds are budgeted and general fund undesignated fund balance can begin to be restored to the level set by policy, or 20% of expenditures. The total proposed budget, as noted, is \$55,800,489 compared to a total budget of \$54,739,932 for 2010.

Revenues:

In developing the 2011 budget proposal, it was assumed that non-tax revenues would generally be frozen unless there was reason to know or believe otherwise, i.e. amounts were certified or there was strong likelihood of a decrease in funding. Sales taxes are budgeted at just \$25,000 above the 2010 budget amount (and \$120,000 below a commonly-used forecast developed by UW Extension) at \$2,125,000. This forecast was greatly affected by August collections, which were well below those estimated by a

simple time-series model; subsequent September collections are far more encouraging and it may be that an upward revision is possible.

State aids are based on actual amount certified where available or frozen where not. Shared revenues are certified slightly higher than in 2010, at approximately \$726,000; Child Support revenues are slightly lower due to a reduced assignment of internal costs which resulted in lower federal assistance. An increased fee for Registrar of Deeds, to redact Social Security Numbers from documents, has been incorporated in the budget recommendation, as has a new fee for tracking private septic systems. Finally, a fee review indicated that the general fund had been effectively subsidizing the issuance of tax delinquency certificates; this fee has been increased. (For the future, administration will endeavor to bring all fee changes to the County Board for review earlier in the year, at the July or August meetings, so that approval or disapproval of changes can occur before the budget recommendation is finalized. In this year's abbreviated process there was not ample time to do so.)

The forecast for investment income has been reduced substantially to reflect today's extremely low interest rates. This has however been more than offset by increased interest on delinquent taxes; together, these revenues are estimated to be \$621,500, up from \$521,200 in 2010. Forest crop revenues are also expected to increase, in keeping with economic recovery, although receipts are still estimated to be well below levels of a few years ago.

The property tax recommendation follows the assignment of all revenues, effectively making it the resource of last resort in preparing the 2011 budget recommendation. Once a minimum level of expenditures had been determined, options were considered to fill the resultant gap; the final figure derived was levy. The budget recommends a 2011 levy of \$21,045,812, and increase of \$379,749 or 1.84% above the 2010 levy. (Note that, unless separately identified, none of the figures include the levy for Library Act 150 or Highway Bridge Aid, as these are pass-through funds outside of the control of the County Board). As noted, this 1.8% increase is well below the project rate of inflation, 1.6% and new construction, 0.5%.

Total revenues, as noted, are \$55,134,601, a 1.7% increase above 2010. Table 1, attached, provides greater detail.

Expenditures:

Every department (with levy support) met initial budget reduction guidelines, and working with several we were able to reduce expenditures further to reduce levy support. Significant cost drivers are the wage and salary costs due to negotiated labor

agreements and health insurance which, together, account for a cost increase of about \$800,000 or more, most of the initial budget gap. Inflation has generally not been a factor in budget estimates, although heavy fuel users have built in an increase for their costs following administration's recommendations.

Total expenditures are estimated at \$55,800,489, a \$1,060,557 increase above 2010. Several significant savings have reduced this amount substantially: Human Services expects to save over \$200,000 by taking an aggressive, preventative approach to controlling out-of-home placement costs for children and vulnerable adults; Highways has developed a new method of using a free resource to control icing, saving \$40,000 or more in costs, and has adopted a no-idling policy that further reduces fuel costs. Many other departments have taken similar approaches, and made it possible to propose a budget with this low a levy amount. In addition, the expiration of the pension buy-out has reduced costs by approximately \$350,000.

Overall levy-supported or related staffing is a net 0.6 decrease in FTE, with a 1.0 increase in Human Services to implement the community-based out-of-home placement program and overall reductions elsewhere. The budget recommendations also propose a transfer of the real property lister from the Treasurer's Office to Land Information to more optimally use that employee's skills to benefit county services. Overall, the total number of county FTE is expected to decline 449.15 to 445.38, although some of this drop is in grant-funded positions. No savings have been counted for attrition or other savings due to the administrator's responsibility to review vacant positions before filling. Savings are being realized, but at this point it is impossible to know the extent, magnitude or permanence.

Fund balance:

This budget recommendation is required to comply with the County Board's directive that a plan be prepared to restore the general fund undesignated fund balance to 20% of general fund expenditures. According to the 2009 audit, this total was 12.3% and, depending on the rate of resolution of tax delinquencies, could rise even higher at the end of 2010.

The recommendation is to assign funds to undesignated fund balance wherever appropriate. One-time revenues, especially, lend themselves to this use; to use them to fund ongoing expenditures results in a budget gap the following year. Accordingly, the recommendation is that unused, unbudgeted proceeds from the 2007 bond issue (largely interest earnings) be assigned and the gain from a change in timing on an

insurance payment (moving back to the calendar year in which it is due) totaling approximately \$380,000 be assigned to undesignated fund balance.

For reasons of transparency, as noted all non-lapsing accounts will be reviewed and wherever possible allowed to lapse at the end of 2010. Although it is a bit early to tell, it would appear that this could result in a \$300,000 or more increase in undesignated fund balance (and an accompanying reduction in designated balance). With the above action, this should be sufficient to increase the undesignated balance by 3% or so, to somewhere in the range of 13-15%. Along with a substantial – and inevitable – reduction in delinquent taxes, these actions should suffice to restore the 20% target amount in a few years.

The budget does propose the use of fund balance in one notable area, highways (note that the use listed on the summary sheet, for health insurance, is a technical issue as funds are assigned elsewhere in the budget). For a number of reasons, the highway department has built up an historically large fund balance, largely due to deferral of projects, better than expected weather, fuel cost savings, and so on. The 2010 budget allows for some drawdown of this budget balance, and more is anticipated in 2011 and 2012 before it will reach normal levels. However, it will be important to monitor the highway fund balance to ensure that it remains high enough to allow for a “soft landing” of their construction and maintenance program given the likelihood of little levy resource availability for the foreseeable future.

Capital improvements:

The 2011 budget recommendation also incorporates a capital improvement planning process similar to that used by other local governments, with a \$25,000 minimum for inclusion. The amounts for 2011 are incorporated in the budget recommendation directly, and will be separately identified in a capital improvement plan for those items over \$25,000 and in a budget annex for items over \$5,000. Future projections will also be available, and for the first time we are asking that high-cost items be identified for possible future funding once borrowing or large-scale pay-as-you go options become available.

Future budget implications:

The 2011 budget recommendation is designed to minimize any cost carry forward into 2012 and beyond. Other than highways, as noted, the budget does not recommend the significant use of any fund balances or one-time revenues to fund ongoing operations and, in fact, recommends a deliberate increase in these fund balances. Given the

upcoming financial problems at the state and federal levels, reductions are inevitable; the question is how much and when.

Polk County is in far better financial condition than many if not most local governments in the region. Like them, however, it is clear that revenues will not be adequate to cover future costs at the current rates of growth. A preliminary look at 2012 finances indicates that while revenues are adequate to fund current expenses at a levy amount below the state cap, any increased costs from cost of living adjustments, health insurance costs above a nominal amount, state or federal aid cuts, inflation or other unanticipated costs must be resolved through serious budget reductions. As operating and capital budgets are at or approaching a minimum level, these cuts must come from personnel.

A corollary of this issue is that attention should be paid to the affect of any changes on the 2012 budget. The use of one-time revenues (or cuts) or of fund balance will increase, dollar for dollar, the 2012 problem. Revenue increases or permanent budget reductions do not have that effect and, if the cut is to a growing cost or the revenue a growing revenue, the problem is actually reduced.

To realign expenditures is a long, difficult task, and one that needs begin soon in most local governments. Many of the tools introduced in this process – program budgeting, mandate identification, and performance measurement – will facilitate this process, as will work to reduce costs through attrition.

Conclusions and implications

As noted at the outset, the 2011 budget represents a turning point in county finances and in the budget process itself. One-time revenues and fund balances are no longer available to postpone the inevitable and operating and capital budgets are approaching an absolute minimum. Even the reductions found this year – although believed sustainable – will not be available in the following year (e.g. you can't necessarily cut placement costs \$200,000 once again).

Polk County is fortunate, in that past actions have built a stable foundation for finance and budgeting. Debt service costs, although rising, are manageable; the wellness and safety programs have helped contribute to lower health insurance costs than in many governments; investment in the highway system has been adequate to maintain good quality roads. But the greatest advantage that the county enjoys is in its people, both in the volunteer spirit among its citizenry as evidenced by the success of the aging program and in the quality and ability of its employees and elected officials. This, more than any

other factor, will see the county successfully navigate whatever difficulties the future holds.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Dana Frey". The signature is fluid and cursive, with the first name "Dana" and the last name "Frey" written in a single continuous stroke.

Dana Frey

County Administrator