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ANNUAL REPORT ON THE CONDITION  
OF POLK COUNTY

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DANA FREY, COUNTY ADMINISTRATOR

JUNE 21, 2011

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## LETTER OF TRANSMITTAL

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June 21, 2011

Polk County Board of Supervisors  
100 Polk County Plaza  
Balsam Lake, Wisconsin, 54810

Honorable Chair Johnson and Supervisors:

Pursuant to Wisconsin Statutes Section 59.18, I have the honor of presenting you an annual report on the condition of Polk County, as follows in this document.

In this report, I measured the condition of the County using three dimensions: economic and demographic conditions, fiscal conditions, and management conditions. I am pleased to report that all three are relatively positive and show improvements over the past year.

The economic conditions of the County are still suffering the aftereffects of the greatest recession in 75 years, but there are signs of improvement. Housing remains a serious drag on the economy, but retail sales are improving rapidly. The management conditions are good, chiefly because of the efforts and quality of our staff, and these conditions are improving although challenges exist.

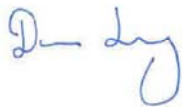
The greatest improvement in the condition of the County is in its fiscal condition. One year ago, County finances were somewhat precarious. Procurement controls were lax, with up to \$19,000 spent monthly on County credit cards. Many funds were not budgeted, with dozens of small accounts "off the books." The 2010 budget spent down reserves further, effectively increasing the County's structural deficit. The County had a pattern of adjusting budgets upwards after enactment, so that in preceding years total expenditures exceeded budget amounts as new, "found" revenue, was spent. Finally, the unassigned General Fund balance – the County's savings account – equaled only 12.3% of General Fund expenditures, far below the 20% target set by Board policy.

As of this writing, the fiscal condition of the county is now very good. Procurement rules have been tightened – and are proposed to be tightened further – to the extent that purchases by trained staff using procurement cards are now about \$2,500 a month instead of \$19,000 a month in credit card bills. All funds are budgeted, and dozens of small accounts collapsed into the general fund. Polk County is one of the first, if not the first, county in the region to be fully compliant with the new accounting rules on fund management. The 2011 budget was designed to be sustainable and, for the first time in recent years, 2010 expenditures were held below the level of the initial budget amount – saving \$424,000. As an indicator of the success in controlling expenditures, our auditors have recently informed us that our unassigned General Fund balance at the end of 2010 equaled \$6.6 million, or 29.43% of General Fund expenditures.

I cannot overstate the importance of having adequate reserves in these economic times. These funds allow the County the luxury of planning for service changes, as needed, rather than having to react hastily and inefficiently to revenue shortfalls. A layoff, in many cases, represents a costly failure to plan; severance costs and unemployment costs are too often nothing more than a waste of resources. Savings through attrition if carefully managed can be an effective way to reduce costs while maintaining quality services. It may surprise you to learn that, so far this year, we have saved an estimated net \$316,000 in salaries and benefits through attrition – and that is just the levy share.

We will discuss much more of the fiscal outlook as part of the budget process later this summer and fall. In the interim, please advise me if you have any questions.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Dana W. Frey".

Dana W. Frey  
County Administrator

attachment

## EXECUTIVE SUMMARY

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Wisconsin statutes require that a county administrator annually communicate to the county board the condition of the county. As the administrator is the chief administrative officer of the county and the county board the policy setting body, this would imply that the administrator communicate matters of relevance in policy making, specifically in setting the annual budget and responding to strategic issues such as workforce development and succession, infrastructure improvements, and changing service needs and issues.

The condition of the County is measured on three dimensions: the economic and demographic condition, or the context within which the County Board must make its decisions and the administrator his recommendations; the fiscal condition, or the current finances and financial trends affecting the County; and the management condition, or the ability of the administration to effectively implement policy as set by the County Board.

The economic condition of the County is stable and improving. The County was severely impacted by the Great Recession, with substantial job loss and loss of property value, especially important due to the high percentage of residential property in the County. The foreclosure rate within the County is also high, with reportedly one out of 456 homes in foreclosure in March of 2011. Recent sales tax data show a marked growth in retail sales within the County, however, and point to a more rapid rate of recovery than the State or other counties within the region. Demographically, although population growth continues at a moderate pace the population is also aging rapidly, with the proportion over age 65 set to double in the next 20 – 25 years.

The financial condition of the County is dramatically improved. Fiscal controls, combined with innovation on the part of County staff, constraint in expenditures, and an improving economy have resulted in a restoration of the County's fund balance to a more than adequate level, approaching thirty percent of General Fund expenditures. Overall, net General Fund expenditures declined between 2009 and 2010. It is too early to tell whether these savings are ongoing or one-time, meaning that caution is needed in their application to prevent a structural deficit. Attrition savings, year to date, are in excess of \$300,000.

With respect to property tax burden, the County is at about the average level or below average for Wisconsin counties. The County's overall tax rate is 41<sup>st</sup> highest of the 72 counties and, although per capita tax burden is higher for operating expenditures, that is significantly affected by the high proportion of seasonal households in the County. When per capita data are adjusted for this seasonal property, the per capita tax burden for operating expenditures is just below the statewide median.

The County does rank high in debt service costs, attributable to the construction of several County facilities within the past decade or so, costs that will increase for the next few years. However, with one or two exceptions, the County also enjoys the benefits of newer, more efficient facilities and has no pressing need for major capital investments in the near term.

The management condition of the County is very good and improving – albeit with significant challenges in the offing. Most of the major policies have been rewritten to reflect an administrator form of government or to take into account best practices. Codification of all policies remains a long-term goal, and policy amendments have taken that general format into account in their redrafts.

The County is facing a major turnover in positions, especially at senior levels, due to retirement. Overall, around thirty percent of County employees are eligible for retirement, higher at management levels. In addition, the old paradigm of lifetime employment with a local government is no longer relevant. This problem is exacerbated by difficulties in staffing and recruitment at senior levels, due in part to the relative immobility of families in today’s housing market. Succession planning and staff retention must and will become a higher priority and a significant challenge.

The organizational structure of the County is typical for Wisconsin counties, with a large number of small departments, many headed by an elected official. Internally, most larger departments have a reasonable span of control, or employees per supervisor. There are of course savings to be realized from reorganization if managed carefully and where possible. The opportune time to undertake such reorganization is in the case of a vacancy; alternatively, reorganization can increase costs through effectively creating just another layer of management. The human services department is under review for reorganization at this point, and it is likely that significant savings can be realized from this approach.

Overall, the condition of the County is very good, and improving, despite forthcoming financial challenges. The local economy is getting better, albeit far more slowly than most would prefer, and population growth moderate (and aging). The County’s financial status has greatly improved due to increased fiscal discipline; the challenge of the coming months will be to develop a sustainable budget for the longer term. Finally, the County’s management condition is also improving, although there the principal challenge is to respond to the coming wave of retirements without additional cost or service disruption. All told, the County is in a position most would envy: solid reserves, a foundation of good fiscal practices, an outstanding work force, and a great place to live.

## INTRODUCTION

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Wisconsin Statutes Section 59.18 governs the position of county administrator and assigns him or her the responsibility of being the chief administrative officer of the county as well as other duties including preparation, submission, and execution of the annual budget, hiring and supervision of department heads, appointment of committee members, and implementation of federal, state and county laws or policies. That same statute provides that “The county administrator shall annually... communicate to the board the condition of the county.” By this, the statute also assigns every county administrator the responsibility of advising the board on issues of import to them from the perspective of the administrator’s duties and responsibilities. As the county board is the policy setting body, this would imply that the administrator communicate matters of relevance in policy making. This report is written in fulfillment of that requirement and constitutes this annual communication on the condition of Polk County as required by statute.

Reports are of little value without applicability. This report is therefore written in the main to provide background information on the context within which the County Board will need to operate in amending and approving the annual budget, or as the macro-fiscal framework used in determination of the resource envelope and running expenditure costs. In addition, this report is also intended to help identify some of the more significant strategic issues in management that the County Board will need to face in the coming year and beyond: succession planning and workforce turnover, changing service demand and other external factors. Finally, as the County now may, and certainly must, focus on a longer-term horizon for financial and operational planning, this report also considers longer-term opportunities and threats, some of which will be addressed in the forthcoming budget.

Please note that this report is not intended to be a substitute for annual reports submitted by individual departments to their governing committees, and care has been taken to not repeat information included therein. This report is intended to provide a view of the County at a more macro, 10,000 foot level; department reports are more detailed – a view from 500 feet. This report does, however, replace any department report for the department of administration.

## THE CONDITION OF THE COUNTY

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Despite the lingering effects of the greatest recession in 75 years, the condition of Polk County remains strong and the County’s outlook extremely positive. The County’s finances are stable, our growth continues at a manageable rate, the economy has begun to recover although more slowly than most would like, and the County remains wealthy in its human capital – our employees, our volunteers, and our citizens. Of course there are challenges as well: the local real estate market remains flat and many homeowners are in financial difficulty; unemployment, although improved, remains high by historical standards; and although investment is occurring elsewhere the County has lost a major employer and new job growth is slow to replace this loss. This report explores all of these areas in greater detail. It is written in three sections: demographic and economic conditions, fiscal conditions, and management conditions. Each of these sections is factored into subsections by topic.

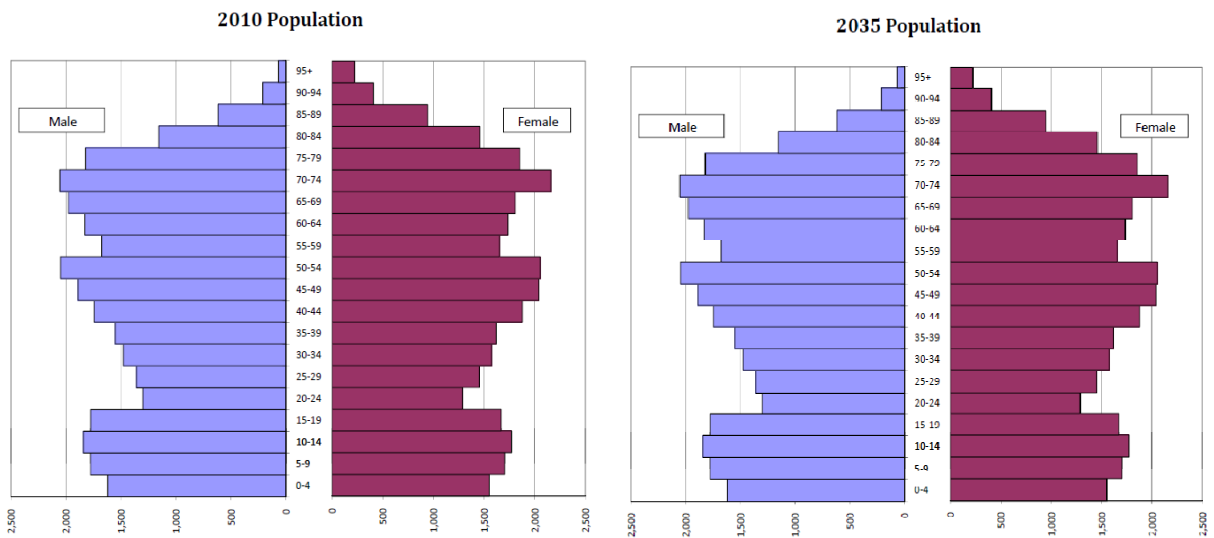
## DEMOGRAPHIC CONDITIONS

Polk County continues to grow in population at a very manageable rate. According to the 2010 census, the County’s population increased by 7.0% over the past decade, a full percentage point above the State average and 21<sup>st</sup> fastest among the 72 Wisconsin counties. Polk County is now the 32<sup>nd</sup> largest county in the State, with an official census population of 44,205. Over two-thirds of this population growth was due to people moving into the County; the Census Bureau estimates that there were 4,948 births in the County over the past decade and 4,084 deaths, for a natural population increase of 874, but 2,012 new residents from net in-migration, the 19<sup>th</sup> highest rate within the State (note that St. Croix County had the highest net in-migration rate).

The Census also showed that, like most semi-rural Wisconsin counties, Polk County has very little ethnic diversity. The single largest minority group is Hispanic or Latino, with an estimated 656 residents; Native Americans are second with 454 residents. Of note for future policy, the County’s population is also aging, with 16.0 percent of the population over age 65, up from 15.1 percent a decade ago. This is higher than the State average of 13.7 percent and the U.S. average of 13.0 percent. This growth will accelerate: by 2015, according to the Wisconsin Department of Administration, 18.4 percent of the County’s population will be over age 65, rising to nearly one-fourth of the County’s residents by 2025. This aging population has serious implications for service delivery, especially given the rural nature of the County. Figure 1 shows the population distribution for the County for 2010 and the forecast for 2035; note the dramatic shift towards the older ranges of the graph.

**Figure 1**

**Polk County Population Distribution, 2010 and 2035**



Source: Prepared from data developed by the Wisconsin Department of Administration

Polk County has 24,248 housing units according to the 2010 Census, an increase of 3,119 units or 14.8% over the past decade. Of these, 74.2% are occupied, attesting to the high level of seasonal occupancy (St. Croix County is at 93.6%, Burnett at 44.6%). Further analysis shows that Polk County has a relatively high share of seasonal residences at 4,885 housing units out of a total of

24,248, or just over 20 percent. This has a direct impact on service delivery and costs, as will be discussed further below in the section of this report concerning relative tax burden.

## ECONOMIC CONDITIONS

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Polk County was severely affected by the Great Recession, with a substantial loss in employment, in property value, and in overall wealth. Although there are signs of a rebound everywhere, the depth of this past recession and slow pace of recovery continue to cause lingering financial problems readily apparent to even the casual observer in closed stores and factories, empty lots in housing developments, and in foreclosures. First quarter GDP statistics were disappointing, as have been recent employment statistics. However, most observers expect the recovery to continue, although higher gas prices, a difficult winter, and ongoing issues in the housing market have been a substantial drag on the economy. The latter, especially, has had a real impact on Polk County in both construction-related employment and in tax base.

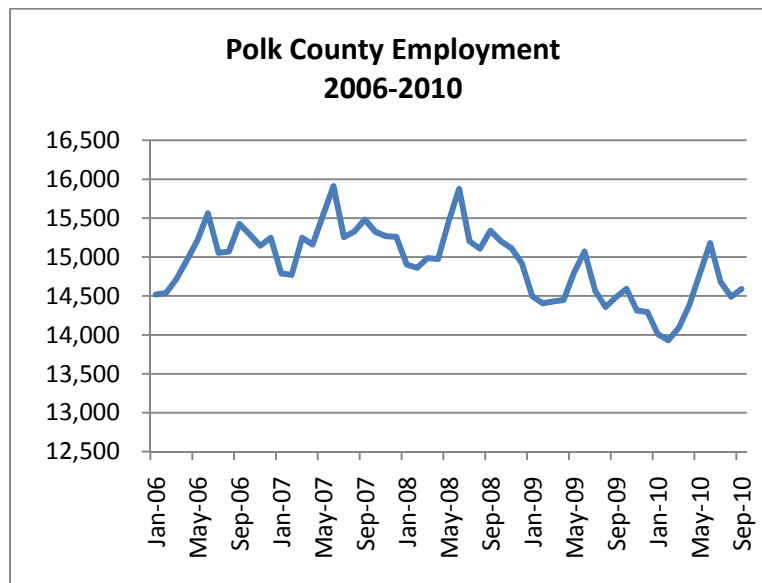
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### EMPLOYMENT

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Despite modest recent growth, employment still lags well below the pre-recession peak. Figure 2 shows Polk County employment from January 2006 through last fall (more recent data are not available). In April, 2010, the County's unemployment rate was 10.7%; this rate fell to 8.8% by April, 2011. Although nearly identical to the national average at that time, the rate was still well above the State average of 7.4%.<sup>1</sup>

Figure 2



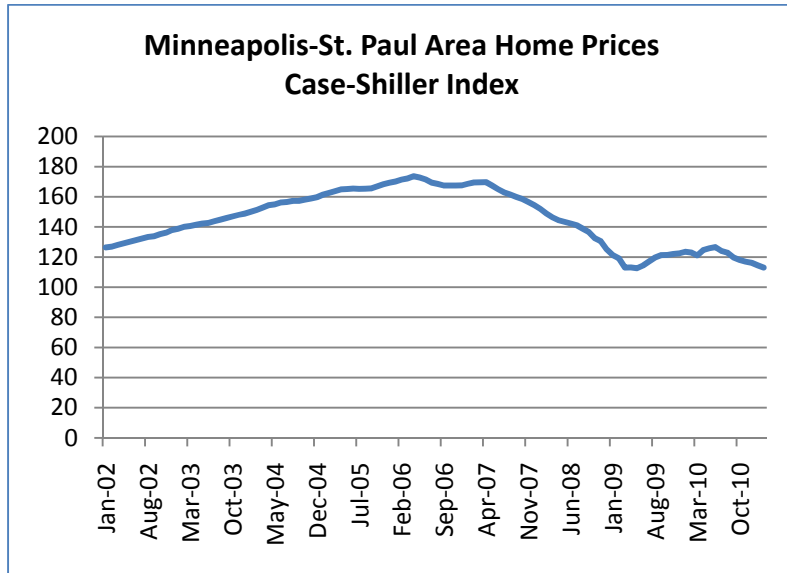
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<sup>1</sup> State of Wisconsin, Department of Workforce Development

## HOUSING

The miniscule recovery in the housing market last summer has now evaporated, and home prices are now back to the lows seen in the last recession in virtually every market in the country. For February, 2011, the last period available, values are back to levels last seen nearly ten years ago, in the summer of 2002. Given the glut of foreclosures and bank-owned property, most experts believe it will take years for these values to recover

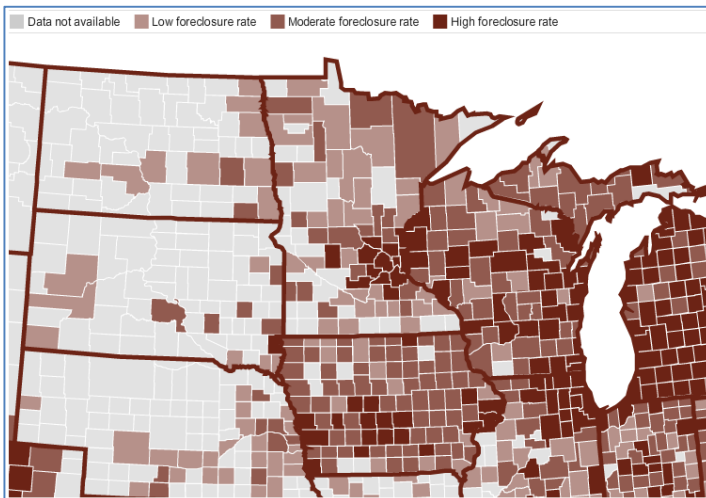
**Figure 3**



Mortgage foreclosure rates within the County remain high. According to data derived from the firm Realty Trac, the foreclosure rate for Polk County in March, 2011 was one in 456 mortgages, well above surrounding Wisconsin counties - but well below neighboring counties in Minnesota. Figure 4 shows foreclosure rate levels for the region.

**Figure 4**

**Mortgage Foreclosure Rates, Upper Midwest and Surrounding Counties**



| County          | Foreclosure rate |
|-----------------|------------------|
| Polk            | 1 in 456         |
| St. Croix       | 1 in 824         |
| Burnett         | 1 in 700         |
| Barron          | 1 in 1,779       |
| Dunn            | 1 in 1,263       |
| Washburn        | 1 in 986         |
| Chisago (MN)    | 1 in 776         |
| Washington (MN) | 1 in 352         |

Source: Realty Trac

Please note also that a high foreclosure rate does not necessarily indicate greater underlying economic issues but may, in fact, indicate processing timelines that vary among financial institutions. There likely is not any significant difference in rates between the counties that border the Minneapolis/St. Paul metropolitan area. Please also note that these foreclosure rates, while seemingly high, pale in comparison with those in other metropolitan areas across the country. In Hillsdale County, Michigan (exurban Detroit) current foreclosure rates are one in 61, in Clark County, Nevada (Las Vegas) one in 77; in Kendall County, Illinois (suburban Chicago) one in 196. Rates are also higher in southwestern Wisconsin, e.g. one in 266 in Kenosha County.

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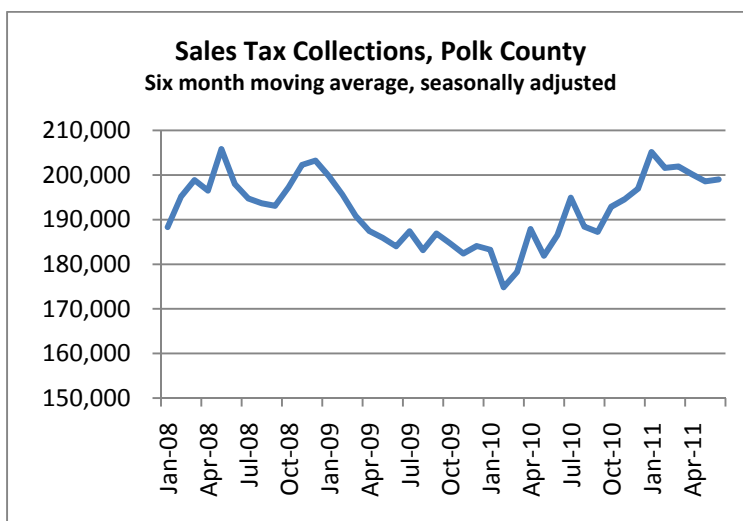
## RETAIL SALES

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Like all but a handful of Wisconsin counties, Polk County imposes a one-half cent sales tax piggybacked on the State sales tax and collected by the Department of Revenue. In addition to providing revenue to offset the property tax, these collections also allow the County to track local economic activity, albeit with a two to three month lag (collections reported for May, for example, are from purchases made during the month of March at the latest; earlier for quarterly or annual filers).

The most recent sales tax data indicate solid recovery from the recession and significant improvement in County retail sales, outstripping the State average and most neighboring counties. Collections rose 13% for the 12 month period ending in May compared to the previous 12 month period; on a seasonally-adjusted basis collections are now approximately at their pre-recession high (see Figure 5, following).<sup>2</sup>

**Figure 5**




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<sup>2</sup> Revenue Department data adjusted for seasonality using the Census Bureau X-12 ARIMA model

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## INCOME

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In personal income, as in other indicators, Polk County shows the influence of proximity to a large metropolitan area. For 2010, the County's median household income was \$50,346, meaning one-half of the households in the County earned less than that amount, one half earned more. Data for our surrounding counties is included in Table 1 below.

**Table 1**

**Estimated Median Household  
Income by County, 2010**

| <b>County</b>   | <b>Median Household<br/>Income</b> |
|-----------------|------------------------------------|
| Polk            | \$50,346                           |
| St. Croix       | 68,382                             |
| Burnett         | 42,460                             |
| Barron          | 44,207                             |
| Dunn            | 47,917                             |
| Washburn        | 41,312                             |
| Chisago (MN)    | 64,292                             |
| Washington (MN) | 80,773                             |

Source: Nielsen Claritas survey data

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## FISCAL CONDITIONS

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The economic outlook discussed above is but one part of the financial picture for purposes of policy making through the annual budget; the fiscal status or condition of the county is another. The former will provide guidance as to need and likely growth in resources; the latter will provide information on resource availability and internal influences on the County's budget as well as those externally imposed by other levels of government in the form of financial aid, programs or often mandates.

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## INTERGOVERNMENTAL AID AND FINANCES

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Although the State budget has just been adopted at the time of this writing and full analysis is not yet available, it would appear that the actions of the State Legislature did much to soften the impact of the initial proposed budget reductions on Polk County finances. The Governor's proposed reduction in shared revenues has been halved, to \$140,000, and highway aid reductions were also diminished. The County will be affected by other aid reductions, notably child support administrative funding and family aid, with some beginning this year and the balance in 2012. However, these are relatively smaller amounts, and most do not take effect until 2012. Other changes are yet unknown: proposed centralization of economic support functions will have an impact on County staffing and perhaps finances, Medical Assistance changes at both the State and Federal level may impose new costs on local governments, and sundry reductions in State agencies

will likely filter through to local governments in the form of increased costs or reduced financial assistance.

Changes to employee benefit payments more than offset these amounts for 2012, however. State changes in the area of employee pension contributions will result in savings to Polk County government of an estimated \$500,000 in levy-funded costs. This cost reduction will do much to offset these aid reductions and allow the County to weather the proposed levy cap without major service disruptions. The new levy cap is limited to growth in value from new construction only (approximately one-half of one percent) for 2012 and 2013 and the greater of the growth in value from new construction or 1.5 percent per year for 2014 and beyond. This limit will seriously affect local government finances, especially in those counties who used fund balance in 2011 to offset levy increases, as the new levy cap is based on 2011 actual levy, not the previous levy cap.

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### PROPERTY TAX CAPACITY AND TAX EFFORT

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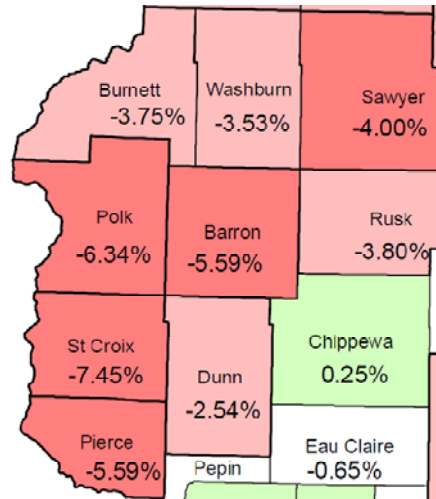
Over three-fourths of Polk County’s taxable real estate value is in residential property, property whose values were hard hit by the past recession and current market stagnation. The State of Wisconsin Department of Revenue estimates that Polk County lost 6.3 percent of total value from 2009 to 2010, largely because of an estimated 7.3% drop in housing values; other values were not as seriously affected. Table 2 shows change in value by class of property, and Figure 6 shows change in value for Polk and neighboring counties. The largest drop in equalized value in the State was in Adams County, at 7.84%; St. Croix County was second and Polk County was third. Counties in the Milwaukee area also lost equalized value at a similar rate, in the minus four to five percent range.

**Table 2**  
**Change in Equalized Value by Class, 2009 – 2010, Polk County**

| Class of Property | 2009 Value           | New Construction  | 2010 Value           | Change in Value     |              |
|-------------------|----------------------|-------------------|----------------------|---------------------|--------------|
|                   |                      |                   |                      | Dollar              | Pct.         |
| Residential       | 3,784,739,800        | 24,743,000        | 3,508,281,300        | -276,458,500        | -7.3%        |
| Commercial        | 338,732,100          | 1,684,900         | 336,740,200          | -1,991,900          | -0.6%        |
| Manufacturing     | 92,266,300           | 677,800           | 90,077,900           | -2,188,400          | -2.4%        |
| Agricultural      | 37,874,800           | 0                 | 37,440,900           | -433,900            | -1.1%        |
| Undeveloped       | 49,880,300           | 0                 | 48,400,800           | -1,479,500          | -3.0%        |
| Ag Forest         | 62,139,400           | 0                 | 59,495,600           | -2,643,800          | -4.3%        |
| Forest            | 294,317,100          | 0                 | 278,569,700          | -15,747,400         | -5.4%        |
| Other             | 128,697,800          | 540,200           | 127,082,200          | -1,615,600          | -1.3%        |
| <b>Total</b>      | <b>4,788,647,600</b> | <b>27,645,900</b> | <b>4,486,088,600</b> | <b>-302,559,000</b> | <b>-6.3%</b> |

Source: Wisconsin Department of Revenue

**Figure 6**  
**Change in Equalized Value by County**



Source: Wisconsin Department of Revenue

Despite this fall in value, Polk County remains a relatively wealthy county as measured by tax capacity or equalized property value. At \$107,283 of equalized value per capita for 2010, Polk County lies about 20 percent above the State average in property wealth, or 21<sup>st</sup> highest overall. This is doubtlessly a function of both proximity to a metropolitan area and seasonal property. Of the top 25 counties in the state in per capita value, only five have less than five percent seasonal housing units and those are effectively suburban counties.<sup>3</sup>

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**For 2010, Polk County's operating property tax rate is 48<sup>th</sup> highest among Wisconsin counties and its overall rate is 41<sup>st</sup> highest**

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In part because of this high tax capacity, Polk County's property tax rate – an *indicator* of tax effort – is well below the median for Wisconsin counties. For 2010, the operating tax rate is \$3.87 for every \$1,000 of equalized value, 48<sup>th</sup> highest of the 72 counties. However, the County's debt rate is \$0.86 for every \$1,000 of equalized value, the sixth highest rate among Wisconsin counties, increasing the overall rate to \$4.74, 41<sup>st</sup> highest of the 72 counties.

On a per capita basis, Polk County collects \$508.40, ranking 18<sup>th</sup> highest among Wisconsin counties largely because of the relatively high debt levy. On an operating basis, the County's levy is \$415.72, or 26<sup>th</sup> highest. Much as a relatively low tax rate is not *prima facie* evidence of low tax effort or burden, as higher average values can result in higher average taxes holding rate constant, a relatively high per capita levy is not proof of a high tax effort. Tax shifting

and incidence result in a redistribution of taxes to non-residents; this is especially pronounced in those areas with a great deal of seasonal property (the highest per capita levy is Adams County [Wisconsin Dells] followed by Door County).

<sup>3</sup> St. Croix, Waukesha, Ozaukee, Washington, Dane

Per capita measures are also misleading in that they do not take into account the cost of providing services to seasonal residents or tourists. Despite the fact that seasonal residents consume little in county services, those they do use are more levy-dependent: law enforcement and highways, to name two. A further complicating variable is property wealth: those areas as noted that have higher property values also have higher proportion of seasonal value. It may well be that higher wealth governments spend more than lower wealth governments; this too must be taken into account.

Annex A contains details of a special study on the impact of seasonal population on county property tax operating levy (excluding debt service levy) controlling for property wealth and for population (the per capita cost of county government tends to fall as county population increases due to economies of scale). This analysis indicates that a seasonal population does have a significant impact on county levy: on average, in one iteration of the model, each percent of housing units that were seasonally occupied increased per capita levy by about \$3. As Polk County has over 20 percent of its housing units seasonally-occupied, then about \$60 of levy per capita can be directly ascribed to the cost of providing services to seasonal residents.

This should not be surprising. As noted, even though a seasonal population does not make use of many county services, those that it does tend to be more reliant on the levy. In Polk County, law enforcement, highway construction and maintenance account for nearly half of the property tax levy, more if their share of debt service levy is included. If levies were adjusted for seasonal property using this model, Polk County's per capita operating levy would be just over \$300 and the County would rank 37<sup>th</sup> among the 72 counties.

Most of the above discussion concerns operating levy; as noted Polk County is relatively high in debt service levy. As discussed below, this will not moderate for several years to come, but it is important that this component of levy be considered separately and not as evidence of general overspending. Similarly, the best proxy for operating expenditures is net operating levy; comparisons of total expenditures that consider other revenue sources may only identify those counties who are fiscal agents for others or who operate enterprise funds or who are very good at obtaining non-tax funding. Further categorization and detail may suffer from that same flaw and, as well, be at the mercy of the vicissitudes of expenditure classification.

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## OTHER REVENUES

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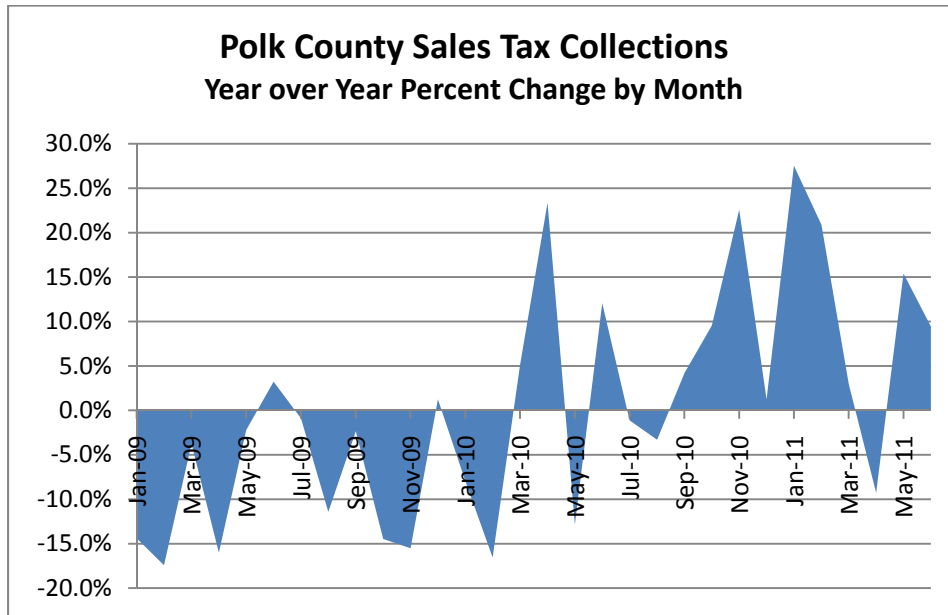
Sales tax collections are well above recession-era levels, increasing by eight percent between the 2009 and 2010 budget years and by 7.4% for the years ending in June, 2011 and June, 2010, respectively.<sup>4</sup> Polk County has in fact out-performed the state average<sup>5</sup> in year over year sales tax growth in eight of the past twelve months and has had all time record collections in four of the last seven months. Figure 7 shows percentage change in monthly collections over the same month one year ago. Despite the volatility due to collection timing and a relatively small base, this graph illustrates both the depth of the past recession and its effect on retail sales and the speed of the recovery in that same area.

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<sup>4</sup> Through February of the following year, respectively.

<sup>5</sup> Computed using only those counties who have imposed a sales tax throughout the study period (January 2007 - May 2011) to avoid errors due to new entrants.

Figure 7



Source: Wisconsin Department of Revenue

Polk County's sales tax improvement does not appear to be tourism-related. Those counties who are performing the best in sales tax collections over the past year are not typical tourist destinations (e.g. Trempealeau, Pierce, Chippewa) while tourist areas are doing relatively worse (e.g. Door, Sawyer, Ashland). Identification of cause awaits further information.

The County has also benefitted from an improvement in real estate delinquency, increasing available funds, and in interest payments on delinquent property tax. Fees and charges have increased only slightly, and donations for most programs have declined with the slow economy.

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## EXPENDITURES

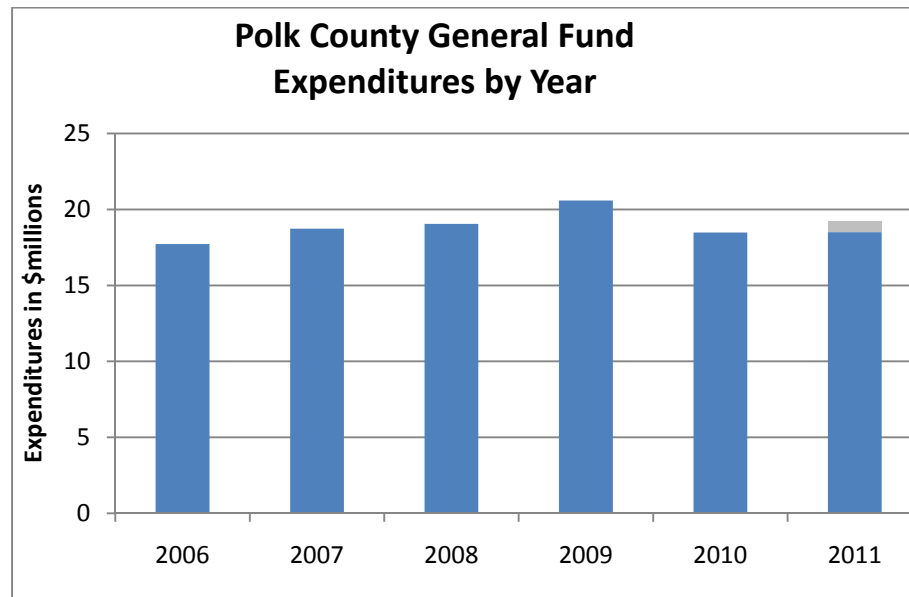
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Until 2010, Polk County was in a similar pattern as most local governments in its expenditure controls and overall fiscal discipline. Typically, revenue estimates were very conservative yielding excess revenue at year end, and expenditure budgets were overstated, leaving a significant amount of unspent funds. Ambiguous rules combined with the lack of strict oversight of expenditures and unbudgeted resources in non-lapsing accounts or project funds resulted in substantial budget adjustments, especially at year end. In 2009, for example, expenditures exceeded the initial budget set by the County Board for that year by \$1.5 million, in 2008 they exceeded the initial budget by \$1.2 million, and in 2007 they exceeded the initial budget by \$1.9 million because of these mid-cycle adjustments.

In 2010, General Fund expenditures were \$423,970 below budgeted amounts due to improved financial controls and countywide efforts to constrain expenditures. A number of departments – Law Enforcement, Buildings, and Human Services – were notably successful in reducing expenditures below budget amounts. As revenues exceeded the budget estimates by \$2.5 million, the General Fund ended 2010 \$2.9 million to the positive. Figure 8 shows this fall-off in expenditures quite clearly. It is of course yet unknown what the ending expenditure amount for

2011 will be, but it is likely to fall somewhere within the shaded area of the graph and it is unlikely any excess revenues will be expended.

Figure 8



Other individual funds are in varying conditions. The health insurance fund has not yet recovered from the fund balance drawdown in 2010 that resulted from the premium reduction this year, although the budgeted 18 percent premium increase effective December 2010 appears to have some salutary effect in stabilizing that fund. Although we are still awaiting final audit figures, Golden Age Manor appears to have ended the year with a \$275,000 cash loss, but as noted in past discussions \$100,000 of that loss was a transfer to the General Fund included in the 2010 budget. The Lime Quarry also ended the year with a \$150,000 cash loss, although again that includes a \$100,000 transfer to the General Fund mandated by the 2009 budget. Finally, the Aging Department ended the year with a loss as well, \$76,000 in cash terms. All other major funds appear to have ended 2010 with positive balances.

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### UNASSIGNED GENERAL FUND BALANCE

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Because of tightened fiscal controls in 2010 as discussed above along with a unified effort by departments and County staff to control expenditures (and an improving economy), the size of Polk County's unassigned fund balance has increased dramatically. Common practice, and Board policy, is for an unassigned reserve equal to about 20 percent of General Fund expenditures in order to protect against sudden and unplanned expenditure increases or revenue losses as well as to help assure potential creditors of the governments financial stability and ability to meet debt service payments. However, at the end of 2009 this balance in Polk County was equal to only 12.3 percent of General Fund expenditures, just over half the required amount. Improvement in this unassigned fund balance was therefore a priority in 2010 budget execution and 2011 budget planning.

A powerful set of tools were made available to the County in the latest fund balance standards developed by the Government Accounting Standards Board (GASB) and promulgated as part of Rule 54. Polk County may be the first county in the region, and perhaps in several states, to implement

these new standards, which were of great value in sorting out and clarifying various dedicated funds and non-lapsing accounts. As of January 1, 2011, Polk County no longer has any non-lapsing accounts; rather, all funds are allocated in accord with this new accounting rule.

According to the County's auditors, the unassigned fund balance for 2010 will more than double as a share of General Fund expenditures to 29.43 percent. This represents an addition of \$3,757,506 to unassigned fund balance, now a full \$2,126,323 above the target of 20 percent of General Fund expenditures. Further, the expenditure constraints that resulted in many of the savings in 2010 have continued on into 2011, and it would be our expectation that this fund balance would only increase throughout the year absent any unexpected disruptions. To date, the County has saved a net \$316,000 in levy-related costs through attrition. Table 3, following, lists fund balance history by year.

**Table 3**  
**Polk County Unassigned Fund Balance by Year**

|                                       | <b>2006<br/>Audited</b> | <b>2007<br/>Calculated</b> | <b>2008<br/>Calculated</b> | <b>2009<br/>Audited</b> | <b>2010<br/>Preliminary</b> |
|---------------------------------------|-------------------------|----------------------------|----------------------------|-------------------------|-----------------------------|
| Beginning Fund Balance                | 3,721,002               | 4,484,426                  | 3,979,443                  | 2,987,002               | 2,878,036                   |
| Additions (Subtractions) <sup>6</sup> | 763,424                 | (534,983)                  | (992,441)                  | (108,966)               | 3,757,506                   |
| Ending Fund Balance                   | 4,484,426               | 3,949,443                  | 2,987,002                  | 2,878,036               | 6,635,542                   |
| Percent of General Fund Expenditures  | 18.4%                   | 18.7%                      | 12.3%                      | 12.3%                   | 29.4%                       |

A few important notes: One, the decline in fund balance in 2008 and 2009 is as much a result of the recession as it is of financial management. The County must pay property taxes in full to other taxing jurisdictions and retain delinquent taxes as a receivable. This is effectively a dollar-for-dollar transfer from the County's unassigned fund balance to a reserve for delinquent taxes. This reserve increased from \$2.4 million in 2007 to \$4.9 million in 2009; it has since fallen to \$4.6 million. If and when delinquent taxes return to more normal levels, then, the County's unassigned fund balance will increase by another \$2.2 million.

Second, other than this lowering of the reserve for delinquent taxes, much of this increase in fund balance is comprised of one-time resources such as cancellation of non-lapsing accounts, project funds, and so forth as well as one-time expenditure reductions. The 2011 budget was sustainable, meaning that it did not rely on one-time resources for to fund ongoing costs, enabling in part this increase in fund balance. The 2012 budget will also need to be reviewed in that same context, meaning that over the coming months a budget challenge will be to identify the degree to which some of these reductions are sustainable. For now, the safest assumption is that these funds are all one-time.

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<sup>6</sup> 2007 and 2008 financial statements combined designated and undesignated fund balances; this table estimates that the designated fund balance fell in equal measure between 2006, the last year these funds were separated, and 2009, the most recent year they were separated.



These financial improvements are of tremendous help as we enter into the 2012 budget cycle and beyond ... providing the luxury of planning for any necessary service changes rather than hastily reacting



Nonetheless, this substantial fund balance is of tremendous help as we enter into the 2012 budget cycle and beyond. It provides the County the luxury of planning for any necessary service changes rather than hastily reacting – avoiding the cost of layoffs or contract buy-outs or other exigent actions. Layoffs represent a failure to plan, to manage staff costs through attrition, instead incurring unnecessary costs in the form of unemployment insurance, benefit payout, and lowered morale and productivity. Second, this reserve allows time for the evaluation of programs, determining their effectiveness and whether there are alternative, less expensive means of achieving the same goals. Third, a reserve of this size gives the County the opportunity to spend now to save later – implementing investments that have a rapid payback in the areas such as energy efficiency, technology or debt service. Finally, it gives taxpayers assurance of stable tax levies into the foreseeable future, that these funds can be used as a buffer to smooth out the impact of any cost increases even after levy caps are lifted.

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#### DEBT SERVICE AND BORROWING

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Polk County is rated Aa3 by Moody’s investor service, a rating close to the median for Wisconsin counties. Of the 72 counties, 14 have no rating, 11 have a lower rating than Aa3, and 32 have a higher rating.<sup>7</sup> Although Aa3 is an excellent rating, based on per capita property wealth and population, it may well be possible for Polk County to improve its rating to an Aa2 (S & P AA) through continued prudent financial management and planning, including multi-year budgeting, adequate sustained reserves and strong policy underpinnings to support debt service and repayment prior to any future debt issue.

As has been noted, due to actions by past County Boards, Polk County is not in a position to undertake any new substantial debt without seeing a major impact in property taxes. The County undertook a series of major capital projects relatively recently, including the Justice Center, the addition to the Government Center, communication towers, and in 2007 an increase in highway funding. Although these projects will reduce future costs and result in a generally updated infrastructure (see the section under management conditions), the other side of the coin is that the County at present has relatively significant debt service costs (see the discussion under property tax effort). For 2012 alone, the County must find an additional \$200,000 to fund debt service payments and another \$100,000 in 2013. No County debt may be (economically) rescheduled until late in 2012.

Table 4 shows debt service by year from 2011 through 2021 by principal and interest payments for all County obligations. Note that all of the County’s debt is retired and there are no scheduled debt service payments after 2021 at this time.

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<sup>7</sup> Public Financial Management, Milwaukee WI

**Table 4**  
**Polk County Debt Service Payments**  
**2011 - 2021**

| <b>Year</b> | <b>Principal</b> | <b>Interest</b> | <b>Total</b> |
|-------------|------------------|-----------------|--------------|
| 2011        | 2,651,057        | 1,264,807       | 3,915,864    |
| 2012        | 2,982,329        | 1,158,747       | 4,141,076    |
| 2013        | 3,203,670        | 1,050,868       | 4,254,538    |
| 2014        | 3,340,058        | 905,756         | 4,245,814    |
| 2015        | 3,192,777        | 751,210         | 3,943,987    |
| 2016        | 3,461,308        | 599,893         | 4,061,201    |
| 2017        | 2,732,570        | 435,231         | 3,167,801    |
| 2018        | 2,043,882        | 329,639         | 2,373,521    |
| 2019        | 2,175,248        | 232,798         | 2,408,046    |
| 2020        | 2,236,668        | 129,728         | 2,366,396    |
| 2021        | 500,000          | 23,750          | 523,750      |

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**CAPITAL IMPROVEMENTS AND INFRASTRUCTURE**

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Polk County has begun implementation of a capital improvement planning system, albeit limited for the near term due to both the unavailability of debt financing and also the concomitant lack of need for major projects for the near term. With a few notable exceptions, the County's infrastructure is in excellent condition. The opposite side of the debt service cost issue is that the County does enjoy the benefits of relatively new, energy efficient, low maintenance facilities. The quality of the highway system is also quite high; please refer to the excellent reports by the Highway Department for more detail.

With respect to specific facilities, the Buildings Department has recently been engaged in developing a maintenance and repair plan for Golden Age Manor, and the Information Technology Department in linking its systems to the County's systems. It is anticipated that both efforts will result in significant savings in energy efficiency and in technology, to be elaborated on in future reports, although some costs will be incurred in building maintenance and updates. The Buildings Department is also undertaking a review of handicapped accessibility in the Government Center, and has completed a number of energy conservation activities elaborated further in their annual report.

Motor vehicles are often not a primary concern in looking at managing capital assets, but given that the County has approximately \$4.5 million in highway-licensed vehicles their efficient use must be a consideration. At present, County policy calls for the use of County-owned vehicles before reimbursement for use of a private vehicle, but there is as yet no mechanism of interdepartmental reservations. This is being implemented, however, and will be discussed in future reports.

The greatest infrastructure challenge is the condition of the highway department facilities, with issues of accessibility, work flow, and functional obsolescence. The 2010 capital improvement plan

began a dual-track review process, with one track being a major remodeling of the current campus, the other development of a new campus. It is not anticipated that this will occur any time soon (see the debt service schedule, above), but preparations need to be underway so that a future County Board may be able to make such a decision.

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## MANAGEMENT CONDITIONS

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The final relevant dimension of the condition of Polk County is administrative. Specifically, this dimension considers implementation of policy as set by the County Board, the “how” Board directives are carried out. State law assigns this as the purview of the county administrator and of department heads, providing that the county administrator and department heads are therefore accountable to a county board for their implementation.

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## POLICIES

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Over the past year, a number of policies have been redrafted to fit the administrator form of government or to eliminate inconsistent or obsolete references. This activity has been of benefit in improving the quality of policies and assisting in their implementation. Redrafted policies include budgeting, personnel policies, financial policies, governing committee roles and responsibilities, and the general rules of order.

There are still a number of policies that are in rewrite or would benefit from a rewrite, and these include purchasing, the budget overruns policy and employee travel. In addition, the passage of Act 10, limiting collective borrowing, will force the review of current policies and the adoption of new policies governing employment. The long-term goal of codification of policies will also assist in that regard.

Enforcement of existing policies has been both problematic and beneficial to County management. The enforcement of the credit card policy has resulted in a dramatic reduction in the use of this method of procurement. Other than law enforcement, which has special consideration, no County employee has his or her “own” credit card; instead, one employee in each department has been trained in purchasing policy and has a procurement card for that department. As a result, monthly charges that were as much as \$19,000 in early 2010 have fallen to an average of \$2,500. Further, all County-owned vehicles are issued a fuel card enabling both better tracking of expenses and providing security through an ability to pay for any emergency services.

Similar enforcement of other policies has had significant, albeit less dramatic, results. Departments are now in general compliance with the purchasing policy, although as noted that policy does need revision. The provision in the expense reimbursement policy that requires a valid driver’s license is enforced, lowering the County’s potential liability, and the provision that requires use of a County vehicle where possible is being implemented, although full implementation awaits installation of a new computer program.

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## MANAGEMENT AND SERVICE DELIVERY

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The general approach taken towards service delivery in Polk County is a form of performance management. Performance management requires the alignment and clarification of goals and then

support towards their achievement and measurement of results; performance budgeting is one component of this general approach, albeit arguably the most important. The general concept is to continually evaluate progress towards objectives set by the County Board through meaningful, timely measures of effectiveness; as the old saying goes, as there is not enough money to do everything, the Board has to somehow decide what to do. The optimal approach is to shift funding from ineffective, low priority programs to more effective, high priority programs. Although this process of introducing performance management has begun, full implementation is a long-term objective. However, as with budget reform, the journey is as important as the destination.

Performance management is also implemented through the employee development process discussed following and regular progress reports. New progress reports are gradually being introduced, beginning with the new financial reports at the end of the first quarter of 2011. The 2011 budget saw the first use of performance measures; these are being refined in the 2012 budget, in some cases through employee work teams. The idea is to align all incentives and funding towards common goals. In general, performance management requires frequent communication between and among employees and managers and a very participatory goal-setting process as well as ongoing efforts to identify and overcome obstacles. This will continue to be a major challenge in its implementation.

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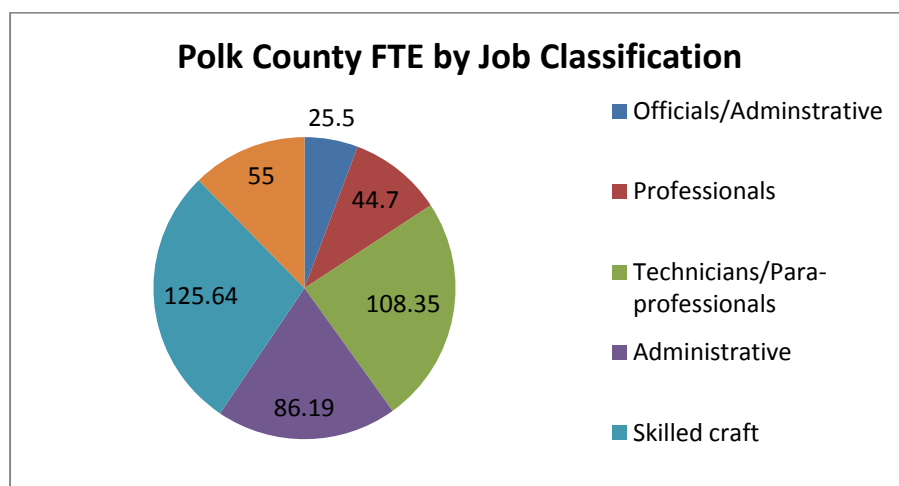
## STAFFING AND EMPLOYMENT

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It is not much of an exaggeration to say that Polk County government is its employees. Much of what the County does is through personal services, and personnel costs are the largest component of County expenditures, accounting for 52.8% of total costs according to the 2011 budget. Note that these costs have not been increasing that rapidly; the average annual increase over the preceding three years was only 2.8%.

The 2011 budget provided funding for 445.38 full-time equivalent employees. Of this total, 25.5 are considered officials or administrators, generally department heads (the medical examiner is a half-time employee). Of the remainder, most are engaged in direct service delivery: nearly 85 percent of County employees are skilled craftspeople, technicians, clerical or protective service workers. Figure 9 shows the distribution of employees by category.

**Figure 9**



The quality of service delivery is generally very good, with departments and department heads being recognized for their success by peers across the State. Further, and as noted, it has been their innovation and effort that has in part resulted in the dramatic improvement in the County's financial position. Though application of new technology (virtual desktops and cheese brine on roadways), careful monitoring of costs (a no-idle policy for highway vehicles), smart practices in service delivery (tele-monitoring for home health care) and just plain good sense, employee efforts have done much to keep costs in check.

Polk County faces and will continue to face substantial employee turnover with accompanying costs and disruptive effects. Approximately 30 percent of current employees are eligible for retirement with even a higher percentage eligible at senior management levels. Further, the thawing job market will likely lead to more losses of employees to the private sector, especially those with sought-after medical or technical skills. In the past few months, the County has lost two such employees to the private sector.

Recent recruitment efforts have also been difficult, with few qualified applications for senior positions. Although two senior positions – nursing home administrator and human services director – have been advertised widely, few highly qualified applicants have come forward. This may be a factor of the relative immobility of families in this housing market, those unable to sell their homes and therefore unwilling to relocate.

The response to these difficulties must both include better succession planning and other actions to make the County more attractive as an employer. It is now estimated that the average college graduate will change jobs seven times within his or her career, up from five times just a few years ago.<sup>8</sup> The old model, where local government employees began and ended their career with the same employer, is increasingly irrelevant and local government staffing and employment policies must evolve to fit this new environment.

Employee training and development is one example of the type of change that fits both with improved succession planning and with attracting and retaining qualified employees. The County is affected by limited resources for these types of programs, other than those essential to maintaining professional credentials; a coming challenge will be to provide expanded opportunity at limited cost. In 2010, a new approach to employee development was introduced at the department head level which will eventually filter through most senior levels of management. This approach links policy goals as set by the County Board and governing committees to individual goals as well as enabling the individual to set management goals for themselves and for the department. Among those goals is professional development: how the employee plans to improve their knowledge and skills to the benefit of both the employer and to themselves.

Another major challenge in staffing and employment will result from the adoption of Act 10, limiting collective bargaining for public employees. This action almost completely eliminates a system of labor relations with which most were familiar, if not always comfortable, and replaces it with an unknown. This has an effect on morale, and it will be incumbent on local governments to continually demonstrate support for staff and clarity, transparency, fairness, and consistency in labor relations.

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<sup>8</sup> Robert Fullmer, "Choose Tomorrow's Leaders Today", [Graziadio Business Review](#), Vol. 5 Issue 1

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## STRUCTURE AND ORGANIZATION

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Polk County has a traditional organizational structure for a Wisconsin county, with a large number of relatively small departments and many of those headed by an elected official. Other than in these small departments, span of control – number of employees per supervisor - appears to be reasonable and in some cases perhaps on the high side. Traditional management theory was that span of control should be about five or six; this has since been expanded in number in many areas due to the availability of technology to allow for greater supervisory control.

There are two primary reasons to consider reorganization: to save funds through more efficient service delivery and to improve the quality of services (or quantity, in some cases) without increasing costs. Economies of scale and slack resources can of course result in savings from reorganization, but there is also the potential for increased costs through the creation of another layer of management. The opportune time to undertake such reorganization is therefore in the case of a vacancy; the human services department is under review for reorganization at this point due to vacancies, and it is likely that significant savings can be realized. As other vacancies occur, structure is being reviewed with an eye to reducing costs.

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## CONCLUSION

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Overall, the condition of the County is already very good and signs of improvement are easy to see. The road is not completely clear, however. Improvements in the local economy are slow to arrive, with a continued depression in the housing market, historically high unemployment, and a high mortgage foreclosure rate. The County's population continues to grow at a moderate rate – seven percent over the past decade – largely through in-migration. The County's population also is aging, with a doubling of those over 65 in the next 15 – 20 years. This will result in challenges in service delivery, as well as limiting revenues because of a limited ability of many to pay taxes and fees.

The clearest improvement is in the County's financial status. This is largely due to increased fiscal discipline and a common effort towards increased efficiency. For the first time in a number of years, the County finished 2010 with expenditures less than the original budget; this, combined with better than expected revenues and a cancellation of dedicated funds resulted in a substantial increase in the unassigned fund balance and a greatly improved fiscal picture. Further, reductions continue: we estimate that the County has saved a net \$316,000 so far this year through careful management of attrition.

Note that much of these resources resulted from one-time savings or revenues; to avoid a structural deficit these should not be used to fund ongoing expenditures unless absolutely essential. However, these funds do provide the County the opportunity to manage its way through the coming fiscal challenges, a luxury few other local governments have. Attrition can be used instead of layoffs as needed; a layoff often represents a costly failure to plan.

The County's share of the property tax burden remains at or below the State average. The County tax rate is 41st highest in the State and, although the per capita levy figure is higher, this is a function of the large share of seasonal residences; when adjusted for these, the per capita levy is right around the State median. Property wealth remains high, although declining in recent years due to the depression in the real estate market. The challenge of the coming months will be to develop a sustainable budget for the longer term.

The County's management condition is also improving, although there the principal challenges are to respond to the coming wave of retirements without additional cost or service disruption and to maintain morale in light of the recent actions by the State to limit collective bargaining. The application of performance management methods has been initially successful and beneficial, and is ongoing. The organizational structure of the County is traditional for a Wisconsin county; restructuring and reorganization is being evaluated on an ongoing basis when an appropriate level vacancy occurs.

All told, the County is in a position many other local governments would envy: a growing population, solid financial reserves and a foundation of good fiscal practices, an outstanding work force – and a great place to live.

## ANNEX A: ANALYSIS OF THE IMPACT OF SEASONAL PROPERTY ON TAX LEVY

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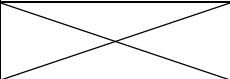
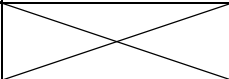
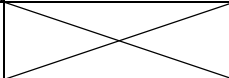
Analyses of comparative costs and of comparative tax burden must of course adjust such data to take into account factors such as population so as to make data comparable. A major shortcoming in doing so is that the population of a given area may not be the best indicator of demand for services. Seasonal property imposes costs on local governments as well as providing benefits in terms of tax base (not to mention the great contribution to the local economy through retail sales). These costs are difficult to directly identify, as those jurisdictions with a higher rate of seasonal property ownership tend to have higher wealth per capita, and those jurisdictions with higher wealth tend to spend more per capita all else being equal. Further, by virtue of their rural locations, those counties with a high percentage of seasonal ownership also tend to be smaller.

It is hypothesized that the relationship between population and levy is not linear, that there are economies of scale best represented as the hyperbolic function  $\text{cost} = f(1 \text{ over population})$ , called the Inverse of Population in the discussion below. Similarly, the impact of seasonal property is hypothesized also to be nonlinear, that the impact of such population rises faster than does the relative share in an exponential function  $\text{cost} = f(\text{square root of share})$  called Adjusted Seasonal Share in the discussion below.

In terms of regression analysis, these variables – property wealth and seasonal property ownership – tend to be related to one another, resulting in multicollinearity of the regressors and potential unreliability of the coefficients. To determine the degree to which this may be a problem, a usual test is to calculate a correlation matrix and determine whether any of these relationships are extremely strong. Table 5, below, provides this matrix. Note that the largest correlation coefficient is 0.617, below the level (0.8 – 0.9) where multicollinearity is usually construed to constitute a serious problem.<sup>9</sup>

**Table 5**

**Correlation Matrix of the Regressors**

|                         | Equalized value   | Adjusted Seasonal Share  | Inverse of population   |
|-------------------------|---|--|---|
| Equalized value         |  | 0.579  | 0.121   |
| Adjusted Seasonal Share | 0.579   |  | 0.617   |
| Inverse of Population   | 0.121   | 0.617  |  |

Pearson product/moment correlation coefficients, n=72

A second potential problem in such analysis is of course the volatility of property tax levies over time, especially in smaller counties. As needed and as appropriate, this could be addressed by the use of a moving average or similar; as other variables change only slowly over time, additional treatments to the data are probably not warranted. This is not believed to be a substantial impact, however, and any further consideration is for future analysis.

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<sup>9</sup> See Kennedy, Peter, A Guide to Econometrics, Fifth Edition, p. 209

**Table 6**  
**Regression Results for Tax Effort Analysis**

|                         |                          |
|-------------------------|--------------------------|
| Constant                | 198.3595<br>(25.52695)** |
| Equalized value         | 0.000859<br>(0.000289)** |
| Adjusted Seasonal Share | 251.4844<br>(87.22106)** |
| Inverse of population   | 921989.1<br>(376199.4)** |
| R – squared             | 0.582                    |
| No. observations        | 72                       |

Standard errors are reported in parenthesis.  
\* and \*\* indicate significance at the 95% and 99% level, respectively.

Note the significance of all of the coefficients and the overall relationship. It is therefore likely that there is a positive relationship between all of the variables listed and per capita operating property tax levy. As an aside, the results also tend to support the decision to not attempt to correct for multicollinearity as the t-statistics for all of the regressors are greater than 2.0.<sup>10</sup>

The value of seasonal share presented as a nonlinear function is of limited utility, although of course statistically significant, in that it does not lend itself to neat interpretation. As a consequence, a second regression analysis was conducted, one that retained seasonal share as a simple percentage to allow simple estimation of the relative effect of seasonal property on local costs. This is presented in Table 7, below. Note that it does partially validate the non-linear transformation of the seasonal share variable.

**Table 7**  
**Regression Results for Tax Effort Analysis**  
**with Linear Seasonal Share**

|                         |                          |
|-------------------------|--------------------------|
| Constant                | 238.0881<br>(30.4257)**  |
| Equalized value         | 0.000810<br>(0.000334)** |
| Adjusted Seasonal Share | 300.9686<br>(127.406)*   |
| Inverse of population   | 974439.1<br>(403465.4)** |
| R – squared             | 0.566                    |
| No. observations        | 72                       |

Standard errors are reported in parenthesis.  
\* and \*\* indicate significance at the 95% and 99% level, respectively.

<sup>10</sup> Kennedy, op. cit., p. 210

Interpreting these data, it would appear that per capita levy rises by just over \$3 for every percent seasonal households are of the total. For a county with 10 percent seasonal households, we would expect per capita levy to be about \$30 higher, for 20 percent seasonal property \$60 higher, and so forth. Further research could attempt to more explicitly identify costs by category: highways, law enforcement, planning and so forth. However, the underlying unreliability of reports in these areas make such an analysis very difficult and likely not worth the effort.