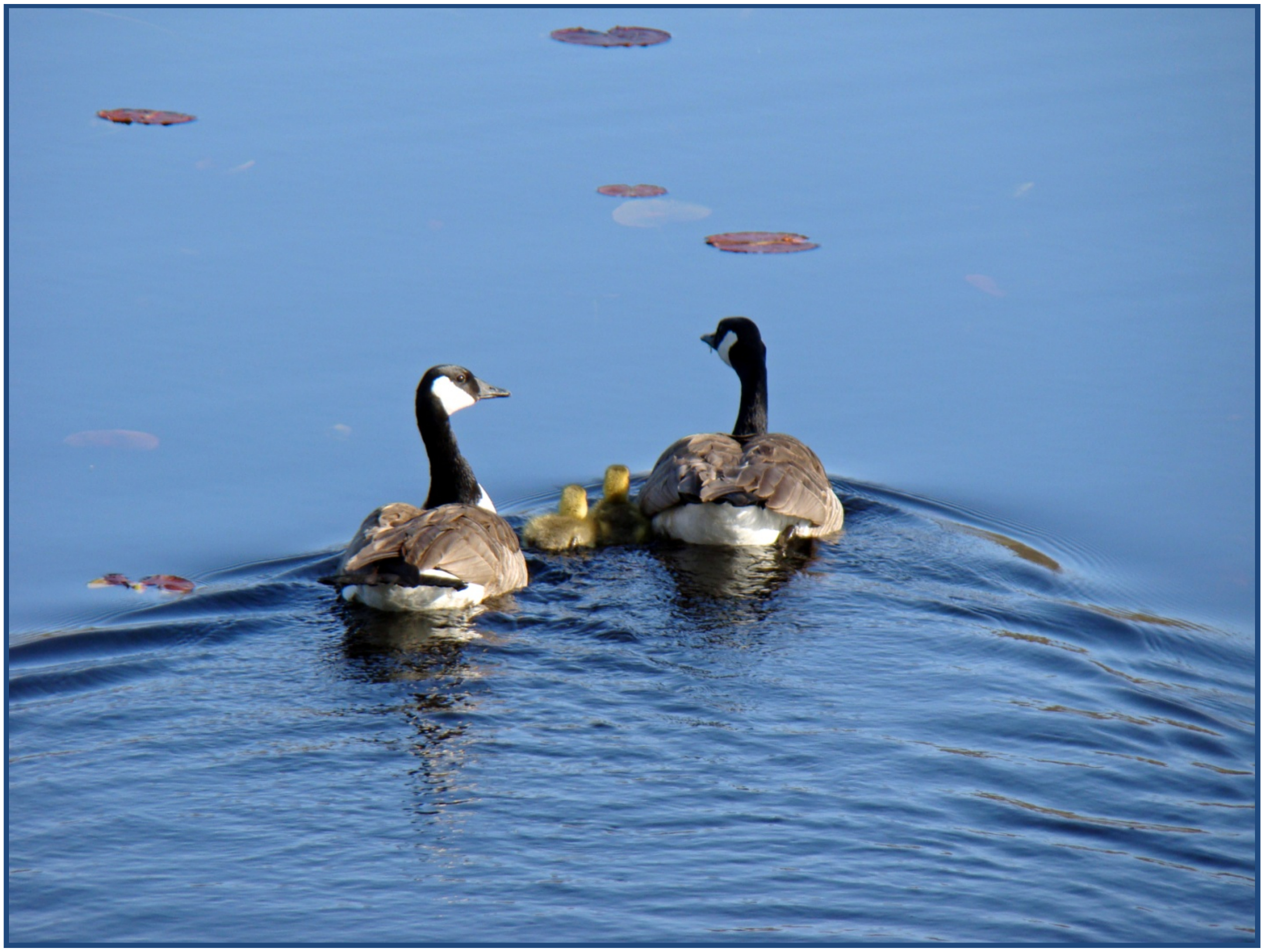
2013 ANNUAL REPORT ON THE CONDITION OF POLK COUNTY



DANA FREY, COUNTY ADMINISTRATOR
JUNE, 2013

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LETTER OF TRANSMITTAL

July 16, 2013

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 my third annual report on the condition of Polk County, as follows in this document.

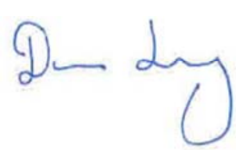
In this report, as in the past, I measured the condition of the County using three dimensions: external economic and demographic conditions, internal fiscal conditions, and management conditions. I am pleased to report that all three are continuing in a positive direction and again show improvement over the prior year.

With respect to the economy, the County has not fully recovered from the 2007-09 recession but continues to show improvement. Although we expect some acceleration in employment growth, at current rates it would still take another five years for employment to reach pre-recessionary levels. Loss of jobs has also caused some significant outmigration; the U.S. Census Bureau in fact estimates that the County lost population since the 2010 census, although we expect that to reverse itself as employment grows. Our fiscal position remains solid, and continues to improve with an increase in fund balances, although we do face a future of severely limited resources.

There have been substantial improvements in the management conditions of the County in the past year. Work continues on consolidation of all policies into a comprehensive General Code. Operational efficiencies also continue, with steps taken this past year to make better use of county assets such as vehicles, telephones, copiers and printers. Additionally, progress has also been made to begin to reform the County's antiquated job classification system to allow for more opportunity for internal transfers and advancements as well as better linking our compensation system to the market.

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,



Dana W. Frey
County Administrator

EXECUTIVE SUMMARY

Wisconsin Statutes section 59.18 requires a county administrator to 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 Polk County ("the County") is measured on three dimensions: the economic and demographic condition, or the context within which the Polk County Board of Supervisors ("the County Board") must make its decisions and the administrator his recommendations; the fiscal condition, or the current financial status 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 last recession hit Polk County very hard, and data are now becoming available that help illustrate both the magnitude of the loss and the slowness of the recovery. Going into the recession, the County's economy was heavily reliant on manufacturing and retail trade, accounting for almost one of every two jobs. Both these sectors shed jobs, and are only now showing some signs of recovery. The pace of increase in employment is very slow, only about one percent per year meaning that it could take several more years to reach pre-recession level. However, this may change rapidly due to the County's proximity to the Minneapolis-St. Paul metropolitan area, with the lowest unemployment rate than any major metropolitan area in the country at 4.7%. Other indicators are also positive: the County's unemployment rate is falling, sales tax receipts indicate retail sales are now well above their pre-recessionary level, there are indications that the real estate market may finally be recovering.

The demographics of the County have also been affected by the recession. The U.S. Bureau of the Census estimates that the County has lost nearly 600 people since the 2010 census, all from outmigration. And as stressed in past reports, the County is aging: in percentage terms, the fastest growing age group is those 100 and over; in numeric terms, it is those between age 70 and 79. The number of County residents between ages 20 and 29 is actually expected to decline over the next 25 years in absolute terms.

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The unassigned fund balance remains excellent, at about 30 percent of expenditures despite *transfers to two new funds created to offset future costs.*

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The financial condition of the County continues to improve, albeit with upcoming challenges due to severely limited revenues. The undesignated General Fund balance remains at about 30 percent of expenditures *despite* transfers to two new funds, an internal revolving loan fund and a fund to offset future retirement liabilities. The General Fund ended 2012 nearly $1 million below budget, but some of that was needed to cover a shortfall in the Human Services Fund due to placement costs greatly exceeding estimates. Perhaps the most dramatic turnaround was at Golden Age Manor, the County nursing home, going from a several hundred thousand dollar loss in 2011 to a nearly $200,000 gain in 2012. The County also continues to pay off debt, with record debt service this year of about $4.2 million.

A simple benchmarking exercise using 2011 data does indicate that the County is very reliant on property taxes, more so than most Wisconsin Counties, largely because the County receives relatively less State and Federal aid. According to data collected by the Wisconsin Department of Revenue, Polk County receives a whopping 75.6% of total revenue from own sources, the fifth highest share in the State. With respect to property tax burden, the County remains at about the average level for Wisconsin counties. The County's overall tax rate is 32nd highest of the 72 counties, the same as in 2012 despite a drop in equalized value.

On the expenditure side, the most striking finding of this benchmarking exercise is that there are few striking findings. In general, the County lies at about the middle of the State's 72 counties, with any major deviation likely easily explainable. The data show that the County operates a recycling facility, has a nursing home, has a large tourism base, and so forth. The biggest area of difference, as has been apparent, is debt, pushing the County's overall expenditure ranking from 43rd for operating and capital expenditures to 40th in total.

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The most striking finding of the expenditure benchmarking exercise is that there are few striking findings: the County generally lies at about the middle of the State's 72 counties in most measures.

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The management condition of the County is very good and improving, although again with serious challenges looming. The greatest asset of Polk County government is its staff, and the greatest risk is turnover. One-third of County employees are eligible to retire, including most of those in key positions, and another third will be eligible within the next 10 years. Succession planning is an imperative, and where not possible because of the size of agencies, alternative methods of replacing key skills, e.g. through technology or outside agencies, must be explored. The County has also recently entered into an agreement with a temporary staffing agency instead of hiring temporary staff directly; this eliminates any County liability for unemployment insurance and the ability to rapidly fill positions when need arises will eventually allow for lower staffing levels. At present there is often no choice but to staff for occasional peaks in workload; instead it may now be possible to bring in temporary staff instead.

In a related area, some progress has been made to begin to reform the County's antiquated job classification system to allow for more opportunity for internal transfers and advancements as well as better linking our compensation system to the labor market. Given the rate of increase in salaries in that market – over three percent per year – it is imperative that this process be completed within the next few years to avoid damage to organizational performance through attrition and difficulty in recruitment.

An administrator is responsible for implementing policies set by a county board, a significant part of his or her management assignment. To do so, these policies must be clear, comprehensive, easily referenced, current, and not contradictory or ambiguous. The best approach to ensuring that is the case is to codify these policies, replacing the old stand-alone resolutions and individual policies. The financial sections of the General Code have been drafted and are being circulated for comment; these sections will be presented to the County Board later this year for adoption along with the redrafted land use policies which will become Chapter 10 of the new General Code. The remainder of the sections will take at least one, if not two, years to prepare.

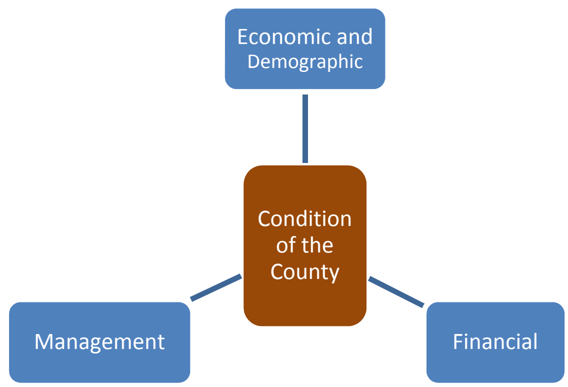
The organizational structure of the County is typical for Wisconsin counties, with a large number of small departments, many headed by an elected official. Some effort is underway to cluster departments based on location and similarity of staffing so as to obtain some of the benefits of consolidation without incurring the negative effects, i.e. disruption and, often, the creation of a new layer of management.

A final aspect of the management condition of the County is organizational on a broader sense, as discussed last year, and concerns the role of county government in Wisconsin. Largely frozen resources coupled with increased costs will force change eventually; the basic challenge is whether this will be a transition, where the eventual outcome is at least known and planned, or a transformation, where there is no long term planning and the outcome is not known. Polk County is in a transition to a known future: a smaller, more efficient, and more nimble system of governance that provides just the services people want and are willing to pay for.

On balance, it is fair to say that the condition of Polk County continues to improving in every aspect, but serious challenges loom: severely limited revenues, demands on social services for placements, a rapidly aging population, a coming wave of employee retirements, and a yet uncertain future role for local government. The local economy continues to slowly get better, and while the population has stabilized, we expect that growth to soon return. The County's financial status has improved again, and the County continues to pay off past debt. Finally, the County's management condition is also continuing to improve, but much more needs to be done to ensure continued employee retention and the continued ability to attract high quality employees. But, as has been written in all three of these reports, Polk 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

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." Through 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.



From the perspective of the county administrator, a condition of a 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 or her budget 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.

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 developing and approving the annual budget, or as the macro-fiscal framework used in determination of the resource envelope and running expenditure costs in other systems. 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, an aging population, severely constrained resources 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. This report is therefore intended to complement the strategic planning activities in individual departments.

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Who and what is Polk County?

Scattered throughout this report are text boxes like this containing facts and figures intended to shed light on the condition of Polk County – who we are as residents, as visitors, as businesses, as government – in a way that helps inform the role and challenges of county government.

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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. Longer term plans are to consolidate this report and these annual reports to improve their applicability and value to the County Board and make them a resource for the public. As noted last year, this report is instead 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

The condition of Polk County continues to improve in all three dimensions: the external economic condition and, for county government itself, the fiscal and management conditions. Even though employment growth has been very slow – about one percent per year – with recent improvement in the national and regional economies there is every reason to believe that the pace of economic recovery will accelerate. Financially, the County is stable, with reasonable budget reserves, high but now stable debt service costs, and no major fiscal issues on the near horizon other than limits on revenues. Revenue diversification is increasingly important given the County's reliance on the property tax, troubling both because of the effect of this tax on development and the restrictive levy cap. Demographically, the County's population appears to have declined slightly since the 2010 census through net outmigration; this should soon reverse itself as the local economy improves. The County also continues in its transition to a smaller, more effective and efficient operation by improving asset use – vehicles, computers and peripherals – and new software and other initiatives to reduce the need for staffing as well as increased flexibility in staffing.

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Sole proprietorships are leading the recovery in Polk County, with gross receipts increasing 13.9% per year for the period 2009-2010.

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There will always be challenges: the economic recovery is still somewhat fragile, health care costs are potentially volatile, the local real estate market remains poor and unemployment remains high, as noted revenues are severely restricted. Financially, the County's revenues remain nearly frozen while costs increase. On the management side, the transition to a competitive, fair, and dynamic personnel management system continues to be a daunting task as is the incessant pressure to improve efficiencies to save resources. All of this is occurring within a context of greater demand for services due to an aging population, the consequences of intractable social problems on the county budget, and the lingering effect of the recession.

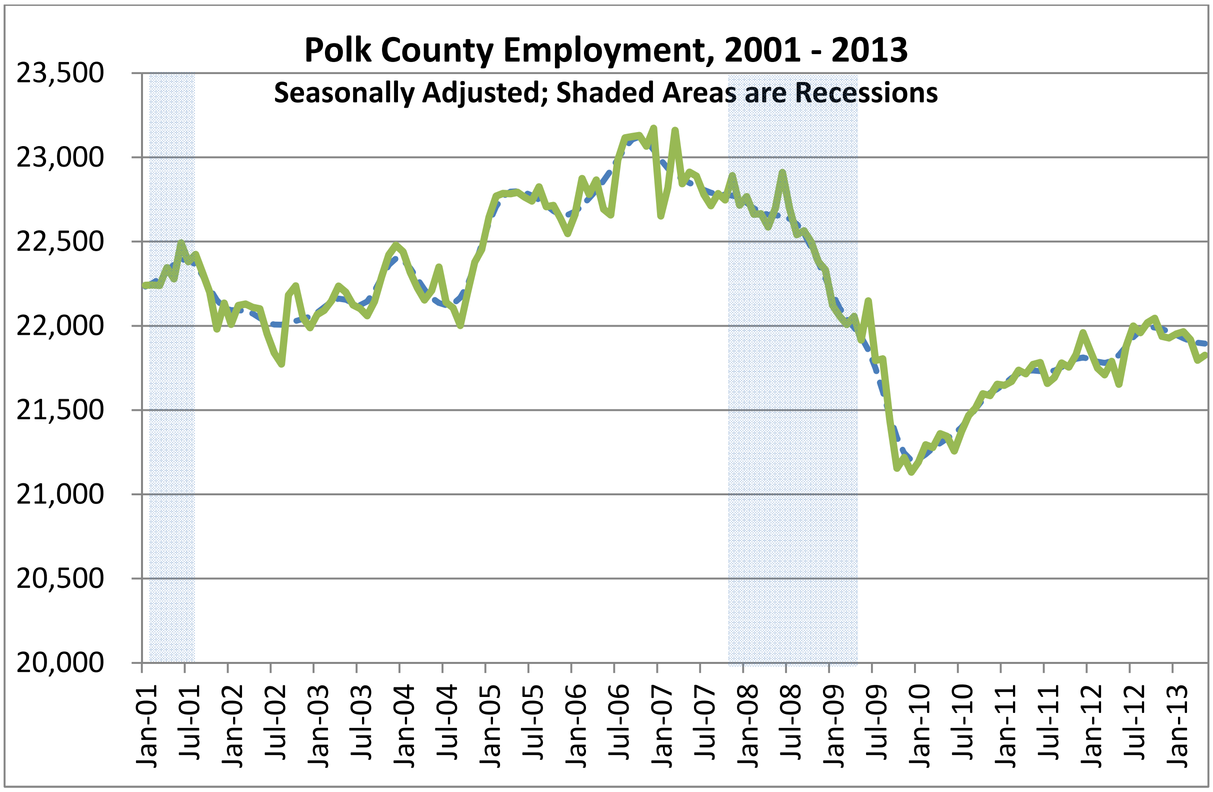
ECONOMIC CONDITIONS

Like much of the U.S., the overall economic condition of Polk County is improved from a year ago, but not as much as most would like. Nationally, first quarter GDP statistics were disappointing with growth of under two percent and forecasts for the remainder of this year do not show substantial improvement. Increases in employment are only enough to absorb new labor force entrants and do not do much to reduce ranks of the long term unemployed. However, absent any unforeseen external economic disruption most observers expect the economy to continue to grow, especially given the rebound in the housing market and improved consumer confidence and despite ongoing Federal budget issues.

EMPLOYMENT

As noted in the 2012 report, measuring employment and unemployment is problematic even at a national level; problems increase exponentially in attempting such measurements at a local level. Nonetheless, and all methodological issues aside, while the employment picture continues to improve in Polk County, data indicate that the rate of improvement remains very slow (Figure 1, following). At the current rate of increase in employment – about one percent per year – it would take *another* five years for employment of County residents to reach pre-recession levels. However, it is not unreasonable to expect that the rate of growth will increase, as recent data indicate that the unemployment rate in the Minneapolis-St. Paul metropolitan area is now at 4.7 percent (May 2013), the lowest of any major metropolitan area in the United States. Historical data shows that the Polk County unemployment rate fairly closely tracks the Minneapolis-St. Paul unemployment rate with a slight lag.[i] (Note that these are employment data for County residents; other data discussed below are for County employers.)

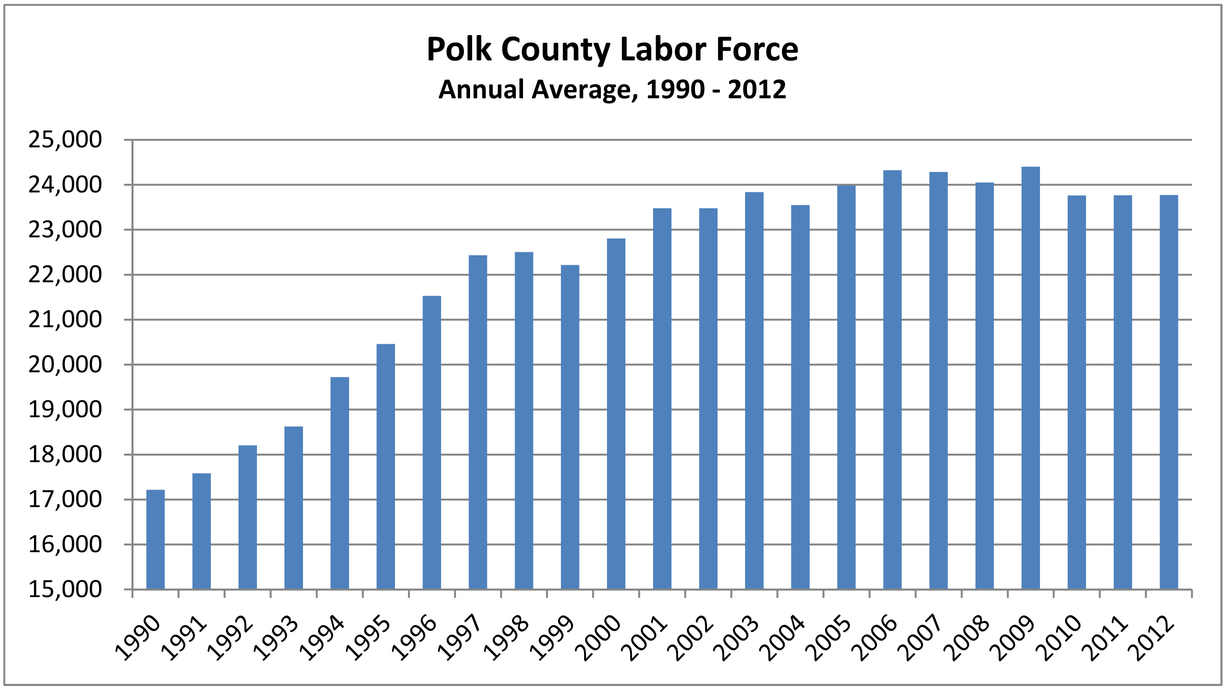
Figure 1



Source: Department of Administration calculations from Wisconsin Department of Workforce Development data

In May, 2013, the County's unemployment rate was 7.2%, down from (a revised) 7.7% in May, 2012 and just above the State average of 7.0%.[ii] This drop in the unemployment rate largely reflects a small increase in employment; the County's labor force has been relatively stable since falling by nearly 1,000 early in the recession (Figure 2). Note that if this had not occurred – if the number of people seeking work had stayed the same throughout the recession and recovery – the County's unemployment rate would be over 10 percent.

Figure 2



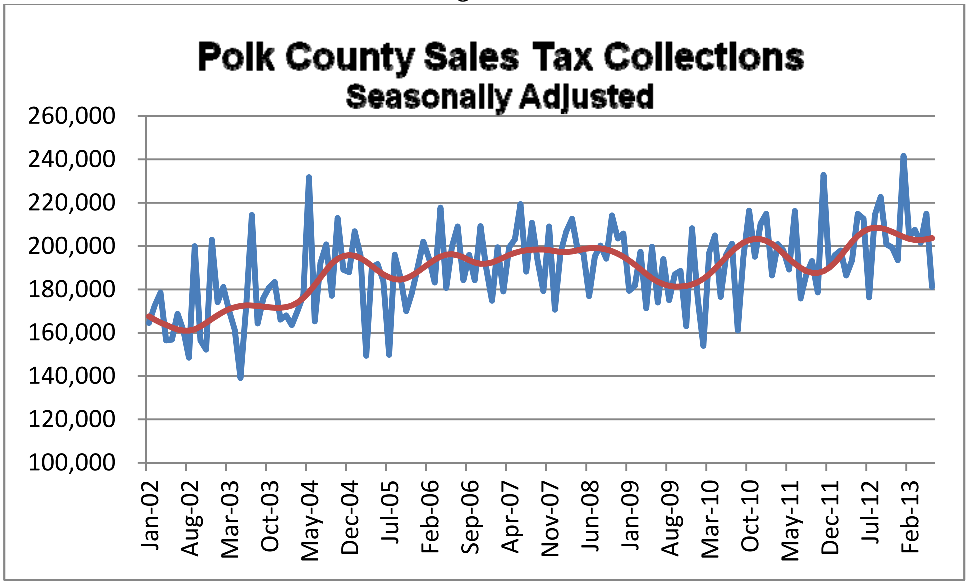
Source: Wisconsin Department of Workforce Development

BUSINESS

Like all but a few Wisconsin counties, Polk County imposes a one-half cent sales tax piggybacked on the State sales tax and collected by the State Department of Revenue. In addition to providing revenue to reduce reliance on the property tax, these collection data also allow the County to track local economic activity. Unfortunately, these data are a bit difficult to read for anything short of a year (and perhaps longer) as they suffer both from seasonality, like employment data, and volatility due to payment timing and processing. A delay of one day by a vendor or by the Department of Revenue in processing a large sales tax remittance can have a significant impact on that month's collections.

Figure 3 attempts to control for these problems as much as possible through both seasonal adjustment and trend measurement to provide a better indicator of economic activity. These data show that sales have passed their pre-recession levels, although the January 1, 2013, increase in the payroll tax and the long winter does appear to have dampened the growth rate somewhat. (Note that sales tax collections are reported by month paid to the County after collection by the Department of Revenue, meaning there is a lag of at least two months between economic activity and collections.)

Figure 3



Note: Smoothed line is a moving average; jagged line is actual seasonally adjusted data[iii]

Source: Department of Administration calculations from Department of Revenue Data

More current data are now available on the County's businesses as the recovery continues. Manufacturing continues to show strength: despite the loss of employment at Polaris in Osceola, manufacturing payroll increased from $128 million in 2010 to $134 million in 2011 (Table 1). As employment stayed the same, this means that the average wage in manufacturing jumped by almost 5 percent, likely because hours worked increased. Again this is remarkable given that these are very small businesses: of the County's 101 manufacturers, 49 employ fewer than 10 people (Table 2).

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Health Care and Manufacturing: *in 2010, manufacturing accounted for 29.2% of all private employment and 35.8% of all private payrolls on an annualized basis.*

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As noted in last year's report, the manufacturing sector is very beneficial to the County's economy. Manufacturing jobs pay well: the average pay in 2011 was almost $39,000 (note that this is biased downward by part-time and seasonal employees) as compared to $21,500 for retail employees. Health care is also increasingly important, the only sector that has continued to add jobs through the recession and one with an average wage of over $35,000. Taken together, these two sectors account for more than one-half of the County's employment and three-fifths of its payroll, putting Polk County in an enviable position in comparison with many other areas of the State: the State average employment in manufacturing is 18.2 percent and 16.1 percent in health care, or just over 34 percent. (Note that these are data for County *employers*; the employment data and unemployment rate discussed above are for County *residents*.)

Table 1

Distribution of Polk County Businesses, 2011

Sector	Establishments		Employees		Annual Payroll	
	Number	Percent of Total	Number	Percent of Total	Amount ($000)	Percent of Total
Agriculture, forestry, fishing and hunting	5	0.5%	a	0.1%	125	0.0%
Mining, quarrying, and oil and gas extraction	1	0.1%	b	0.1%	N/A	
Utilities	8	0.7%	88	0.8%	6,275	1.7%
Construction	136	12.4%	296	2.5%	10,436	2.9%
Manufacturing	101	9.2%	3,448	29.7%	134,172	36.7%
Wholesale trade	32	2.9%	423	3.6%	20,210	5.5%
Retail trade	163	14.9%	1,868	16.1%	40,318	11.0%
Transportation and warehousing	24	2.2%	129	1.1%	4,252	1.2%
Information	22	2.0%	173	1.5%	5,882	1.6%
Finance and insurance	55	5.0%	e	3.0%	14,318	3.9%
Real estate and rental and leasing	34	3.1%	70	0.6%	940	0.3%
Professional, scientific, and technical services	80	7.3%	331	2.8%	12,357	3.4%
Management of companies and enterprises	1	0.1%	a	0.3%	N/A	
Administrative and support and waste management and remediation services	47	4.3%	221	1.9%	4,920	1.3%
Educational services	4	0.4%	a	0.1%	211	0.1%
Health care and social assistance	97	8.8%	2,449	21.1%	86,213	23.6%
Arts, entertainment, and recreation	26	2.4%	198	1.7%	2,158	0.6%
Accommodation and food services	128	11.7%	1,053	9.1%	10,999	3.0%
Other services (except public administration)	132	12.0%	457	3.9%	9,109	2.5%
Industries not classified	1	0.1%	a	0.0%	N/A	
Total for all sectors	1,097		11,626		365,651	

N/A means that data were not released to avoid disclosing confidential information. For those businesses for which an employment range was given, the percentage of total employees was estimated based on range midpoint(s)

Source: U.S. Department of Commerce, Bureau of the Census, County Business Patterns 2011

Table 2

Distribution of Polk County Businesses by Sector and Number of Employees, 2011

Sector	*Total*	*1-4*	*5-9*	*10-19*	*20-49*	*50-99*	*100-249*	*250-499*	*500-999*	*1000 or more*
Agriculture, forestry, fishing and hunting	5	4	1	0	0	0	0	0	0	0
Mining, quarrying, and oil and gas extraction	1	0	0	0	1	0	0	0	0	0
Utilities	8	3	1	3	1	0	0	0	0	0
Construction	136	120	13	2	1	0	0	0	0	0
Manufacturing	101	36	13	11	19	11	10	1	0	0
Wholesale trade	32	14	7	6	3	1	1	0	0	0
Retail trade	163	77	41	29	12	2	1	1	0	0
Transportation and warehousing	24	15	5	3	1	0	0	0	0	0
Information	22	11	3	5	3	0	0	0	0	0
Finance and insurance	55	32	15	6	1	1	0	0	0	0
Real estate and rental and leasing	34	30	3	1	0	0	0	0	0	0
Professional, scientific, and technical services	80	63	9	5	2	1	0	0	0	0
Management of companies and enterprises	1	1	0	0	0	0	0	0	0	0
Administrative and support and waste management and remediation services	47	35	6	3	2	1	0	0	0	0
Educational services	4	2	2	0	0	0	0	0	0	0
Health care and social assistance	97	35	25	16	11	4	3	3	0	0
Arts, entertainment, and recreation	26	21	3	1	0	0	1	0	0	0
Accommodation and food services	128	53	35	27	12	1	0	0	0	0
Other services (except public administration)	132	102	23	6	1	0	0	0	0	0
Industries not classified	1	0	1	0	0	0	0	0	0	0
Total for all sectors	1,097	654	206	124	70	22	16	5	0	0

Source: U.S. Department of Commerce, Bureau of the Census, County Business Patterns 2011

Another year's data is available to help illustrate the effect of the recession and the recovery in Polk County, contained in Table 3, below. In 2011, employers actually employed slightly fewer people than in 2010, but overall employment looked to be somewhat stable. There was very modest growth in professional services and retail trade, while utilities and construction shrunk slightly. All told, these data, combined with the place of residence unemployment data above, attest to the very slow pace of recovery in Polk County.

Table 3
Number of Employees by Sector: 2007, 2010, and 2011, Polk County

Sector	***Number of Employees***		
	2007	***2010***	***2011***
Agriculture, forestry, fishing and hunting	*N/A*	*N/A*	*N/A*
Mining, quarrying, and oil and gas extraction	*N/A*	*N/A*	*N/A*
Utilities	*99*	*99*	*88*
Construction	*556*	*315*	*296*
Manufacturing	*4,155*	*3,448*	*3,448*
Wholesale trade	*354*	*414*	*423*
Retail trade	*2,200*	*1,836*	*1,868*
Transportation and warehousing	*159*	*129*	*129*
Information	*261*	*173*	*173*
Finance and insurance	*349*	*359*	*e*
Real estate and rental and leasing	*86*	*N/A*	*70*
Professional, scientific, and technical services	*316*	*312*	*331*
Management of companies and enterprises	*22*	*N/A*	*N/A*
Administrative and support and waste management and remediation services	*419*	*404*	*221*
Educational services	*N/A*	*N/A*	*N/A*
Health care and social assistance	*2,175*	*2,455*	*2,449*
Arts, entertainment, and recreation	*257*	*204*	*198*
Accommodation and food services	*1,376*	*1,036*	*1,053*
Other services (except public administration)	*527*	*473*	*457*
Industries not classified	*N/A*	*N/A*	*N/A*
Total for all sectors	***13,369***	***11,801***	***11,626***

Source: U.S. Department of Commerce, Bureau of the Census, County Business Patterns 2011, 2010 and 2007

Finally, and as noted last year, readily apparent that a large part of the County's economy is self-employed individuals. The latest data are for 2010, and they show that although the construction industry continues to be important for self-employed individuals it also has shrunk from 26.2% of gross receipts to 22.6%, followed (in gross receipts) by transportation and retail trade. These data are contained in Table 4.

Table 4

Self-employed Individuals by Sector, 2010, Polk County

Sector	Firms		Gross Receipts	
	Number	Percent of Total	Amount ($1,000)	Percent of Total
Agriculture, forestry, fishing and hunting	84	2.5%	3,653	3.1%
Utilities	N/A	N/A	N/A	N/A
Construction	640	19.1%	26,458	22.6%
Manufacturing	89	2.7%	2,320	2.0%
Wholesale trade	58	1.7%	2,915	2.5%
Retail trade	431	12.9%	14,324	12.2%
Transportation and warehousing	200	6.0%	19,889	17.0%
Information	30	0.9%	613	0.5%
Finance and insurance	65	1.9%	2,444	2.1%
Real estate and rental and leasing	274	8.2%	14,094	12.0%
Professional, scientific, and technical services	269	8.0%	7,216	6.2%
Administrative and support and waste management and remediation services	228	6.8%	4,019	3.4%
Educational services	47	1.4%	443	0.4%
Health care and social assistance	263	7.9%	4,429	3.8%
Arts, entertainment, and recreation	165	4.9%	2,584	2.2%
Accommodation and food services	48	1.4%	1,563	1.3%
Other services (except public administration)	452	13.5%	10,253	8.7%
Total for all sectors	3,344		$117,222	

Source: U.S. Department of Commerce, Bureau of the Census, Non-employer Statistics, 2010

INCOME

Given the above employment and business statistics, it is not surprising that the poverty rate within Polk County was affected by the past recession, with the percentage of people living in poverty jumping 44 percent from 2007 to 2010, increasing from 8.7% of the population in 2007 to 12.5% in 2010 before falling to 11.1% in 2011. The comparable statistic for the State as a whole in 2011 is 13.1%, relatively unchanged since 2010. The greatest improvement was in children in poverty, which after climbing from 10.6% of children under 18 in 2007 to 18.2% in 2010 fell to 16.3% in 2011. That, too, is below the State average of 18.4%. The poverty level for 2011 is defined as $10,890 for one person and $22,350 for a family of four.

Overall, however, this jump in children in poverty may help explain the recent increases in costs relating to social services for children. In 2012, the Human Services Department exceeded their budget by almost $300,000, almost all of which relates to out-of-home placement, and staff report that placement costs continue to be very high.

With respect to income, median household income in Polk County was estimated to be $46,872 in 2011(half of the households had incomes above, half below), virtually unchanged from 2010. This is somewhat troublesome,, as the State average increased by about three percent, from $48,974 to $50,401 over this same period.

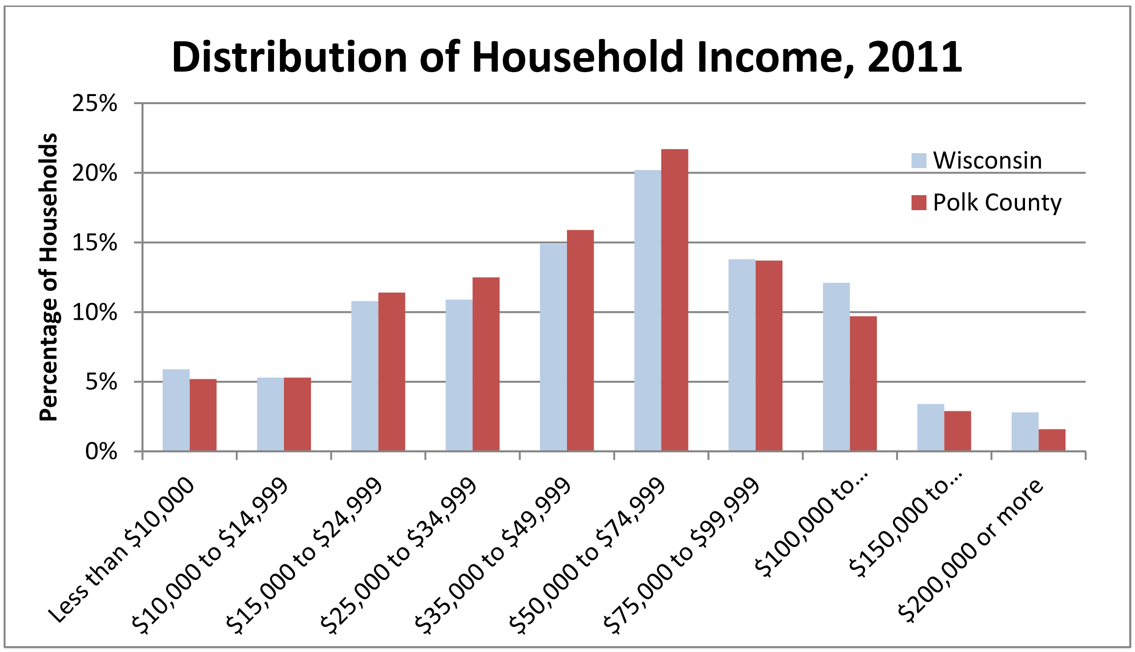
★★★★★★★★★★

Middle class: *Polk County is higher than the State average in share of middle class households.*

★★★★★★★★★★

Finally, data are available that show the distribution of income in Polk County, and these data may also reflect the significance of health care and manufacturing in the County's economy. While below the State average in very low incomes and in very high incomes, the County is substantially above the state in household incomes from $25,000 to $75,000. Figure 4 shows the distribution of household income for Polk County and for the State of Wisconsin..

Figure 4

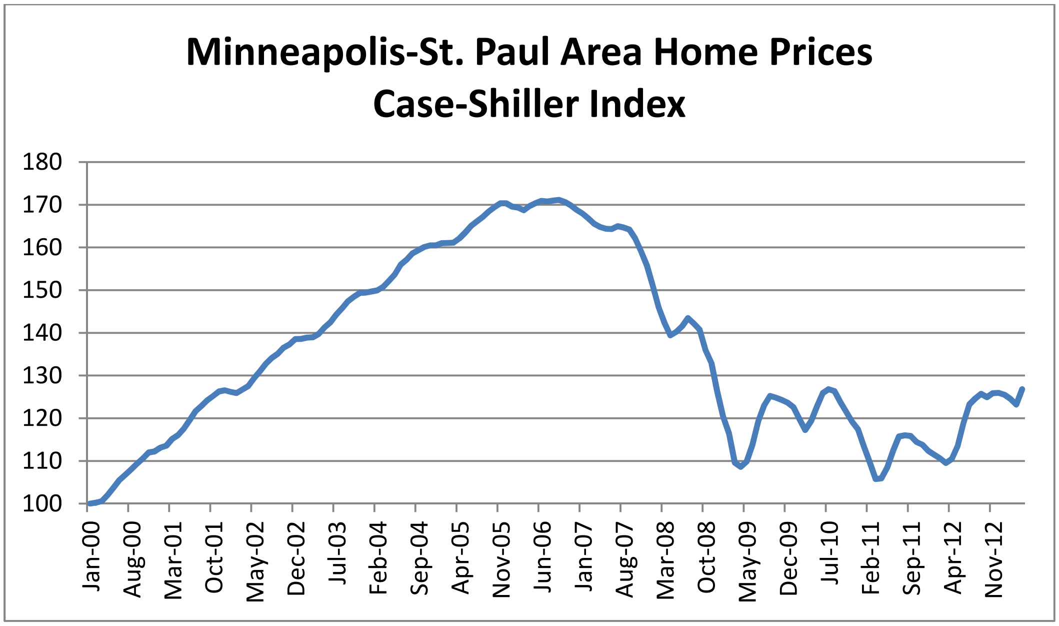


Source: U.S. Department of Commerce, Bureau of the Census

HOUSING

Despite the recent jubilation over housing price increases both nationally and regionally, it is clear that there is a long way to go before a "normal" housing market returns. Although prices are indeed higher year over year, and there is every reason to expect that this increase will continue, the median home price in the Minneapolis-St. Paul metropolitan area is still 26 percent below its pre-recession peak and at a level equal to that last reached in early 2002. Further, as Figure 5 shows, this has also not been a V shaped recovery, but rather a series of improvements and setbacks since the (first) bottom was reached in early 2009. Nonetheless, this recovery has been sustained longer than the previous three upturns and most analysts do believe that the median price will continue to rise for the foreseeable future despite recent increases in mortgage rates.

Figure 5



Source: Standard and Poor Case-Shiller Home Price Index, seasonally adjusted[iv]

Mortgage foreclosure rates within the County and the region still remain high by historical standards, with the latest data from RealtyTrac indicating one in every 688 homes is in foreclosure. This is a slight reduction from June, 2012, when one in 404 homes were in foreclosure, but the volatility of this statistic makes comparisons very difficult.

DEMOGRAPHIC CONDITIONS

★★★★★★★★★★

Natural population growth: *Recent news articles drew attention to the nation's "dying" counties but, unlike many areas with a rapidly aging population, Polk County's births still exceed deaths.*

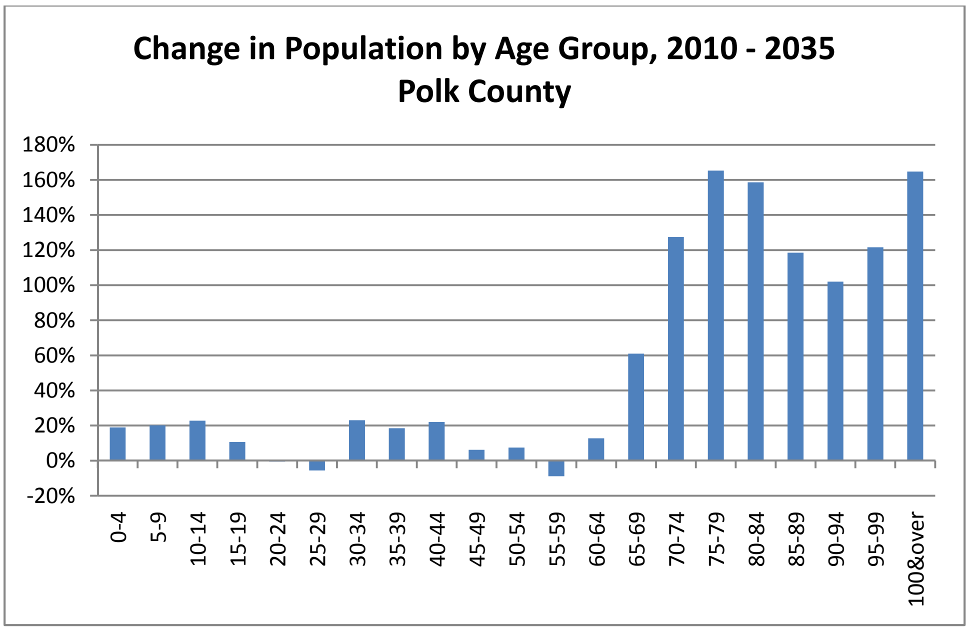
★★★★★★★★★★

Recent data now illustrate how the demographic condition of the County has been strongly affected by the economic condition of the county, specifically the 2007-09 recession. It is very likely that the County lost population during that recession, and growth, if any, has been very low. The Wisconsin Department of Administration estimates that the County has gained 36 people since the 2010 Census and that the population is now 44,241. However, the U. S. Census Bureau projects that Polk County lost nearly 600 people since the 2010 census and now has only 43,610 residents.[v] As Figure 2 (above) shows, the County's labor force fell by almost 1,000 from its peak in 2009; this may help support the Census Bureau's conclusion, as they estimate that 677 people moved out of the County in that period. The County did have some natural population growth, however, as births exceeded deaths by nearly 100.

The most striking feature of the County's demographic profile – like that of most rural counties – is its rapidly aging population. Over the next 20+ years the fastest growing age group in absolute terms will be residents in their 70s, adding another 4,600 people; by contrast, the County is expected to lose population in the 20-29 age group. The fastest growing group in percentage terms is those 100 and over, with that cohort almost trebling in size. Figure 6 shows the change in population by age group from 2010 to 2035; note the dramatic increases in the older groupings.

As noted in last year's report, this rapid shift – the median age of County residents is expected to increase by 2½ months every year – will place strains on government services, especially in rural areas. Many of these individuals will live around the lakes or in the countryside, with vacation properties becoming permanent residence. These properties are not easily accessed, many on narrow, private, dead end gravel roads by a lake. Transportation, public safety, highway maintenance, social services, public health, aging programs – all will require increased resources due to the County's older, geographically scattered population. However, along with this increased need for services will come a reduction in ability to pay for them, as many of these residents will be on relatively fixed retirement incomes.

Figure 6



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

With respect to housing, the County has not lost any housing units since the 2010 census, and remains with an estimated 24,248 units in 2012 according to the U.S. Census Bureau.

★★★★★★★★★★

Of German ancestry: *39.7%of County residents report their ancestry as German, followed by Norwegian, Swedish and Irish.*

★★★★★★★★★★

Other relevant demographic information is that the County has a very high homeownership rate – 80.4%, down slightly from a year ago – but residents pay a great deal for housing: 38.5% of renters and 33.6% of homeowners pay more than 35.0% of their income for housing.[vi] 30.6% of households have children under 18 years of age, of which two-thirds have both parents present. This is almost exactly the same ratio as for the State of Wisconsin as a whole.

A final aspect of the County's demographic condition is not as positive, and that is crime. Recent discussions in the media have focused on Western Wisconsin in general and Polk County in particular as having increasing issues with methamphetamine abuse; Polk County also has a far higher rate of cases of aggravated assault than the State in general (but lower rates for other violent crimes).[vii] Some of this is likely due to aggressive law enforcement, some to the influx of seasonal residents and tourists, but other social indicators confirm that there are issues, and these affect the overall budget of the County. Drug abuse is expensive, not only in its detection, prosecution and punishment but in the costs of child protection, of mental health issues, and of violence and other related crimes.

FISCAL CONDITION

The economic analysis and outlook is 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. Economic data help provide guidance as to demand for services and growth in resources; fiscal conditions 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 mandates.

In general, the fiscal condition of the County continues to improve. The County continues to reduce the cumulative gap between revenues and expenditures – an indicator analogous to a deficit at a higher level of government. (Counties of course must have balanced budgets; however, borrowing for capital and, especially, indirectly for current expenditures has a similar effect in that these funds that must be paid back in the future.) County finances as a whole are now sustainable, albeit challenges are coming in the form of severe revenue restrictions combined with increased costs of operations. At the same time, the County's fund balances continue to improve and there is reason to believe that we may be near the bottom in the decline in the County's equalized value.

For the first time, this report incorporates a simple benchmarking exercise that compares Polk County to the other 71 Wisconsin counties using data from the Wisconsin Department of Revenue and the Wisconsin Taxpayers Alliance. Note that, although these data can provide some insight into County finances they are subject to considerable measurement error due to individual county variance in categorization. In addition, per capita measures are affected by seasonal residents (as discussed in the annex to the report on the condition of the County for 2011) and ignore economic and demographic differences between counties as well as local preferences for services. For this reason, a revenue and expenditure mix analysis was also undertaken that is independent of population. Annex A of this report contains a discussion of methodology and of further caveats.

PROPERTY TAX CAPACITY AND TAX EFFORT

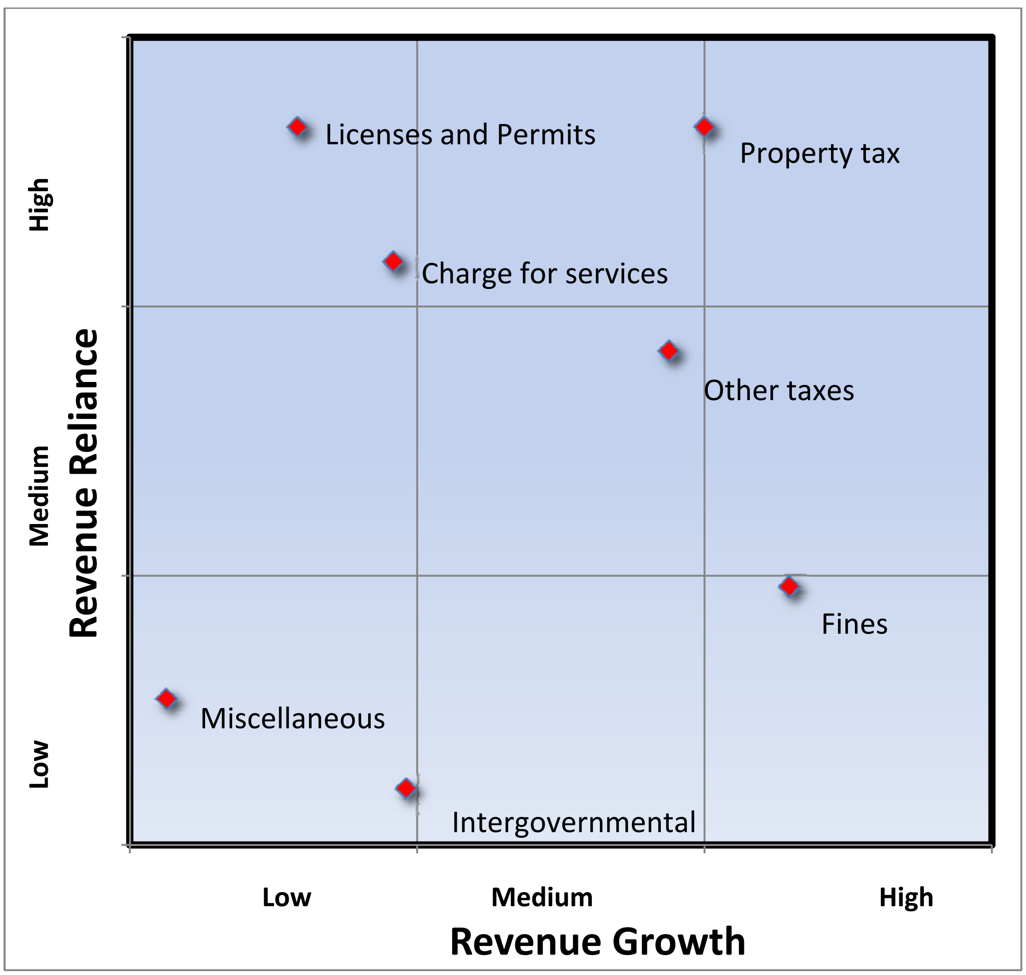
The most striking feature of Polk County's fiscal condition apparent from this benchmarking exercise is the County's high reliance on the property tax as a revenue source. Polk County is one of only a handful of counties that receive more than half of total revenue from this source, at 52.9% ranking ninth highest of the 72 counties for 2011 (the last year for which such information is available). Polk County raises a whopping 75.8% of total revenues from own sources – property tax, sales tax, other fees and charges – the fifth highest share of any county in the State. As these are 2011 data, preceding the 2012 cuts in shared revenue, this own source revenue share will only increase.

This reliance on the property tax and on own revenues is in part a result of two related factors: the County's relatively high property wealth and the philosophy underpinning many State and Federal aid programs, that less wealthy areas should rely less on property taxes and more on intergovernmental aid. This is a very weak relationship, however, with the correlation between per capita equalized value and percentage of revenue from own sources only 0.336, meaning relative value accounts for only about 10% of the variance. This is discussed in greater detail in the section on intergovernmental revenues, below. There may well be opportunity for further revenue diversification; this should be explored over the coming months.

The low reliance on State and Federal aid is both a blessing and a curse, the former because the County is less affected by the inevitable cuts in this funding, the latter because property taxes, fees and other charges may be higher than they would otherwise need be. Figure 7 shows the revenue mix of Polk County in terms of reliance – how the County compares to others in this revenue as a share of total – and growth, or how the County compares to others in the rate of increase in this revenue for the period 2009 – 2011. Again, the property tax stands out in terms of reliance, although growth in this revenue source is (and continues to be) low. Similarly, the County does very poorly in intergovernmental revenue, very low in terms of reliance and low in terms of growth.

Figure 7

Revenue Profile, Polk County



Despite the huge drop in value due to the past recession, Polk County remains a wealthy county in property terms, with $4,095,327,000 in equalized value or nearly $93,000 per capita. This is a ranking of 23rd highest in the State. The fall in value is equally impressive (presuming values are at or near bottom): a loss of $911 million, or an 18.4% drop in value from 2008 to 2012, second only to St. Croix County which lost 21.0% of total value. Table 6 shows change in equalized value by class of property from 2011 to 2012.

Table 6

Change in Equalized Value by Class, 2011 – 2012, Polk County

Class of Property	*2011 Value*	*New Construction*	*2012 Value*	*Change in Value*	
				Dollar	*Pct.*
Residential	3,247,136,500	4,418,800	3,204,965,300	-42,171,200	-1.3%
Commercial	326,002,200	7,123,500	325,935,700	-66,500	0.0%
Manufacturing	89,280,200	2,137,000	87,431,500	-1,848,700	-2.1%
Agricultural	36,444,000	0	35,914,100	-529,900	-1.5%
Undeveloped	45,767,500	0	39,471,600	-6,295,900	-13.8%
Ag Forest	58,218,800	0	52,945,400	-5,273,400	-9.1%
Forest	243,871,600	0	224,571,900	-19,299,700	-7.9%
Other	125,399,100	972,700	124,091,500	-1,307,600	-1.0%
Total	4,172,119,900	22,342,400	4,095,327,000	-76,792,900	-1.8%

Source: Wisconsin Department of Revenue

Unlike last few years there may be some positive news in these data. A loss in residential value of only 1.3% combined with the recent data on sale prices in the Minneapolis-St. Paul metropolitan area may indicate the worst is over. Commercial property held its own in value, and the fall in manufacturing value was a modest two percent. However, the scarcity of sales data do make these numbers a bit suspect and it may take a return to a "normal" market to improve confidence in these estimates.

Despite these falling values and in large part because of fiscal constraint, Polk County's property tax rate – an *indicator* of tax effort – remains near the middle for Wisconsin counties. For 2013, the County's tax rate was $5.37 per $1,000 of equalized value; this places the County almost exactly at the median, ranking 35th highest among the 72 counties, a rank unchanged from 2012. On a dollar basis, the County levy is slightly lower than the 2012 levy amount which itself was slightly lower than the 2011 levy. (Excluding the State-mandated levies for Act 150 (libraries) and Town Bridge Aid. Although included in some reports of county levies, neither of these levy amounts are controllable by a county government nor do the proceeds go to county government, meaning they are indirect city/village/town levies.)

On a per capita basis, Polk County collects $487.04, ranking 19th highest among Wisconsin counties again largely because of a relatively high debt levy. This is the same ranking as in 2011. As noted in last year's condition of the county report, 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 as per capita measures do not take into account the cost of providing services to seasonal residents or tourists. In an annex to the 2011 report, we calculated that about $60 of levy per capita can be directly ascribed to the cost of providing services to seasonal residents (of course the added tax base more than compensates for this cost).

INTERGOVERNMENTAL AID AND FINANCES

As noted in the section on property taxes, Polk County receives less in State and Federal and other intergovernmental aid than most Wisconsin counties, in 2011 ranking 68th of the 72 counties in intergovernmental revenue per capita at $226.19. This amount is $64.70, or 22.2%, below the county average of $290.89. Only a portion of this is attributable to the County's relatively high equalized value; as noted equalized value per capita is relatively poorly correlated with aid per capita, explaining only around 10 percent of the variance among Wisconsin counties.[1] Other factors doubtlessly come into play; what is surprising is that given its rural nature Polk County does not do terribly well in State highway aid, with a ranking of 45th per capita, 44th as a share of total revenues, and 56th as a percentage of total highway expenditures. The latter may be a reflection of the County's strong commitment to its transportation system, but clearly more analysis is warranted.

★★★★★★★★★★

Self-reliant: *Only four counties in the State receive a smaller share of their general revenues from intergovernmental aid.*

★★★★★★★★★★

The long-term decline in State aid does appear to have stabilized, however, although at a level far below historical averages. As recently as 2008, State aid exceeded $14 million annually; we expect it to be less than $9 million this year (Figure 8). We do not expect any increase in State aid next year other than a small increase in highway aid; a much larger increase in highway aid is scheduled for 2015 with a 40% increase in funding for routine maintenance agreements.

Beyond next year, the prospects for increased State or Federal aid are slight. The Affordable Care Act, if implemented, will absorb much of any new Federal revenue and the State of Wisconsin, while improving financially, must still deal with a structural imbalance next year according to the Wisconsin Taxpayers Alliance.[viii]

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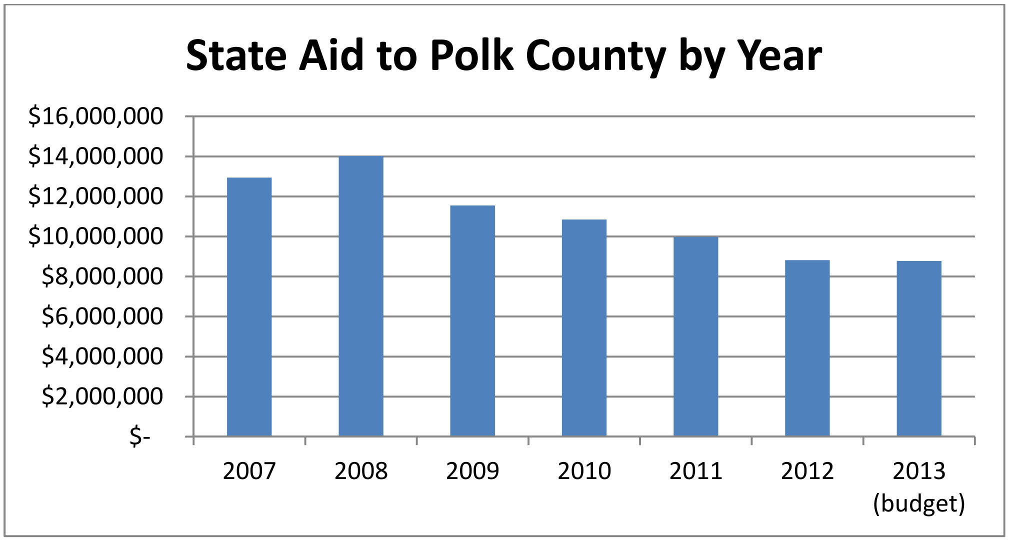
[1] Per capita equalized value for 2010 was regressed on per capita intergovernmental aid for 2011. The resultant equation was A = 0.379 – 0.0000005 * V, where A = intergovernmental aid as a share of total revenues and V = per capita equalized value, with VF significant at the 0.01 level and an r^2 of 0.0958.

Figure 8

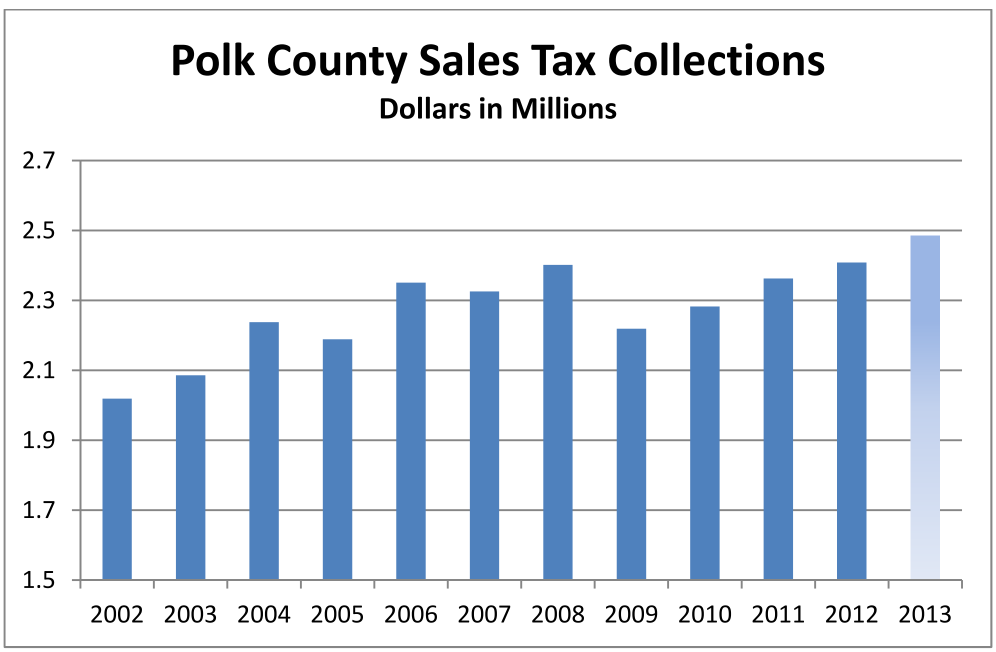


Source: Department of Administration

OTHER REVENUES

As discussed in the section on the economy, sales tax collections continue to improve, and are now well above recession-era levels. Collections for 2012 again set a record at $X, Figure 9 shows annual sales tax collections by budget year.[2]

Figure 9



Source: Wisconsin Department of Revenue (2013 is a forecast)

[2] Budget year is collections through February of the following year.

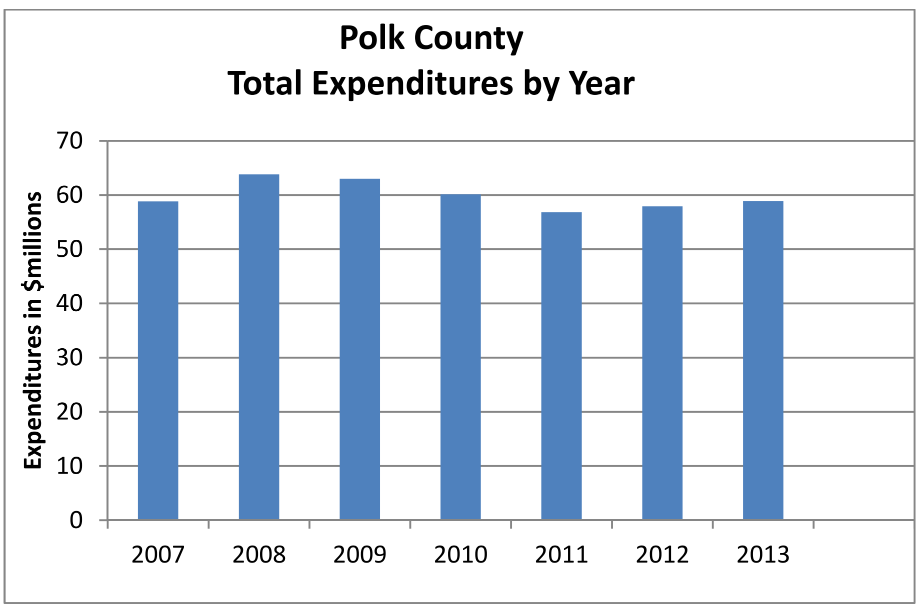
Of note, the softness observed in collections a year ago has disappeared, echoing national data that show increased consumer confidence and expenditures on durable goods. However, as discussed above the January 1 increase in the payroll tax has had a dampening effect on collections as has the inclement weather this spring.

Other revenues remain generally flat, with interest income again miniscule despite the increase in the County's reserves. There may be a glimmer of hope in land-use related fees, but any program that relies on donations such as aging programs has yet to recover. The most notable exceptions are two of the County's enterprise funds, the lime quarry and Golden Age Manor, both of which ended 2012 solidly in the black. An initiative is underway to improve the County's collection of receivables which may improve collections in general.

EXPENDITURES

Overall expenditures have largely flattened at just under $60 million per year, with the slight uptick in 2013 resulting from the additional investment from the asset protection and internal investment revolving loan fund. The combination of State aid reductions (and freezes) and caps on revenues have been met with tight expenditure controls, with substantial savings through attrition and greater efficiency in operating expenditures. This year, Polk County will employ about 25 fewer FTE than in 2010. Figure 10 shows expenditures by year for the past six years and a forecast for 2013.

Figure 10



Source: 2012 financial statements and 2013 budget estimates

In terms of this year's benchmarking exercise, with the exception of debt service, discussed below, the most striking feature of the County's expenditures is that no individual area appears to be relatively high or relatively low. These results are presented in Table 7, below. (Once again, however, note that counties have discretion in how they report expenditures, meaning there is likely some error in individual rankings.) The category of solid waste collection and disposal ranks relatively high only because the County operates a recycling facility (that largely pays its own way);

the County also ranks above the median in highway construction, but that indicates an active construction program evident in the County's road quality ratings and as noted in the intergovernmental aid discussion above. The County's ranking on culture and education is a legacy of the now closed library service, and law enforcement's ranking likely attests to the influx of seasonal residents in the summer and is nicely balanced by the ranking on other public safety (i.e. jail and communication). This area is clearly influenced by reporting, however, as jails, emergency communication, and law enforcement are generally part of the same department. Combined, Polk County's ranking for the Sheriff's department would be 45th. Finally, the higher ranking for Health and Human Services probably indicates nothing more than that Polk County operates a nursing home where many others do not.

Table 7

Per Capita Expenditures and Ranking
Polk County, 2011

Category	Per Capita Amount	Rank
General Government	118.79	48
Law Enforcement	111.36	32
Other Public Safety	68.18	53
Highway Maintenance & Administration	66.61	39
Highway Construction	54.24	21
Solid Waste Collection & Disposal	15.78	11
Health & Human Services	341.58	30
Culture & Education	22.10	33
Parks & Recreation	9.27	48
Conservation & Development	38.83	40
Subtotal - Operating & Capital Expenditures	**846.75**	**43**
Debt Service		
Principal	59.20	13
Interest & Fiscal Charges	29.16	10
Total Debt Service	**88.36**	**11**
Subtotal - Expenditures	**935.12**	**40**

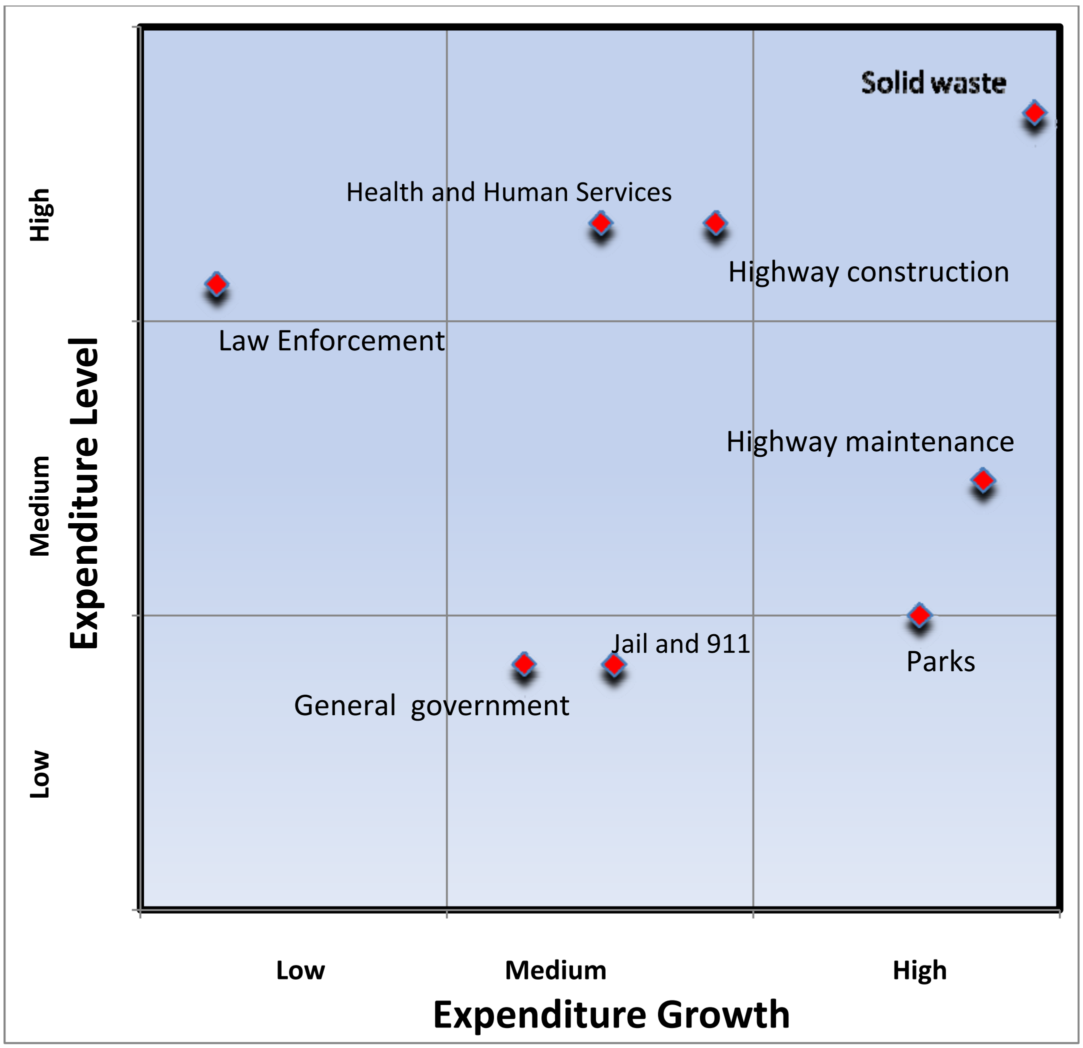
Overall, the County ranks 43rd in per capita operating and capital expenditures, with (in most areas) individual expenditure rankings close to the median county. The State average is $858.86, meaning that the County spends about $12 per capita less than that average. Were it possible to factor out services most counties do not offer such as home care, a nursing home, and a recycling facility, it is likely that the County's ranking would be in the bottom third of all counties.

Figure 11 presents a different way of looking at expenditures from the benchmarking exercise. This graph compares expenditure level (as a share of total) and growth, or rate of increase in expenditures as compared to all other Wisconsin counties. High level does not necessarily mean high spending; it means only that Polk County places relatively more resources into this program than other counties. High growth rates can serve as an early warning of potential cost issues; similarly, high expenditure levels may indicate opportunities for savings.

The highest level and growth rate is in solid waste collection and disposal, likely a function of increased recycling activity and revenues. Highway maintenance and administration also shows a high growth rate as does parks and recreation, but the latter with a low spending level. High level programs are highway construction, human services, and law enforcement, with the latter showing a very low growth rate. Finally, general government and emergency communication/jail are both low expenditure areas showing roughly average growth rates.

Figure 11

Expenditure Profile, Polk County



As discussed in last year's report, past use of debt and fund balance during the period 2000 – 2009 had the effect of putting increased subsequent stress on budgets. The County's high ranking on debt service shows part of that effect; for the next several years the County will need to continue to shrink that cumulative deficit which reached a significant $33.4 million at its peak in 2009 (Table

8). These expenditures were largely used to fund necessary capital improvements, but still must be repaid through higher revenues, lower expenditures, or some combination. For the past three years, revenues have exceeded expenditure by a total of $2.3 million, reducing the size of this gap from $33.4 million to $30.5 million. Although this will be increasingly difficult, continued payback of the County's debt and financial discipline through budgeting and expenditure controls will act together to reduce this gap further.

Table 8

Changes in Fund Balances of Governmental Funds, Polk County

(Modified Accrual Basis of Accounting); Dollars in Millions

Year	*Revenues*	*Expenditures*	*Difference*
2000	*$25.629*	*$26.211*	*($0.582)*
2001	*30.689*	*39.231*	*(8.550)*
2002	*32.179*	*44.841*	*(12.663)*
2003	*34.691*	*43.753*	*(9.062)*
2004	*38.386*	*38.387*	*(0.001)*
2005	*41.053*	*40.523*	*0.529*
2006	*41.748*	*43.781*	*(2.034)*
2007	*41.766*	*42.214*	*(0.448)*
2008	*45.479*	*45.925*	*(0.445)*
2009	*41.820*	*41.963*	*(0.143)*
2010	*42.063*	*40.335*	*1.729*
2011	*40.834*	*40.244*	*0.591*
2012	*40.243*	*39.632*	*0.611*

Detail may not add to total due to rounding; 2012 adjusted for debt refinancing.
Source: 2009 and 2012 Comprehensive Annual Financial Report, Polk County

General Fund expenditures for 2012 were a total of $22,983,424 as compared to a budget of $23,926,255, a savings of $942,831 or about four percent. Of this total, however, $297,731 was transferred to the Human Services Fund to cover a shortfall in that fund. Table 9 compares actual and budgeted expenditures for 2012.

Table 9

Comparison of Budgeted and Actual General Fund Expenditures, 2012

Expenditure Category	Budget	Actual	Difference
General Government	6,146,344	5,770,280	(376,064)
Public Safety	7,359,975	7,197,470	(162,505)
Highway (General Fund Transfer)	4,294,698	4,294,698	0
Sanitation	617,170	556,663	(60,507)
Health and Human Services (General Fund Share Only)	2,515,560	2.434,137	(81,423)
Culture, Recreation and Education	1,222,079	1,106,491	(115,588)
Conservation and Development	1,770,429	1,623,685	(146,744)
Total Expenditures	23,926,285	22,983,424	(942,831)

Please note that it would be extremely risky to assume that future expenditures will always exceed budgeted amounts. Much of these savings have come from attrition, holding positions open for a portion of the year. However, staffing levels are approaching minimum in most areas, meaning that it will be increasingly difficult to delay filling positions for any length of time. As a consequence, the need for budgetary discipline becomes even greater, as if a department exceeds its budget there may not be savings elsewhere to offset this deficit.

Outside of the General Fund, the condition of other funds has improved as well (other than Human Services). The health insurance fund had an actual increase in fund balance in both 2011 and in 2012 after several years of declines; net assets grew by $81,766 to $688,331. (Note that this is figure is several hundred thousand dollars less than the cash balance, as it includes medical costs incurred by covered individuals but not yet billed.) The Highway Department fund balance declined by about $178,000 from near-record levels (as was scheduled). Golden Age Manor has begun to reverse its cash shortfall, with a net improvement of $184,463 after depreciation. Finally, the lime quarry increased its cash position by $186,000 in 2012 and its overall position by $98,344.

FUND BALANCE

Overall, Polk County's fund balances increased by $393,978 in 2012 to $15,212,579, largely due to these positive variances in General Fund expenditures (revenues almost exactly matched budgeted amounts). The size of Polk County's unassigned fund balance declined slightly, from 31.1% of expenditures to 29.3%, due to creation of the new fund to cover employee retirement expenses and the new asset protection and internal investment revolving loan fund (Table 10). If these funds were included in the unassigned fund balance, the total would be 33.2% of general fund expenditures (last column). Note that the 2012 budget set a minimum fund balance of 25 percent of General Fund expenditures; the end-of-2012 unassigned balance exceeded that amount by $989,063 ($1.9 million if the two aforementioned funds are included).

Table 10

Polk County Unassigned Fund Balance by Year

	2009 Audited	2010 Audited	2011 Audited	2012 Audited	2012 Adjusted[3]
Beginning Fund Balance	$2,987,002	$2,878,036	$6,635,325	$7,254,080	$7,254,080
Additions (Subtractions)	(108,966)	3,757, 289	618,755	(514,648)	385,352
Ending Fund Balance	2,878,036	6,635,325	7,254,080	6,739,432	7,639,432
Percent of General Fund Expenditures	12.3%	29.4%	31.1%	29.3%	33.2%

Again, a fund balance of 25 percent is considered to be a prudent amount at this time due to a high level of uncertainty in State and Federal funding as well as limited growth in revenues. Should a major funding loss or large unanticipated cost occur, a reserve provides the time needed to phase out programs and avoid disruptions and extra costs. In addition, much of this fund balance was comprised of one-time resources such as cancellation of non-lapsing accounts, project funds, and so forth as well as one-time expenditure reductions or savings. The 2013 budget is sustainable, and in fact goes further in reducing future costs; the 2014 budget will need be sustainable as well. As was written last year, for now the safest assumption is that these funds are all one-time resources.

DEBT SERVICE AND BORROWING

As of today, Polk County owes $22.6 million in principal and, under current schedules (absent refinancing) will pay $4.3 million in interest between now and 2021, when all debt is paid. The current burden for debt service is quite high: in 2013, the County will pay a record $4.2 million for debt service, or about one-fifth of the County's total property tax levy. That is an amount greater than that levied for every department other than Law Enforcement, Human Services, and Highway - combined. Starting in 2014, this levy will decline, at first very slowly and then, starting in 2017, very rapidly. At present there are no opportunities for refinancing debt even given the record low interest rates; most of the County's debt is financed at three and five percent. Note that these debt figures do not include capital leases which account for another $344,000. As has been noted, due past actions Polk County is not in a position to undertake any new substantial debt without a major increase in property taxes.

Table 11 shows debt service by year from 2013 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.

[3] Adjusted cancels out the effect of transferring $900,000 to the asset protection and internal investment loan fund and the sick leave retirement fund. The former becomes (technically) an account receivable for the County and the latter cancels a future obligation, so both have the similar characteristics as an unassigned fund balance.

Table 11
Polk County Debt Service Payments
2012 – 2021

Year	*Principal*	*Interest*	*Total*	*Change from prior year*
2013	3,203,670	1,050,868	4,254,538	113,462
2014	3,340,058	905,756	4,245,814	(8,724)
2015	3,192,777	751,210	3,943,987	(301,827)
2016	3,461,308	599,893	4,061,201	117,214
2017	2,732,570	435,231	3,167,801	(893,400)
2018	2,043,882	329,639	2,373,521	(794,280)
2019	2,175,248	232,798	2,408,046	34,525
2020	2,236,668	129,728	2,366,396	(41,650)
2021	500,000	23,750	523,750	(1,842,646)

Note: Not adjusted for 2012 refinancing savings of approximately $30,000 per year in 2013 and 2014.

CAPITAL IMPROVEMENTS AND INFRASTRUCTURE

With a few notable exceptions, the County's infrastructure continues to be in excellent condition. As noted in the past, 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 despite recent funding challenges discussed above; please refer to the excellent reports by the Highway Department for more detail.

A longer-term concern has emerged with respect to specific facilities. The Highway Department facilities are in relatively poor condition, with issues of accessibility, efficiency, and structural and functional obsolescence. These issues must be addressed in the next several years, either through a major remodeling or construction of new facilities or perhaps both. Golden Age Manor has developed a capital improvement plan for the first time that calls for investments in facilities and equipment adequate to improve the overall facility and has recently demonstrated the ability to fund such investments. Finally, the government center itself is perhaps only a decade or so away from requiring a major upgrade.

MANAGEMENT CONDITIONS

The final relevant aspect 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 responsibility to the county administrator and department heads, therefore requiring that the county administrator and department heads be accountable to a county board for their implementation. A recent Wisconsin Attorney General's opinion has reinforced this responsibility and consequent accountability, noting that "In a county with a county administrator … [committees and boards are] purely advisory bodies to the county administrator and county board and a policy-making body for the … department as a whole … [and] cannot exercise supervisory or management authority"[ix]

POLICIES

An administrator is responsible for implementing policies set by a county board, a significant part of his or her management assignment. To do so, these policies must be clear, comprehensive, easily referenced, current, and not contradictory or ambiguous. Over the past two years, a number of policies have been redrafted to fit the administrator form of government, to ensure comprehensive coverage or to eliminate inconsistent or obsolete provisions. This activity has been of benefit in improving the quality of policies and assisting in their implementation. Redrafted policies include budget preparation and execution, purchasing, personnel policies, financial policies, debt management, property management, accounts receivable, governing committee roles and responsibilities, investment policy, and the general rules of order.

The massive changes required by the adoption of Acts 10 and 32 in 2011 required a significant redesign of many policies to incorporate factors formerly contained in collective bargaining agreements. Interim policies have been written as part of that transition, but far more work is required in the development of final policies. Much of this is discussed below in the section on staffing and succession.

The first sections of a General Code for Polk County have been drafted, some 33 pages in all, and are being circulated for comment prior to Board consideration this fall. The land use ordinances have also been redrafted and are being finalized and, in addition, the outline of the Code has been drafted, as has a cross-reference to existing policies. This is a long process, with perhaps another two years until completion due to the number of individual ordinances, policies and resolutions that must be rewritten and incorporated.

GRANT REVIEW

Some progress has been made in grant review, but there is opportunity for much more. There is doubtlessly more room to recover indirect costs – the cost of issuing paychecks, or processing expenditures, or workers' compensation insurance costs for staff, or utilities – and to better coordinate grant funded services with other services provided by the County. Relevant staff have been trained in calculation of indirect costs, and the draft financial section of the General Code does contain provisions relating to approval of grants and related indirect costs.

MANAGEMENT AND SERVICE DELIVERY

Polk County staff continue to work on developing and refining performance measures as ongoing components of the development of a system 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. Last year, the Board voted to close the library service, an action which allowed funding for essential costs in law enforcement and human services; this year there will be consideration of other programs.

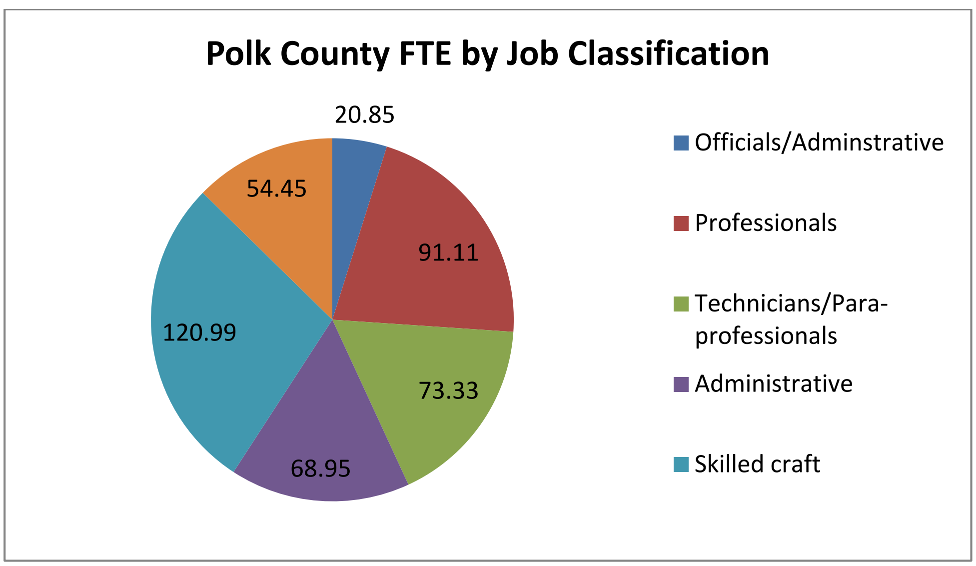
The ongoing effort to develop and refine individual department strategic plans is very important in setting these policy goals and the consequent measures that can be used in determining progress toward them. Without such guidance, it is impossible to prioritize among needs, an action that will be increasingly critical given shrinking resources. The 2011 budget saw the first use of performance measures; these were refined every year since with the 2013 budget including logical frameworks for all programs that exceed $1 million in cost.

STAFFING AND SUCCESSION PLANNING

County government is largely a service industry, and much of what we do is therefore reliant on our employees. Most of our expenditure is for personnel costs, at an estimated $29.4 million for 2013, or 51.5% of the total, almost the same dollar amount as was budgeted for 2012 and, as a share of total expenditures, slightly less than in 2012. In total, the number of full time equivalent staff (FTE) is 429.68, down from 435.23 budgeted in 2012. If the additional staff in the lime quarry and Golden Age Manor are excluded, as they are funded by revenue, the total number of FTE has fallen by 6.75 positions this past year.

By job classification, 20.85 employees are considered officials or administrators, generally department heads. Of the remainder, most are engaged in direct service delivery: nearly 80 percent of County employees are skilled craftspeople, technicians, professionals or protective service workers. Figure 9 shows the distribution of employees by category.

Figure 12

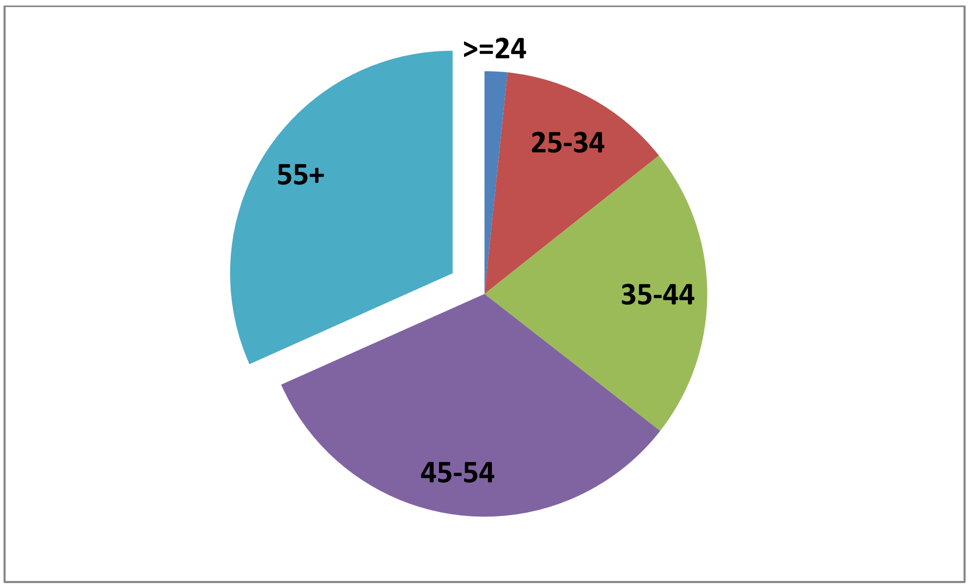


As discussed in last year's report, most County employees are not paid through the property tax. Golden Age Manor has 106.13 FTE, none of whom (ideally) are paid through the property tax; the lime quarry similarly has four FTE that are paid through quarry revenues. Funds are not specifically earmarked for salary, it is not possible to identify how many employees are directly paid by property taxes, but if we simply allocate funding proportionately only 187 FTE, or about three out of every seven employees are paid through the property tax. (Note that this is the average cost, not the marginal cost, as most of these non-levy funds, such as State aid, are fixed. We estimate that about two thirds of any employee cost increases fall on the levy.)

Also as noted last year, the County's work force also growing older: over one-third of County employees are currently eligible for retirement. Naturally, this includes most of the senior staff. There is also a large group of employees who will be eligible for retirement in the following five years. The average Polk County employee, excluding Golden Age Manor, is 48 years old.

Figure 10 shows the frequency distribution of staff by age. A large block is 55 and over, about one-third of the total, with a block of equal size eligible to retire within 10 years. Although unlikely, it is however possible that two-thirds of all County employees could retire within 10 years; it is almost a certainty, however, that one-third will.

Figure 13
Age of Polk County Employees



Excludes Golden Age Manor

Succession planning therefore remains a priority. First, essential skills need be identified and duplicated as possible by training more than one staff person, ideally at least three. If that is not possible due to small size of a department or other considerations, other means of responding to loss of skills found. In some cases, technology can aid skill transfer, in others it may be preferable to contract for services and provide that backup externally. The County has done that with its payroll system and will explore opportunities to do so elsewhere.

An obstacle to recruitment and – especially – retention is the County's somewhat Byzantine job classification system. Job descriptions tend to be excessively narrow, limiting the ability to move across departments, and often leading to the violation of the principle of equal pay for equal work. Further, this structure limits opportunity for advancement: there are no clear career paths (nor the ability to easily transfer into a department that may have such an opportunity). As a consequence, we have begun the process of overlaying a new structure on the old system, with more generic job descriptions to enable lateral movement and a hierarchy of positions to enable advancement. New structures have been implemented to date for clerical and maintenance workers and equipment operators.

It is also clear that the County can no longer afford to staff for irregular peaks in clerical workload, say a month or two out of a year. County staff have begun working with a temporary employment agency that can provide fill-in staff to help cover these peaks, so far with excellent results.

STRUCTURE AND ORGANIZATION

Polk County retains a traditional organizational structure for a Wisconsin county, with a large number of relatively small departments and several departments headed by an elected official. Polk County has 23 departments, of which nine have five or fewer employees and another five departments have between five and ten employees. As noted in past reports, this structure is not conducive to maximum efficiency in resource utilization: each department that interacts with the public must staff for full coverage, limiting the opportunities for resource sharing and for cross training.

A number of factors have come together, including changes to Polk County's system of governance through adoption of the administrator form of government, a reduction in the size of the County Board, further constraints in resources, and the application of technology to service provision that will force the reconsideration of current structure. To that end, departments are being assigned to clusters in an attempt to facilitate such resource sharing without formal consolidation.

CONCLUSION

Overall, the condition of the County continues to improve in all three dimensions. The local economy has at least partially recovered from the past recession, although employment remains troublesome, increasing by only about one percent per year. The housing market may have bottomed, but at a far, far lower level than anyone could have predicted a decade ago. Even so, there is some reason for optimism: the adjacent metropolitan area has a lower unemployment rate than any major metropolitan area in the country which should both help create jobs for County residents and lift the retail market. The County has a solid foundation in the health care industry which shows steady growth, and manufacturing employment could regenerate quickly given the apparent increase in the average workweek.

The clearest improvement and the greatest challenge is in the County's financial status. This is largely due to increased fiscal discipline and a common effort towards increased efficiency. The County finished 2010, 2011 and 2012 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. 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.

Challenges are substantial as well. Polk County has seen a dramatic drop in equalized value, although less than in previous years and perhaps a sign that the bottom has been reached. Even though levies were not increased, the County's tax rate remains high by historical standards and 35th highest among the State's 72 counties. The State has effectively capped levies at zero, meaning that there is likely to be little increase in resources for the near future and therefore increased costs must be covered internally. This will become more and more difficult to do.

The County's management condition is also improving. The use of many categories of assets are improving – copiers, printers, cell phones, autos – and progress continues in the draft of the General Code. County employment has been reduced significantly without major service disruption or loss, although most redundancies have been eliminated. To assist with this, however, increased flexibility has been provided in managing short-term staff. There are still three very large challenges, however: the coming wave of retirements, to maintain morale in difficult financial times, and to gradually replace a Byzantine position classification system with one that is more fair and linked to the labor market, supporting and reinforcing the County's excellent public employees.

As has been said in the past, all told Polk County is in a position many other local governments would envy: an improving economy, solid financial reserves and a foundation of good fiscal practices, an outstanding work force – and a great place to live.

ANNEX A: BENCHMARKING METHODOLOGY

Although in theory benchmarking is a simple exercise, complexities arise very quickly. The use of per capita measures are problematic for a number of reasons: on taxes, they ignore shifting and incidence issues by effectively presuming that every dollar in taxes is paid by residents (the highest taxed U.S. State, per capita, is Alaska due to oil revenues and taxes) and, on expenditures, they ignore the effect of seasonal residents. In the 2011 *Condition* report it was estimated that the presence of seasonal residents increased Polk County's tax burden by $60 per capita.

Per capita comparisons also presume that counties are nearly identical in service provision and in costs. Tourism, as mentioned, is one way they are not, but there are other ways as well. Smaller counties cost more to operate on a per capita basis than to larger counties, for example. Counties vary in service provision: some counties operate airports, others nursing homes, others library systems, others recycling facilities, others home care programs and so on. All will increase costs above "core" or mandated county functions. Level of service similarly varies among counties in accord with the directions set by their boards. Some counties make transportation a higher priority than others, others environmental quality, others social services, and so on.

Added to this variation are issues with data comparability. Counties generally follow the State of Wisconsin Uniform Chart of Accounts, but not always. As a result, expenditures may not be similarly classified across counties. Other differences are in categorization of expenditures: it is a good practice to allocate general administrative costs to individual programs for reasons of transparency, but not all governments do this (Polk County has just started to do so). And allocation of a department that crosses several function areas (Polk County's Buildings, Parks, Forestry and Solid Waste Department for example) may be more of an art than a science. All of these cautions should be taken into account in interpreting these data.

The methodology selected for the per capita exercise is relatively simple: each expenditure category is simply divided by the population estimates from the Wisconsin Department of Administration. Polk County's ranking is then directly calculated (using the MS Excel Rank function). The revenue and expenditure mix calculations are a little more complicated. First, the share of each area is calculated as a percentage of general revenues or of operating and capital expenditures, respectively. Second, change in each category from 2009 to 2011 is calculated. Finally, Polk County's rank for each is calculated and used to position the category on the graph.

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[i] A multiple regression analysis shows a coefficient of determination (r^2) between current (unadjusted) Minneapolis unemployment rate that same rate lagged four months and the Polk County rate of 74.9%. Both regressors are significant at the 0.05 level.

[ii] State of Wisconsin, Department of Workforce Development, Local Area Unemployment Statistics, located at http://worknet.wisconsin.gov/worknet/dalaus.aspx?menuselection=da

[iii] Seasonal adjustment performed using the Census Bureau X-12 ARIMA model. Trend line calculated using a 23-term Henderson moving average.

[iv] http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us----

[v] Wisconsin Department of Administration, Demographic Services Center, located at http://www.doa.state.wi.us/subcategory.asp?linksubcatid=96&locid=9

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[vii] Wisconsin Office of Justice Statistics, Crime in Wisconsin 2011, located at http://oja.state.wi.us/sites/default/files/Crime_2011.pdf

[viii] Wisconsin Taxpayers Alliance, Focus, 06.30.2013, p. 1

[ix] Letter to Scott M. Corbett, Corporation Counsel, Marathon County dated June 12, 2012