

A group of approximately ten brown cows with white markings on their faces and legs are standing in a lush green field. They are positioned behind a thin wire fence. In the background, there are several large, mature trees with green foliage under a clear blue sky. The overall scene is a peaceful rural landscape.

2015 PROPOSED OPERATING AND CAPITAL BUDGET

**DANA FREY, COUNTY ADMINISTRATOR
SEPTEMBER 2014**



Notwithstanding any other provision of the law, the county administrator shall be responsible for the submission of the annual budget to the board.

Wisconsin Statutes sec. 59.18

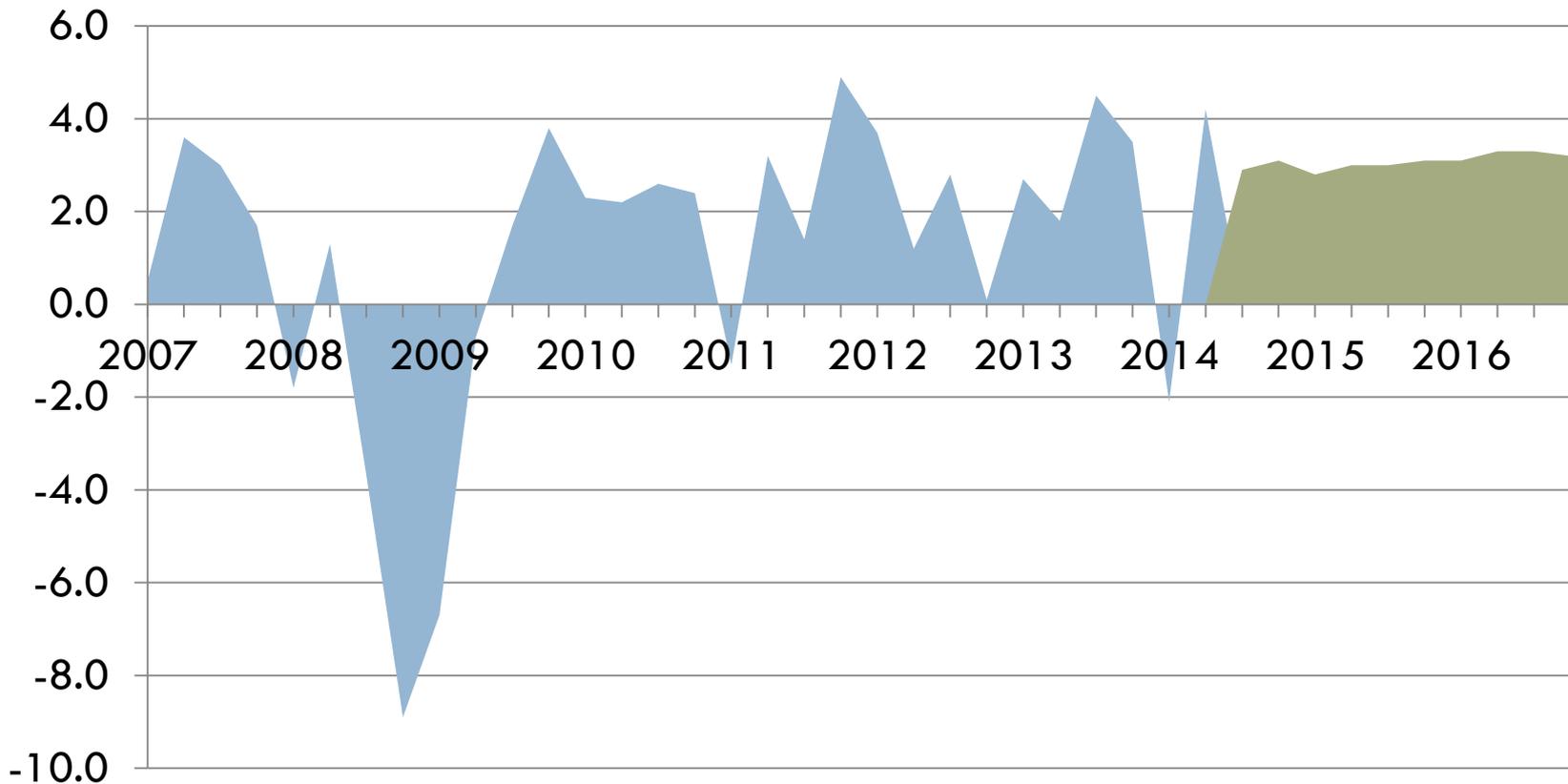
Macro-Fiscal Outlook



*Are we
finally out of
the woods?*

Forecasts are for sustained growth

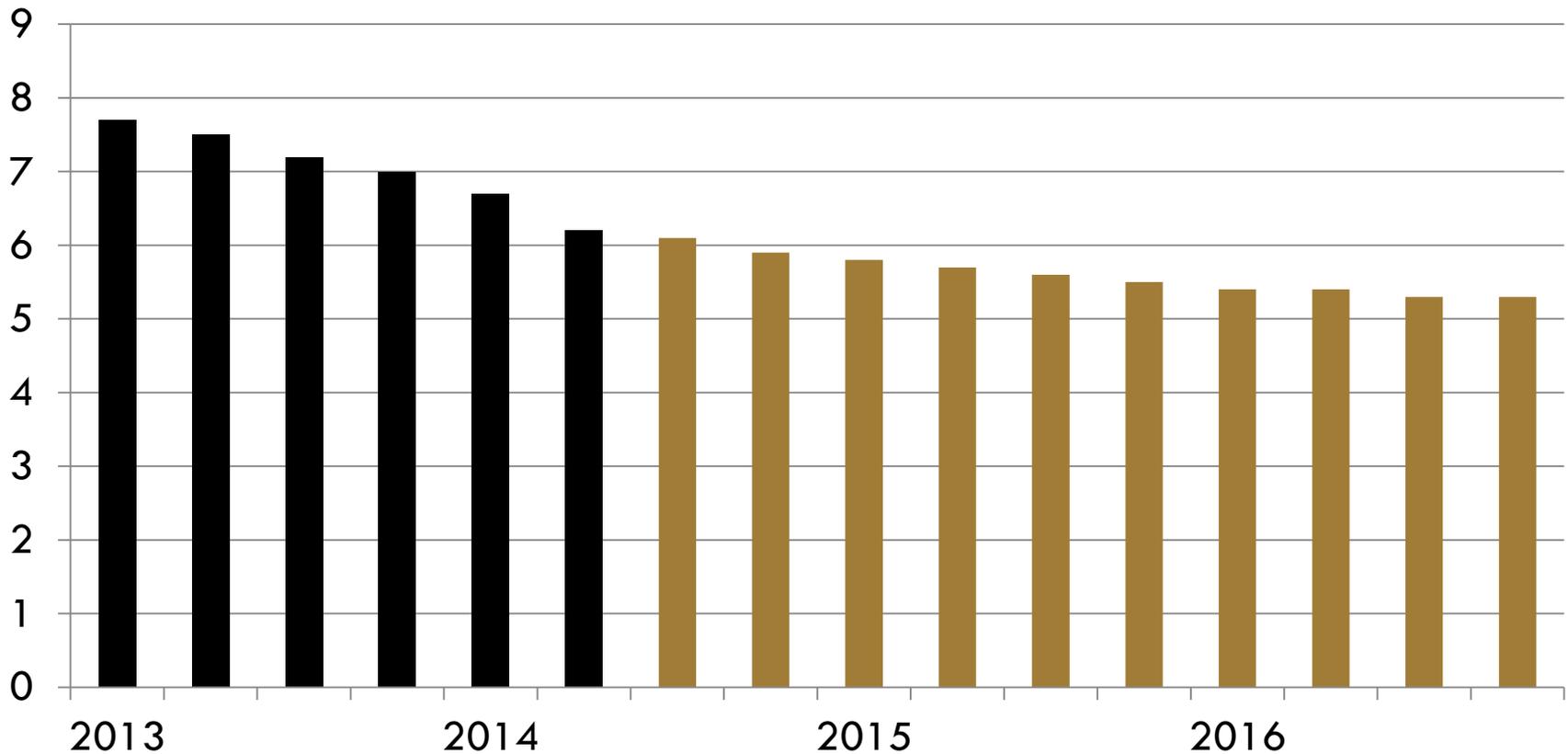
Real GDP by Quarter, History and Forecast



Source: U.S. Department of Commerce, Bureau of Economic Analysis and Wells Fargo Economics

With a steady fall in unemployment

Unemployment Rate by Quarter, History and Forecast

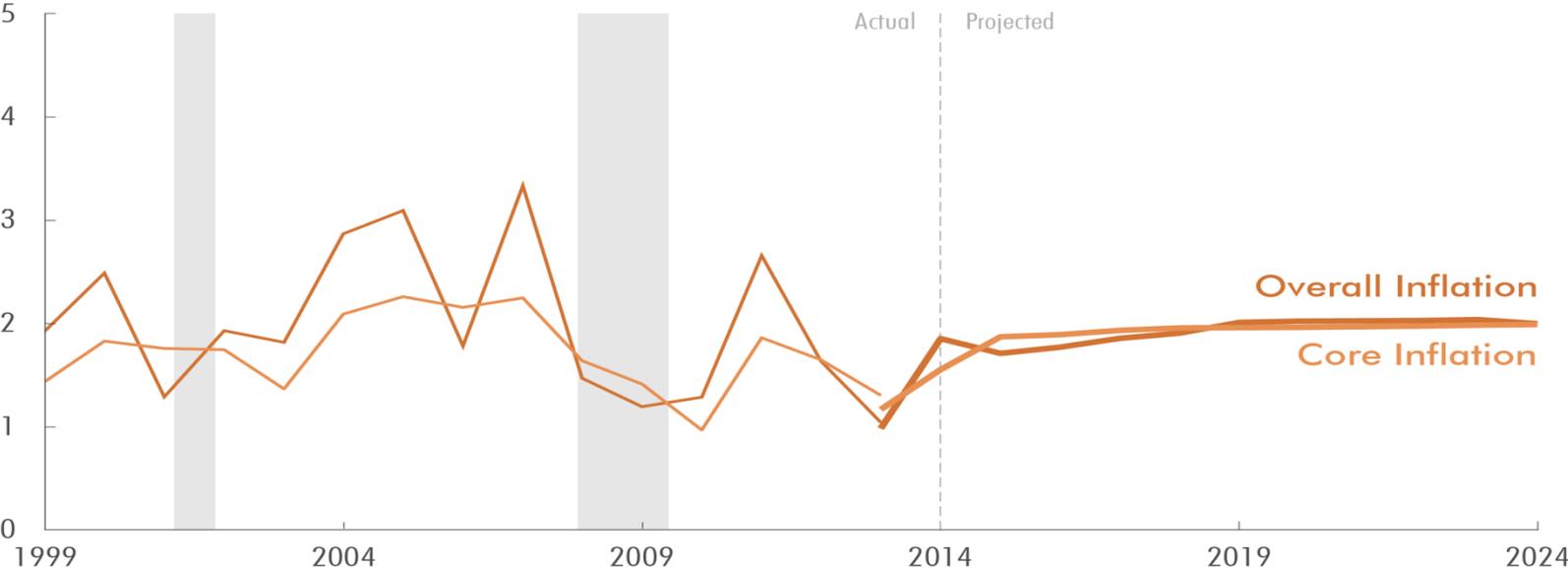


Source: U.S. Department of Commerce, Bureau of Economic Analysis and Wells Fargo Economics

Little near-term inflation risk

Inflation

Percentage Change in PCE Prices



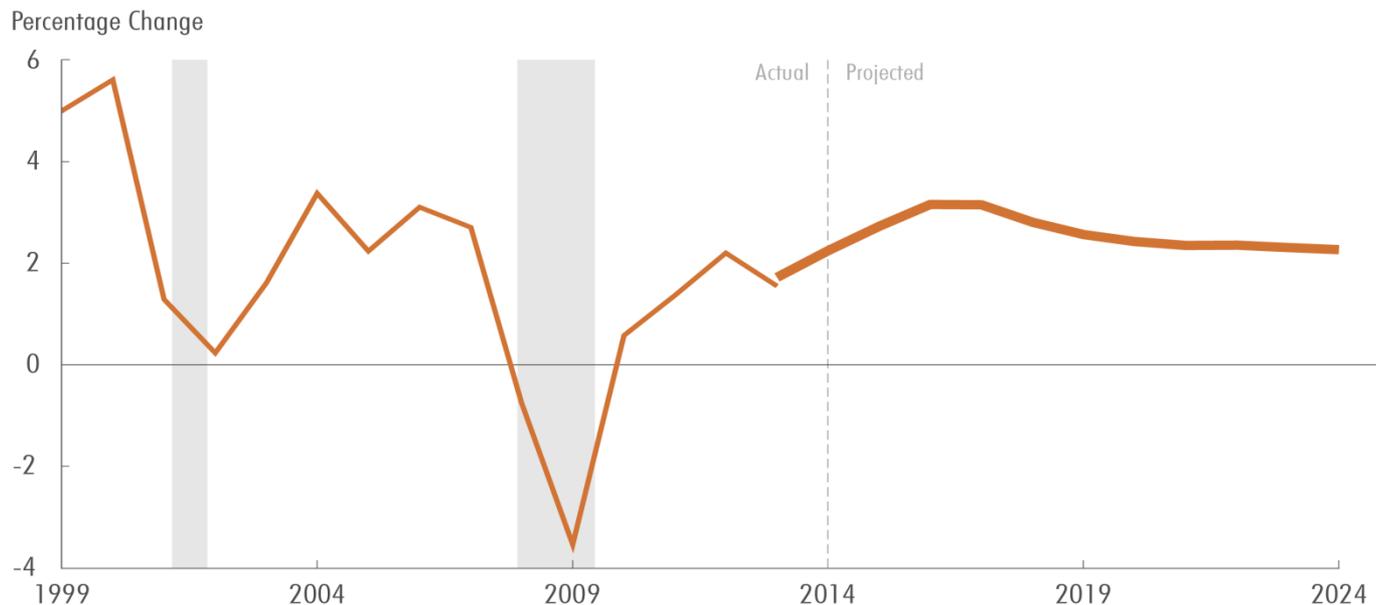
CBO anticipates that prices will rise at a modest pace over the next several years, reflecting the remaining slack in the economy and widely held expectations for low and stable inflation.

Note: Values from 1999 through 2013—the thin lines—reflect revisions to the national income and product accounts that the Bureau of Economic Analysis made on July 30, 2014. Values from 2013 through 2024—the thick lines—reflect the data available and projections made before July 30. PCE = personal consumption expenditures.

Despite some salary pressure

CBO

Real Compensation of Employees

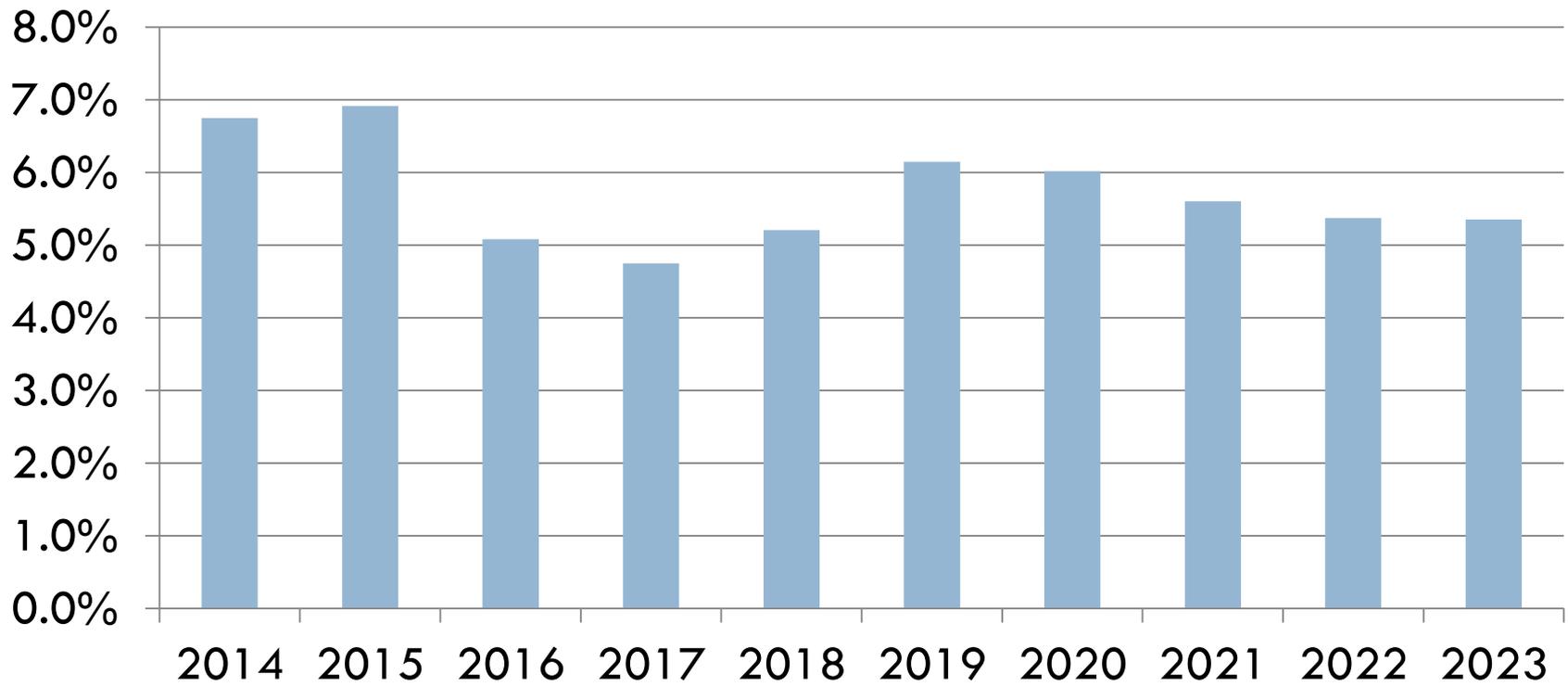


Faster growth in the compensation of employees will support faster growth in consumer spending in the next few years.

Note: Values from 1999 through 2013—the thin line—reflect revisions to the national income and product accounts that the Bureau of Economic Analysis made on July 30, 2014. Values from 2013 through 2024—the thick line—reflect the data available and projections made before July 30.

And health care cost increases

Annual Change in Privately Insured Health Expenditures



Flat energy prices

| | 2012 | 2013 | 2014 projected | 2015 projected |
|--|--------------|--------------|-----------------------|-----------------------|
| Gasoline (dollars per gallon) | 3.63 | 3.51 | 3.46 | 3.41 |
| Diesel (dollars per gallon) | 3.97 | 3.92 | 3.86 | 3.82 |
| Natural Gas (dollars per thousand cubic feet) | 10.69 | 10.31 | 11.09 | 11.18 |
| Electricity (cents per kilowatt hour) | 11.88 | 12.12 | 12.49 | 12.70 |

U.S. Energy Information Agency

Still some danger signs



Interim Economic Assessment

15 September 2014

Moderate global growth is set to continue, but weak demand in the euro area remains a concern

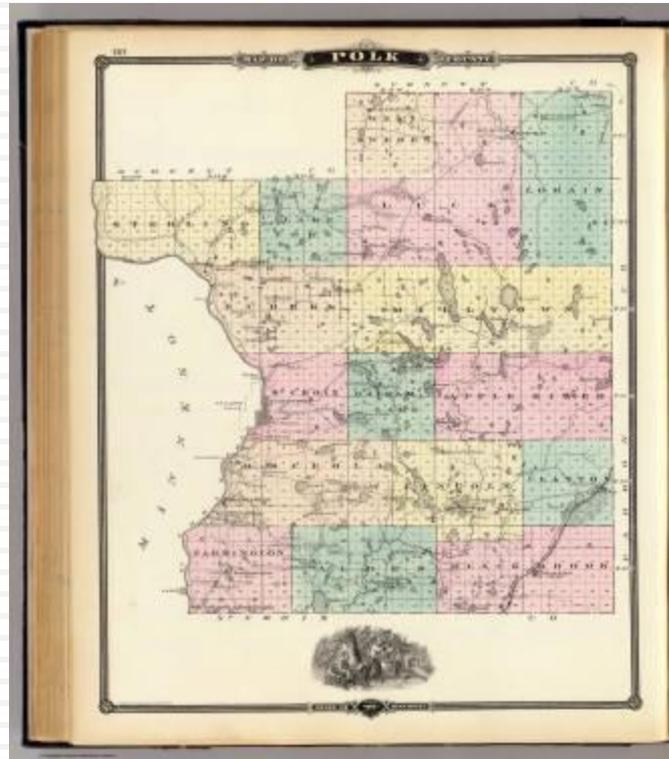
Stocks Turn Mixed Ahead of This Week's Fed Meeting

NEW YORK — Sep 15, 2014, 3:20 PM ET

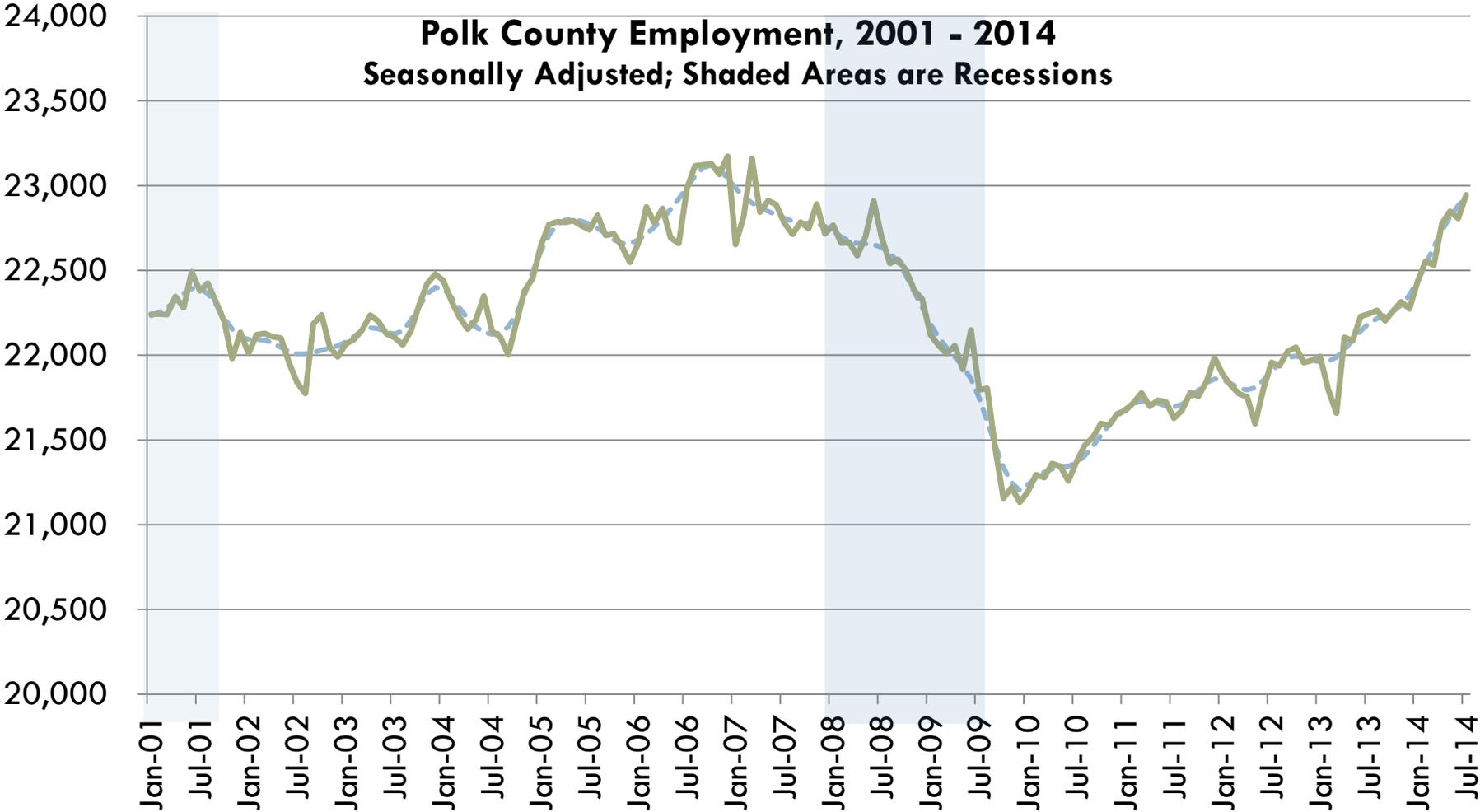
By STEVE ROTHWELL AP Business Writer



Polk County Economic Outlook



Recovery in employment – finally!

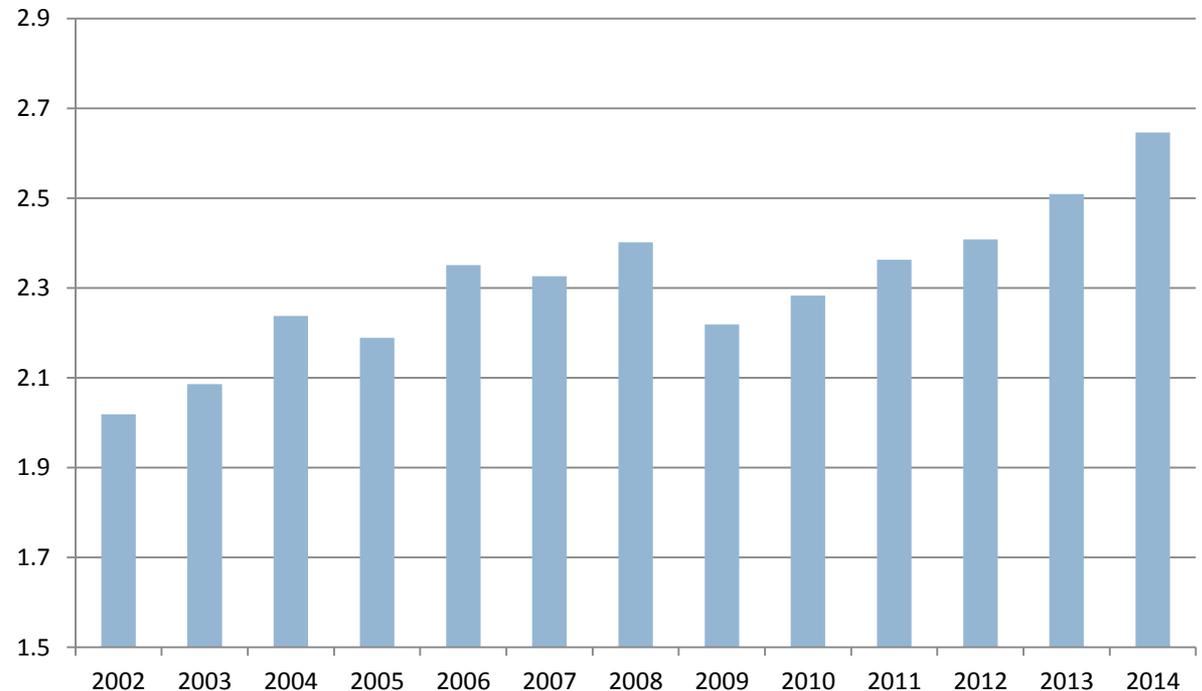


Sales tax at record levels

Polk County Sales Tax Collections

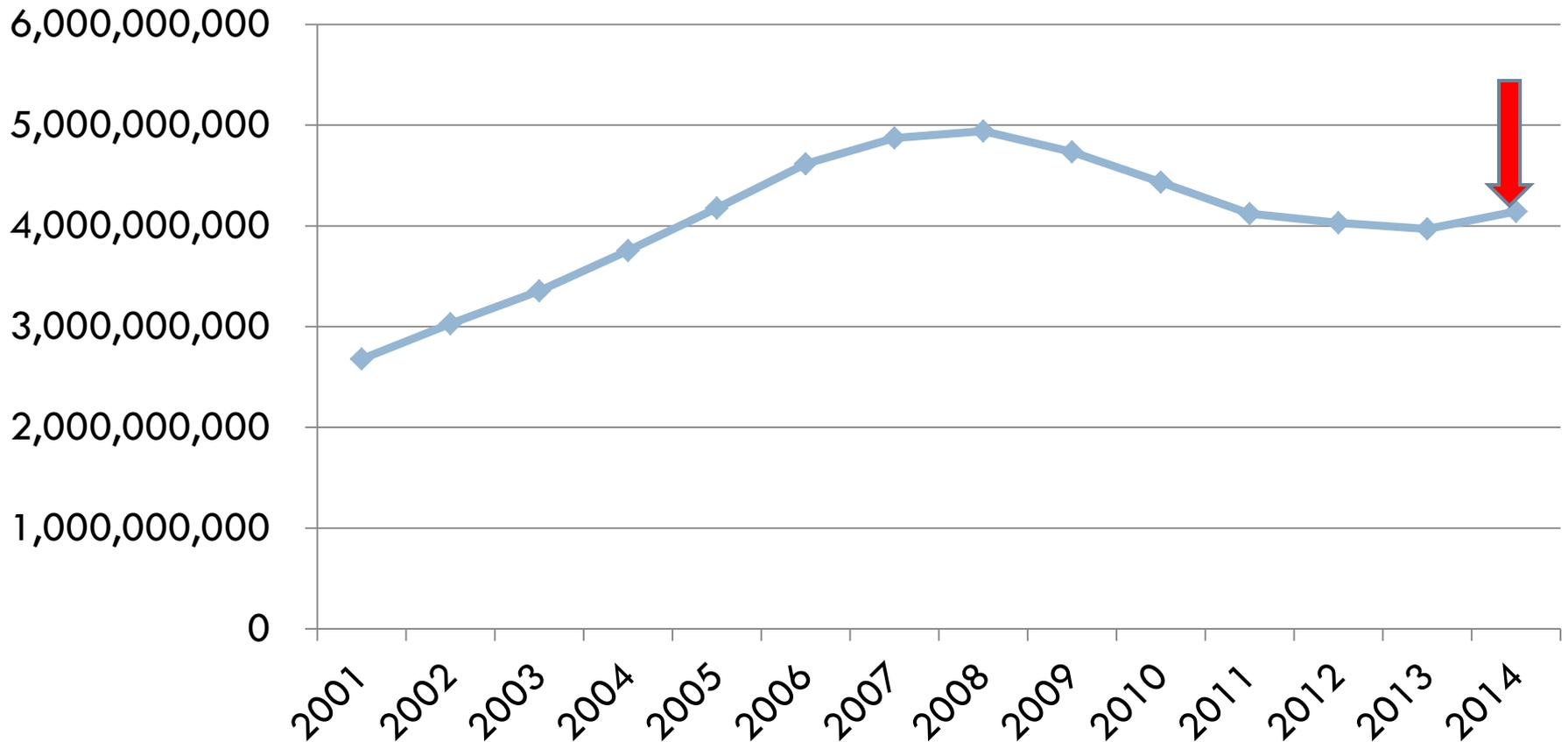
Dollars in Millions

- Collections (Jan-Aug) are 8.4% above same period last year
- 5 of the last 12 months all-time records



Equalized values finally turn around

**Polk County Equalized Value
2001 - 2014**



Summary, Economic Outlook

- Slow, but steady, economic growth nationally
 - Costs relatively stable
 - Labor market up 3+%
 - Fuel cost increases negligible
 - Health care costs up 5-10%
- County: shifting up another gear?
 - Sales tax likely at about 2% per year
 - Equalized value up 3-4% per year

Fiscal outlook



Here we go again?

WISCONSIN STATE JOURNAL  63° Broken Clouds Weekly Forecast  spons

Home / Wisconsin State Journal / News

STATE BUDGET | THIRD-LARGEST GAP SINCE 1997-99 PROJECTED

State structural deficit approaches \$1.8 billion

 Recommend  Tweet  +1  Pin it  Share 10  Print  Email 

2 hours ago • By Matthew DeFour | Wisconsin State Journal  (88) Comments

 The state faces a nearly \$1.8 billion structural deficit heading into the next biennial budget cycle, the nonpartisan Legislative Fiscal Bureau reported Monday.

The projection comes as Gov. Scott Walker touts his fiscal responsibility as he seeks re-election in November. He says he and fellow Republicans solved a \$3.6 billion structural

General Fund Amounts Necessary for a Balanced Budget*
(In Millions)

| | <u>1st Year</u> | <u>2nd Year</u> | <u>Total</u> |
|--|----------------------------|----------------------------|--------------|
| For the 2015-17 Biennium (September 3, 2014) | \$1,069 | \$697 | \$1,766 |
| For the 2015-17 Biennium (May 22, 2014) | 226 | 416 | 642 |
| For the 2013-15 Biennium | -140 | -6 | -146 |
| For the 2011-13 Biennium | 1,232 | 1,279 | 2,511 |
| For the 2009-11 Biennium | 800 | 882 | 1,682 |
| For the 2007-09 Biennium | 653 | 846 | 1,499 |
| For the 2005-07 Biennium | 701 | 845 | 1,546 |
| For the 2003-05 Biennium | 1,340 | 1,527 | 2,867 |
| For the 2001-03 Biennium | 693 | 1,026 | 1,719 |
| For the 1999-01 Biennium | 589 | 914 | 1,503 |
| For the 1997-99 Biennium | 624 | 908 | 1,532 |

*Except for 2013-15, all figures indicate amounts necessary to produce a balanced budget. A surplus of \$146 million is shown for 2013-15.

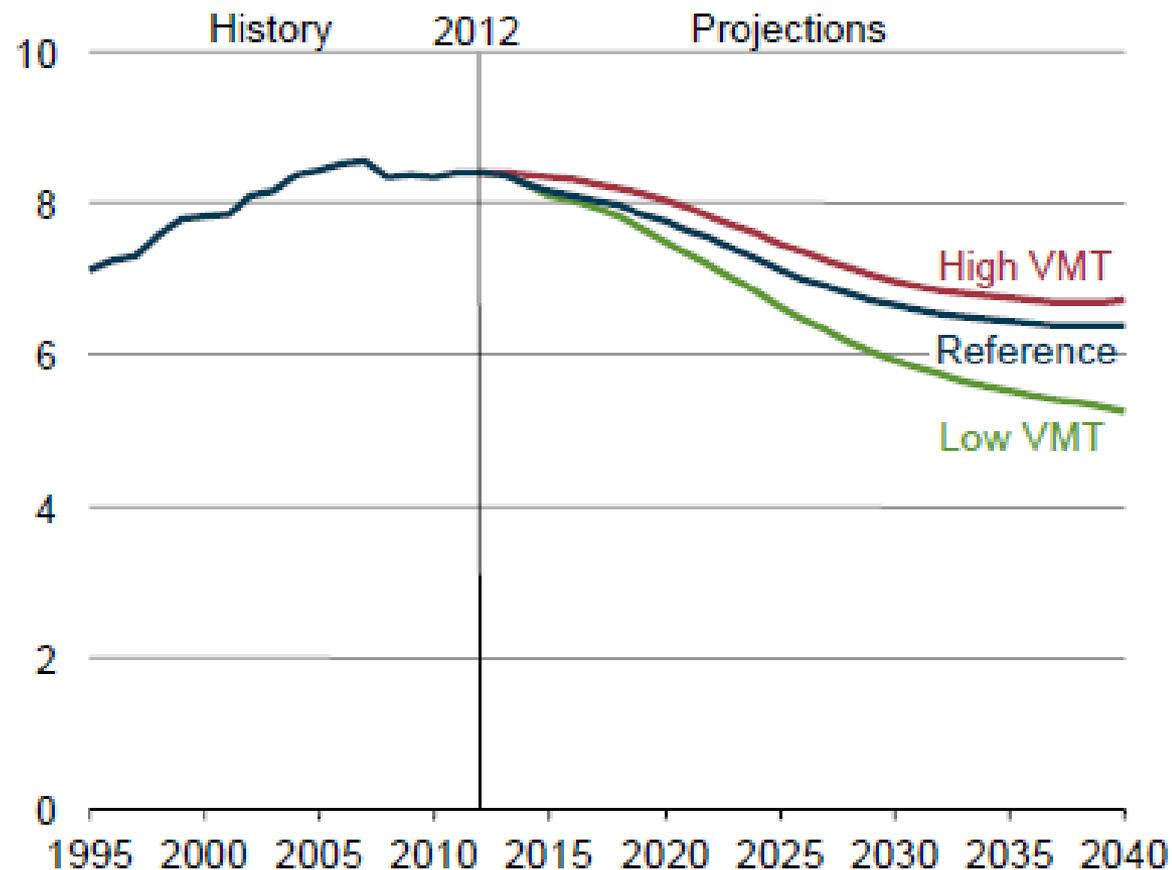
Source: WI Legislative Fiscal Bureau

State finances

- Revenues continue to disappoint
 - ▣ Short \$281 million at close of FY 2014
- Use of one-time money/part year cuts to balance past budgets
- Will require significant actions
- Highway funding problems?

Motor fuel consumption peaked in 2007

Figure ES-4. U.S. light-duty vehicle energy use in three cases, 1995-2040 (million barrels of oil equivalent per day)

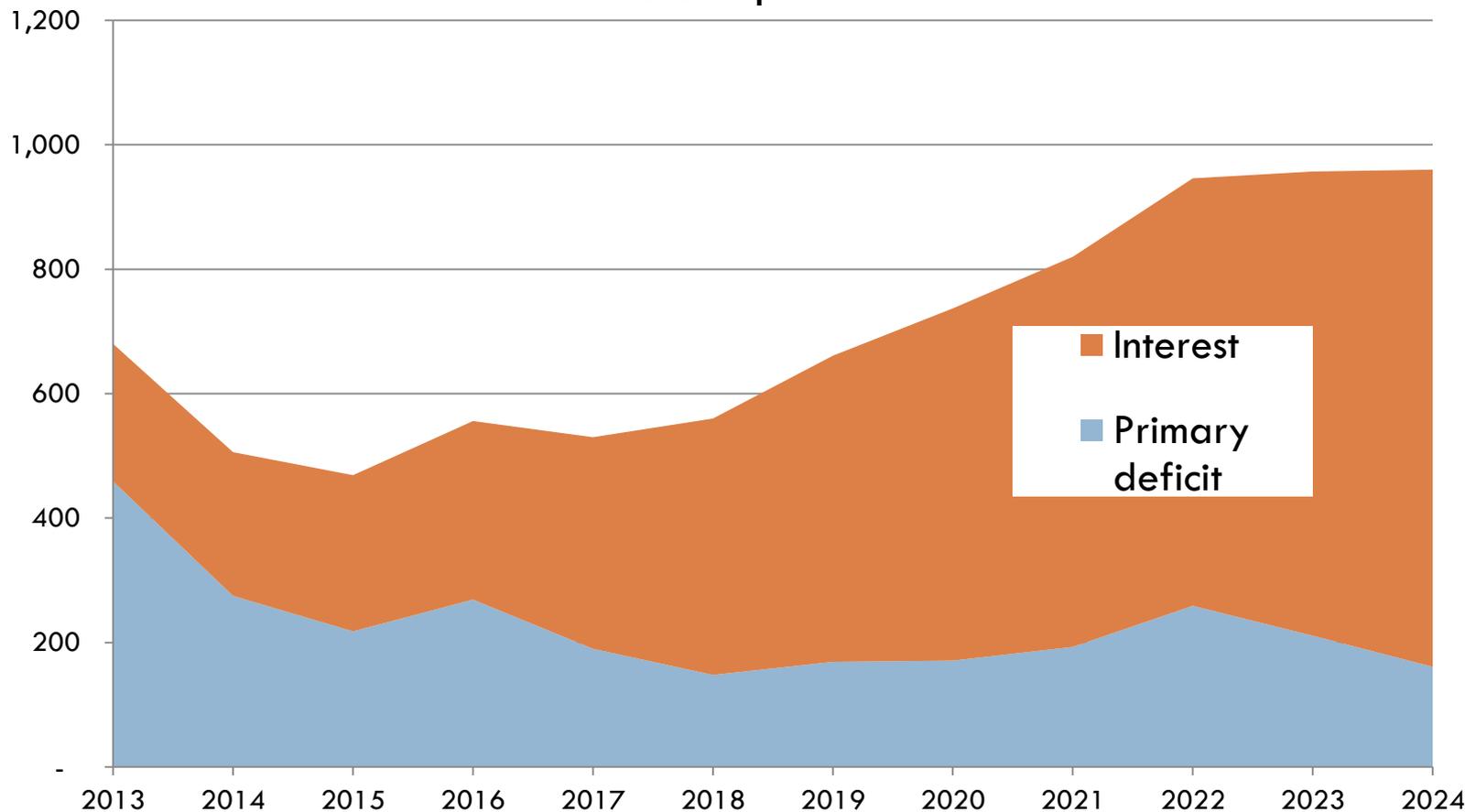


Highway funding

- Over the next 15 years, fuel taxes will fall between 15% and 30%:
 - ▣ By 2030, the average new car is projected to deliver 45.2 mpg and the average light truck 32.6 mpg
 - ▣ Average miles driven may have also peaked in 2007
- Unless sources change, highway funding will become a crisis

Federal finances: It's the interest that really matters

Federal Deficit by Year
CBO Projections



Intergovernmental finance

- Federal action on deficit reduction will affect county finances
 - ▣ However, nothing likely until 2017
- State finances could be better
 - ▣ Slower-than-projected revenue growth
 - ▣ Cuts are likely, but probably in 2016
- Highway aid likely to decrease over time

Polk County fiscal status

- Polk County government has just emerged from the worst recession in 75 years, without:
 - New debt
 - – *instead Polk County paid down existing debt*
 - Spending fund balances
 - – *instead Polk County increased fund balances*
 - Delaying essential spending
 - – *instead Polk County prepaid future costs*
 - Service disruptions
 - – *instead Polk County increased services in selected areas*

County financial status, 2015 budget:

- No structural deficit and few if any uncontrollable costs
- Growing economy and tax base
- More than ample cash reserves
 - ▣ Sales tax reserve over \$1 million
 - ▣ Unassigned General Fund reserve of 32-33%
 - ▣ Asset Fund balance of \$300,000
- Provides the County Board the opportunity to:
 - ▣ Aggressively manage debt
 - ▣ Invest to reduce future costs

2015 Budget Recommendation



Guiding Principles

1. Maintain fiscal discipline and improve budgetary sustainability
2. Improve allocation of funds based on priorities set by the County Board
3. Improve efficiency and effectiveness of expenditures:
 - ▣ *Transition, not transformation*

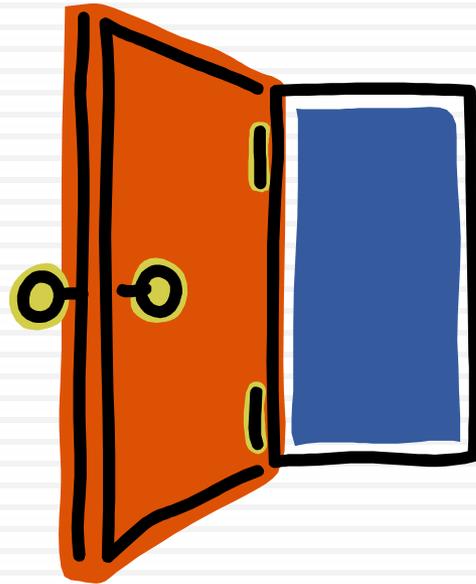
Transition or transformation?

- Massive pressures on county government:
 - Limited resources
 - Aging population
 - Generational turnover in staff
 - Changing citizen demands
 - State/federal mandates
 - Disruptive technology
- Challenge is to set our own future versus letting others set it for us: transition versus transformation

Transition: Key management themes

1. Citizen-centered government
2. Personnel system reform
3. Proactive debt management
4. Setting the stage for economic growth

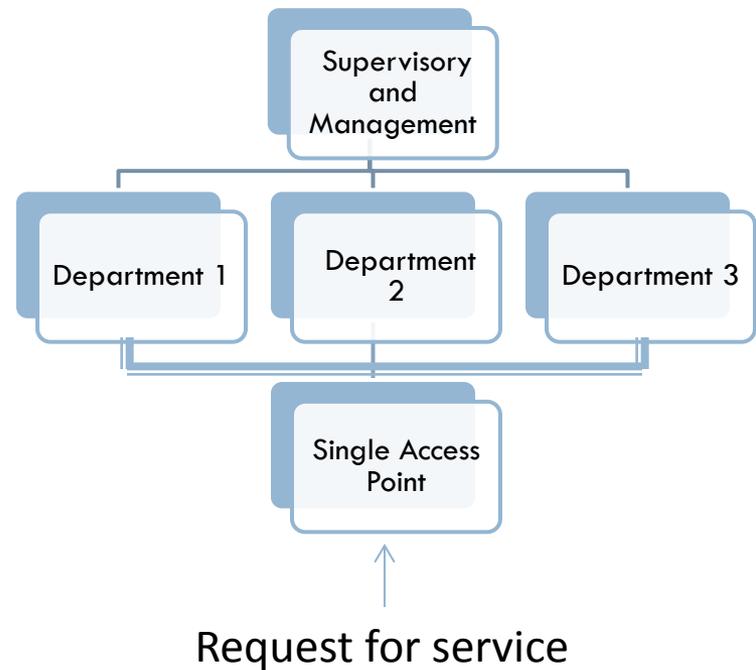
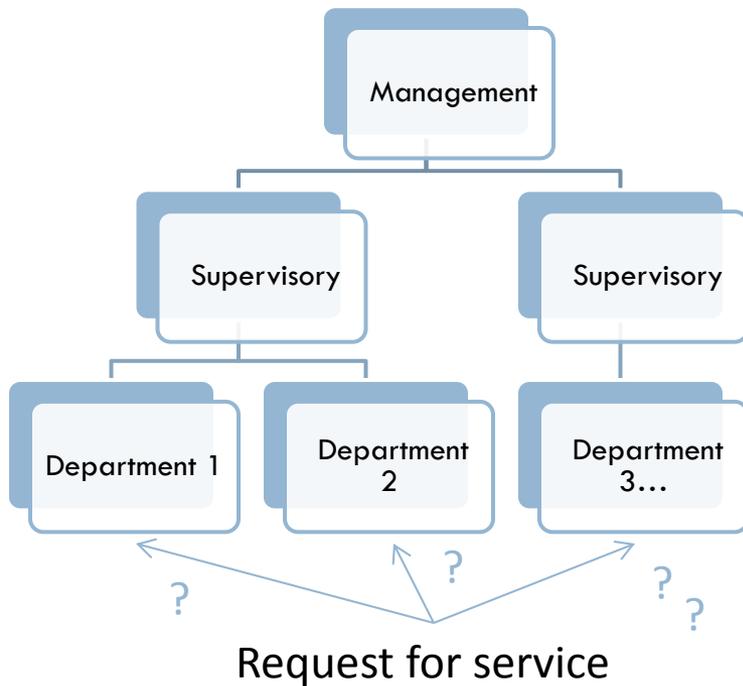
Customer focus: No wrong door



The basic logic

- Citizens pay for the services counties provide
- Citizens care about services, not departmental structure
- But:
 - ▣ Current structure based on departments, not services
 - ▣ As a result, county government appears fragmented
 - ▣ Structure is difficult to navigate
 - ▣ Service provision is often inefficient
 - ▣ Teamwork and productivity suffers

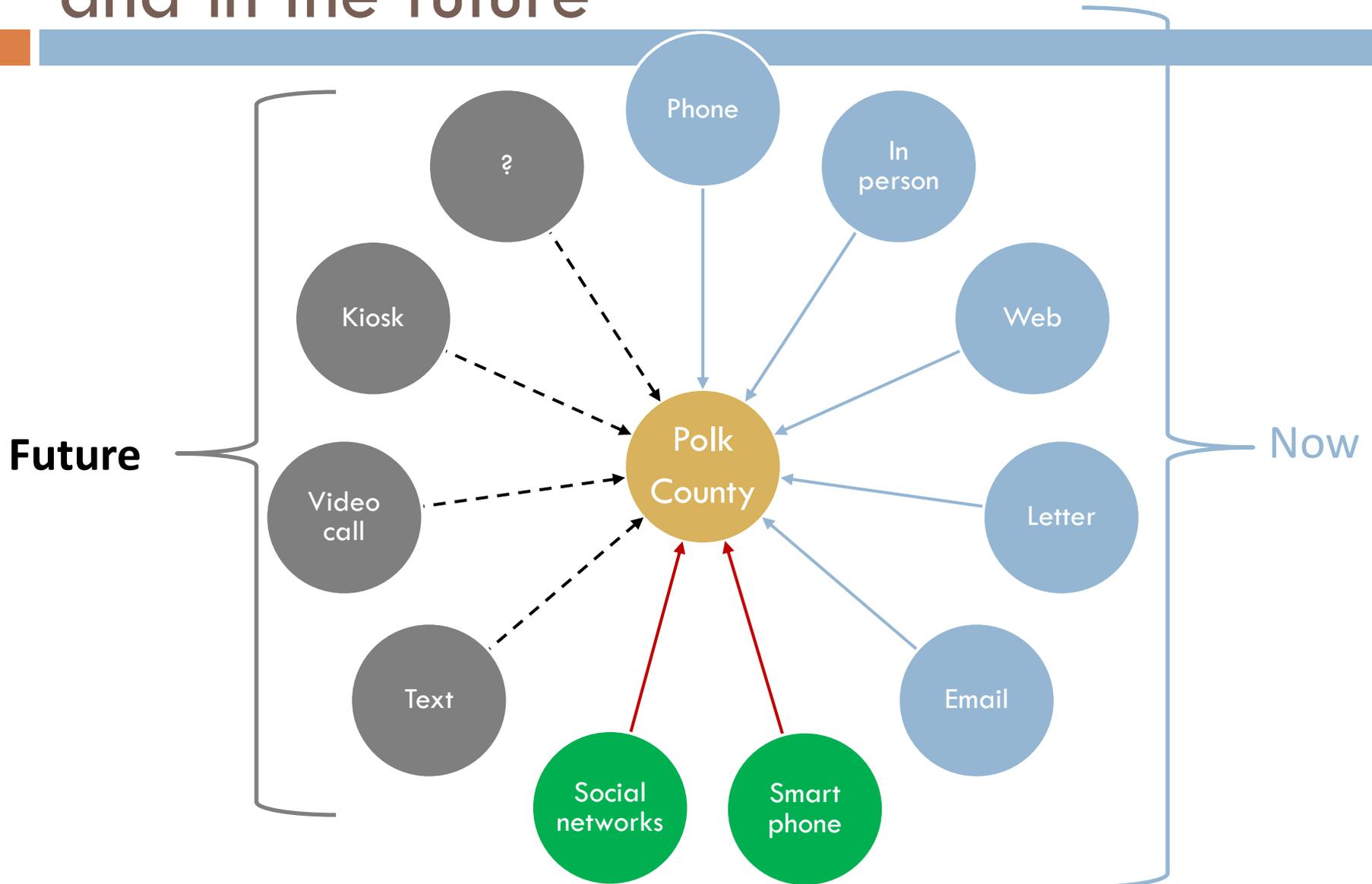
Building government around the citizen



Traditional government

Citizen-centered government

How citizens contact Polk County now – and in the future



Recommendations

- Establish internal workgroups on service access consolidation
 - ▣ Plan for a “one-stop shop” for citizen services
 - ▣ A single intake for all health and human services programs – no wrong door
- Assign planning funds from the asset account
- Implement in 2016
 - ▣ Repaid through increased efficiency

Personnel management reform



The problem

- Current system aimed at the wrong, or missing, goals
 - ▣ Can be an obstacle, rather than an ally, for change
 - Retention at the expense of recruitment
 - ▣ Is not linked to overall organizational goals
- Is not evidence based
- Often does not engage the talents of employees
 - ▣ Provides limited opportunity for feedback and improvement
- Does not allow communication of value for money

Structural flaws in classification and compensation

- Needlessly complex
 - ▣ Dozens of job classifications, most with only one person
 - ▣ Irrelevant and needlessly detailed
- Compensation unrelated to market
- No incentive for performance improvement
 - ▣ COLA seen as an entitlement
- One plan fits all health insurance

Steps to date

- Market analysis to determine appropriate starting salaries
- Salaries reduced for entry level positions where appropriate
- Conversion of some benefit costs to salary
- Implementation of new PTO system
- Structure of new classification system developed

Recommendation

- Begin to implement a system that works, that helps make Polk County a high-performance, accountable, efficient and effective organization
 - ▣ Take the best evidence we can from the best systems we can find and apply them
 - ▣ Manage for performance: set clear goals and work as a team to reach them

2015 transition, classification and compensation

- Simplified classification system
- Entry level based on market salaries
- Compensation only one part of total redesign
 - Budgeted January 1, 2015 adjustment of 1.5%
 - All future compensation adjustments on anniversary date and tied to meeting job expectations
 - Funded at 1.5% to match overall market increase
 - Health insurance options for employees at no additional County cost

Debt management

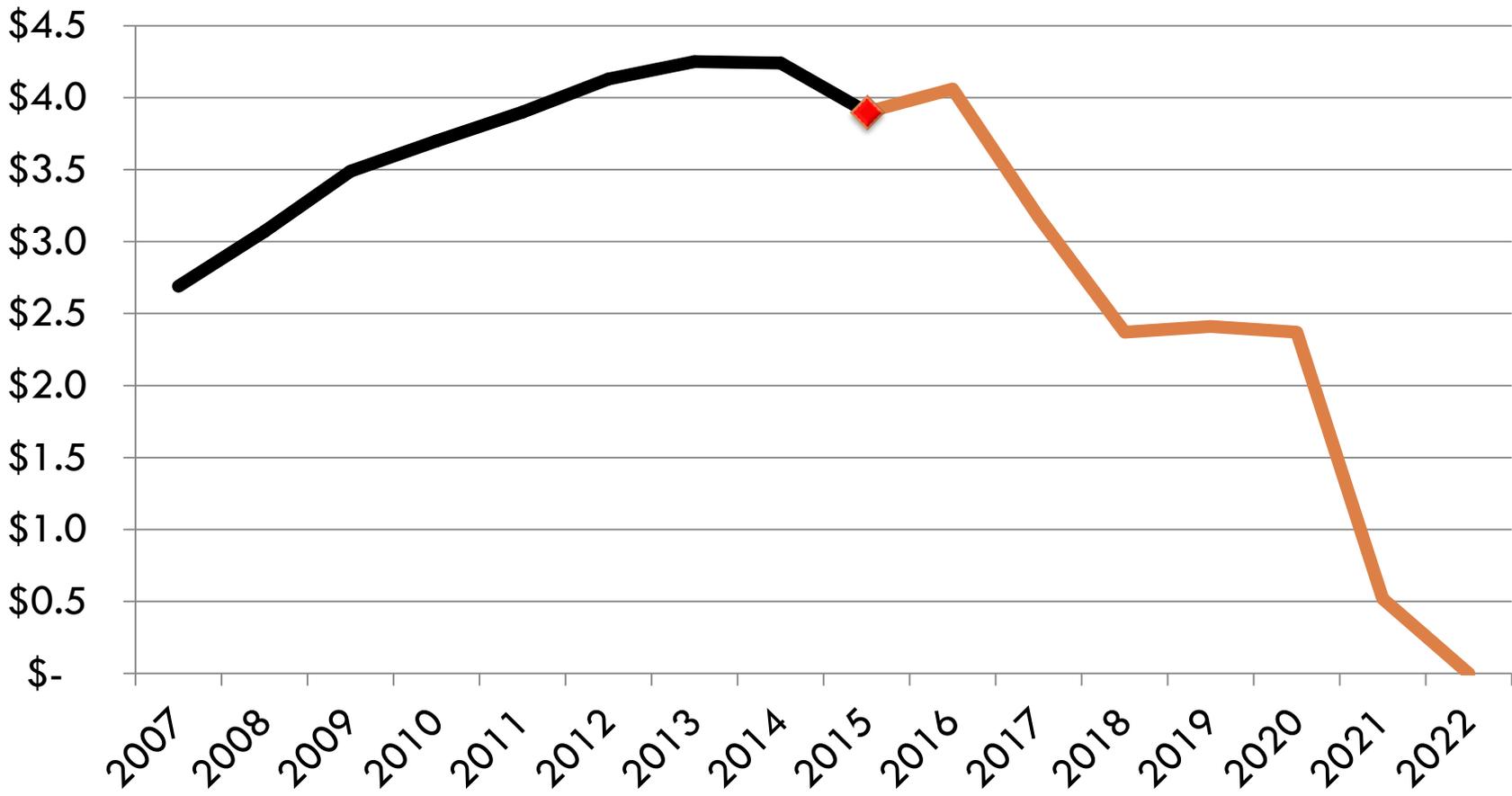


Debt

- For the last decade, the County budget has had to react to escalating debt service – debt has managed the budget
- We now have the opportunity for the County budget to manage debt

Polk County Debt Service Levy by Year

(Dollars in Millions)



Recommendations

- Debt management
 - ▣ Pay off 2007 bond two years early
 - Saves \$100,000 in interest costs
 - ▣ Plan to refinance remaining issues in 2017
 - ▣ Set an unofficial debt service target at 15% of levy
- Finance future projects through level debt service
- Finance future projects through combination of cash, land exchanges (as needed) and, lastly, debt

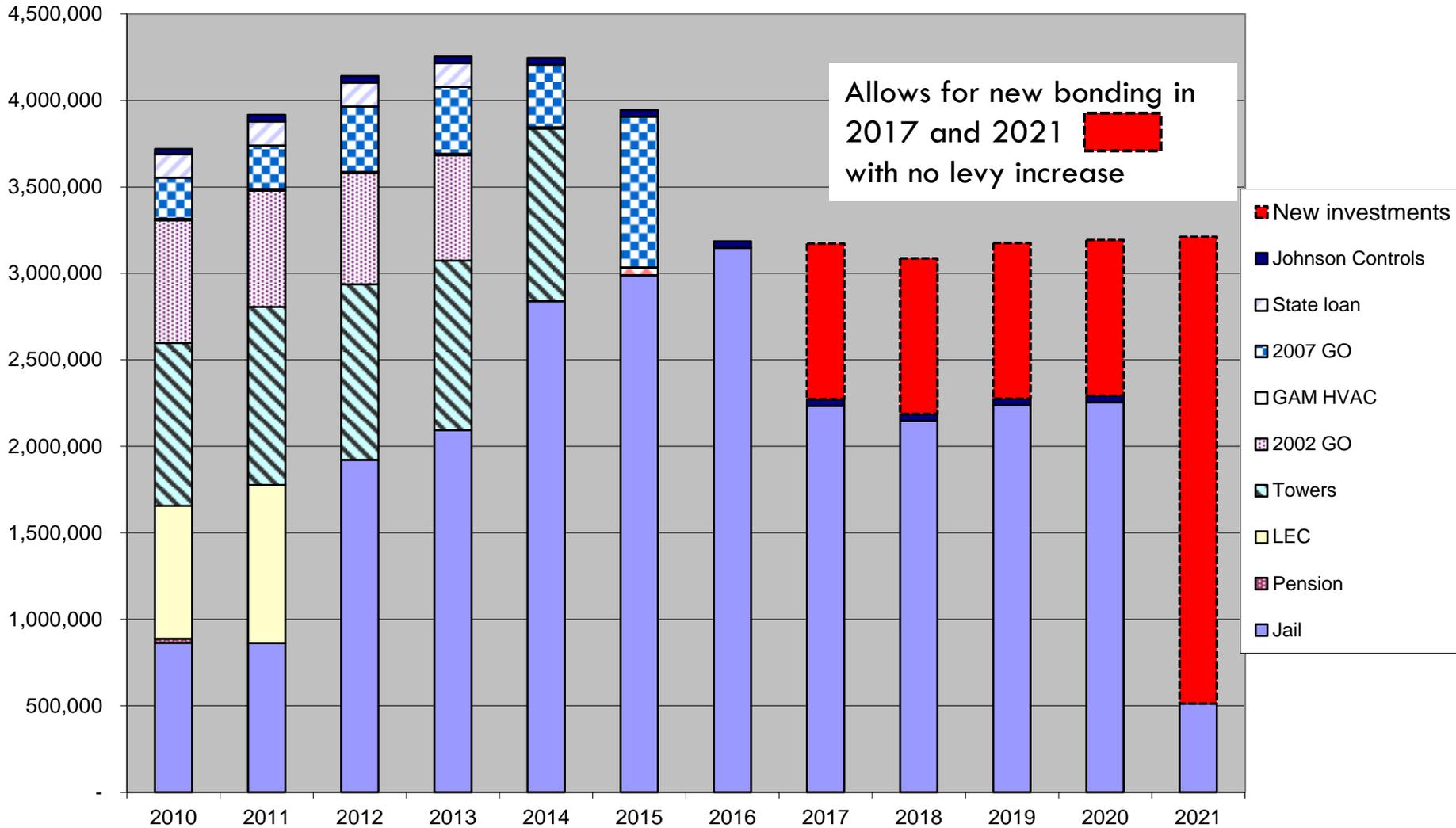
Specifics, 2007 bond payoff

- Transfer \$400,000 from Unassigned Fund Balance to Asset Fund and \$171,429 to debt service
 - ▣ Will still allow for a 30+% fund balance
- Loan GAM \$616,581 to meet debt service, repaid over five (or fewer) years
 - ▣ 2015 same as current, 2016-17 spread over four years
- Transfer \$950,000 from Sales Tax Fund to Debt Service Fund
- Call 2007 bond early in December, 2015
 - ▣ Bond agent waived fees, bond counsel fees \$4,000
 - ▣ Net savings \$95,000 over two years

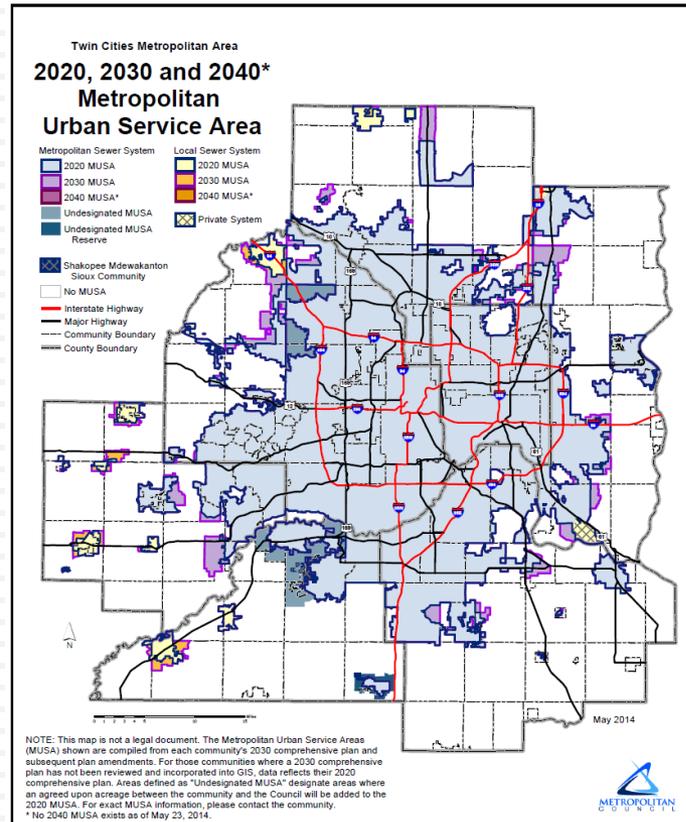
Debt guideline of 15% of levy

- Close to average for Wisconsin counties
 - ▣ Total county debt as percent of levy in 2012 = 17.3%
 - ▣ Average county debt = 13.3%
- Would support a bond issue of about \$8 million in 2017 without any levy increase
- Will allow for a major infrastructure investment in 2021, again without any levy increase
 - ▣ New development will have substantial impact on County costs and services

Polk County Annual Debt Service by Obligation



Preparing for growth



Initial infrastructure investment

- In 2015, the last group of counties in the region will undertake aerial mapping (called LiDAR)
- Polk County's gross cost is \$280,000 (as part of this group)
- Recommended funding:
 - ▣ 2015: \$50,000 state grant, \$80,000 levy, \$10,000 other sources
 - ▣ 2016: \$80,000 levy, \$60,000 other sources
- Benefits to public and private developers
 - ▣ Highway planning, utilities, environment

Now, the bad news

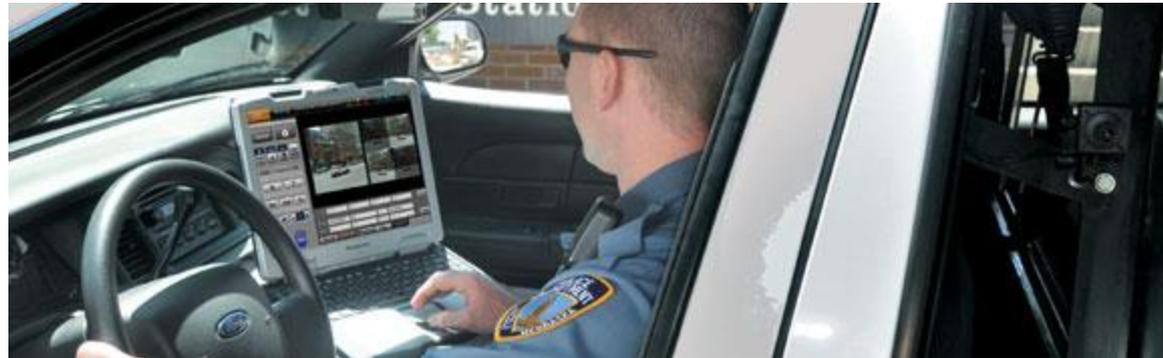
Support for
Windows XP and
Office 2003 Ends

in 0 months 0 days 0 hours



The single largest cost in the 2015 budget

- Total cost of Windows 7 and Office upgrade = \$357,291
 - ▣ \$255,687 in Law Enforcement to replace all mobile units and software
 - ▣ \$101,604 across all departments in software upgrades
- Essential for systems security and operations



2015 Overall Budget Recommendation

- Total expenditures: \$ 61,060,834
- Total revenues: \$ 59,913,421
 - ▣ (Gap between revenues and expenditures is bond payoff)

- Total 2015 proposed levy: \$21,127,923
 - 2014 levy: \$20,984,004
 - Change: \$143,919 or 0.69%

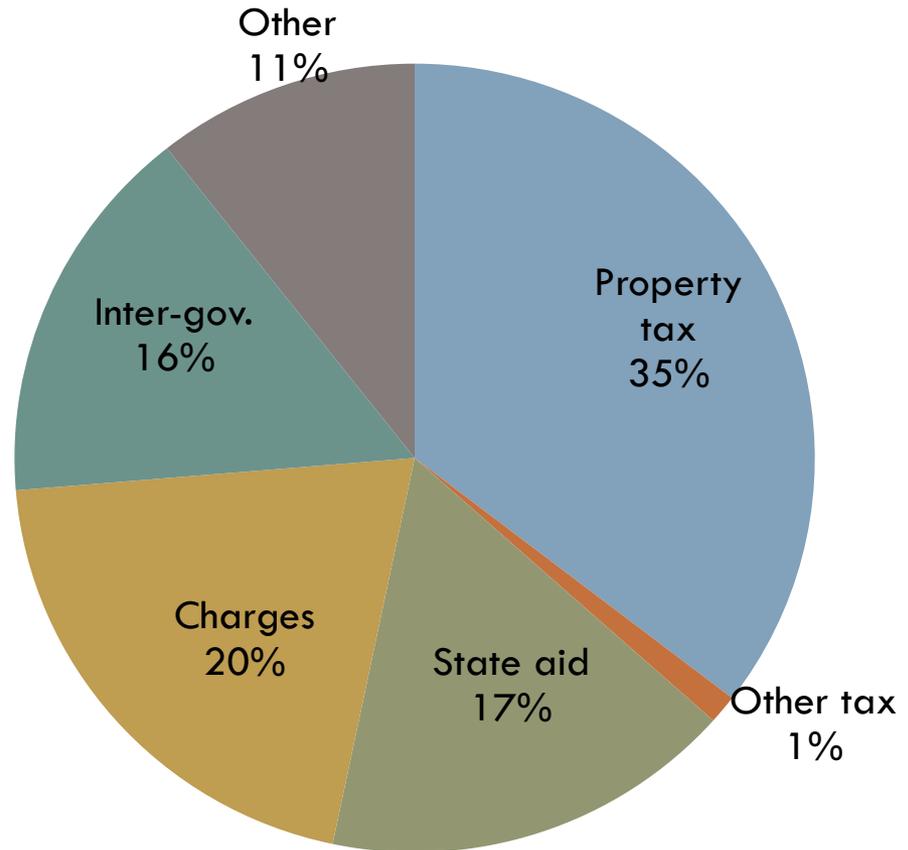
2015 Budget Recommendation

| Revenues | | Expenditures | |
|----------------------------|-------------------|---------------------------|-------------------|
| General Property Tax | 21,127,923 | Personnel | 29,817,749 |
| Other Taxes | 736,170 | Operating - 000 | 1,863,067 |
| State Aids | 9,910,769 | Professional Services | 7,569,997 |
| License & Fees | 324,842 | Supplies & Expenses | 3,768,430 |
| Fines and Forfeitures | 235,900 | Fixed Charges | 8,421,238 |
| Public Charge for Services | 12,122,586 | Debt service | 5,551,651 |
| Intergovernmental Revenue | 9,301,589 | Grant Contribution | 683,651 |
| Misc Revenue | 925,501 | Capital Outlay | 1,257,687 |
| Other Financing Sources | 5,228,142 | Transfers | 2,127,365 |
| Total Income | 59,913,421 | Total Expenditures | 61,060,834 |

Revenues

- Total \$59,913,421
- Sales tax \$2,600,000
- Most other resources show little growth

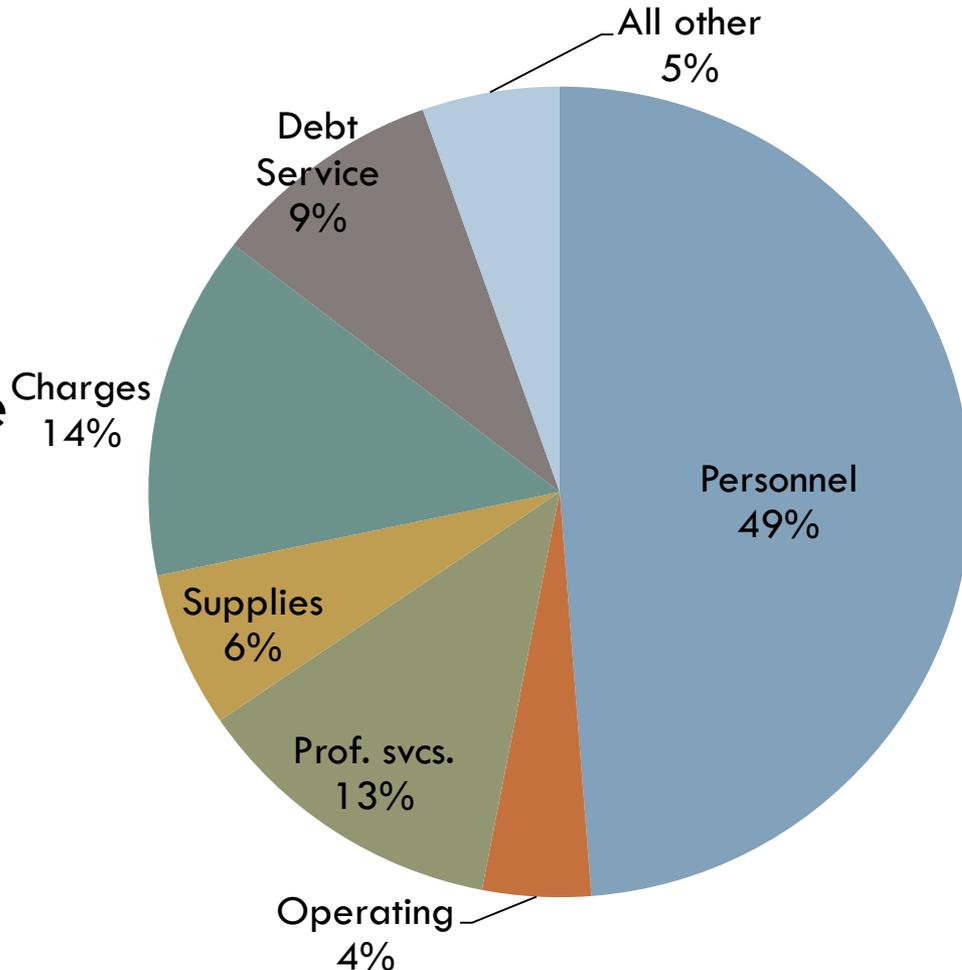
2015 Revenues



Expenditures

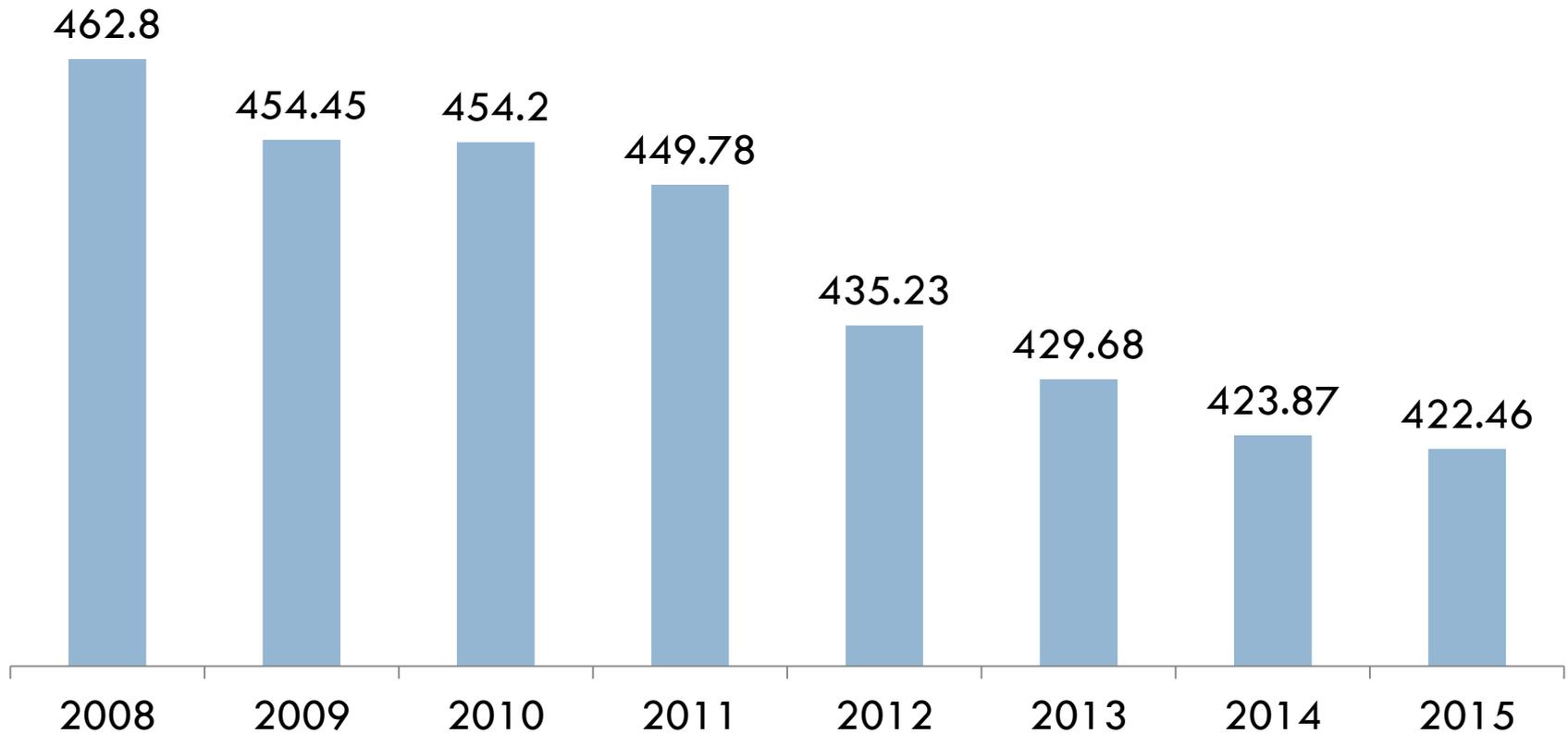
- XP
- Debt service with prepayment
- Health insurance funded at 4%
- Changes to classification system included

2015 Expenditures



Overall staffing reduction

Total FTEs, Polk County

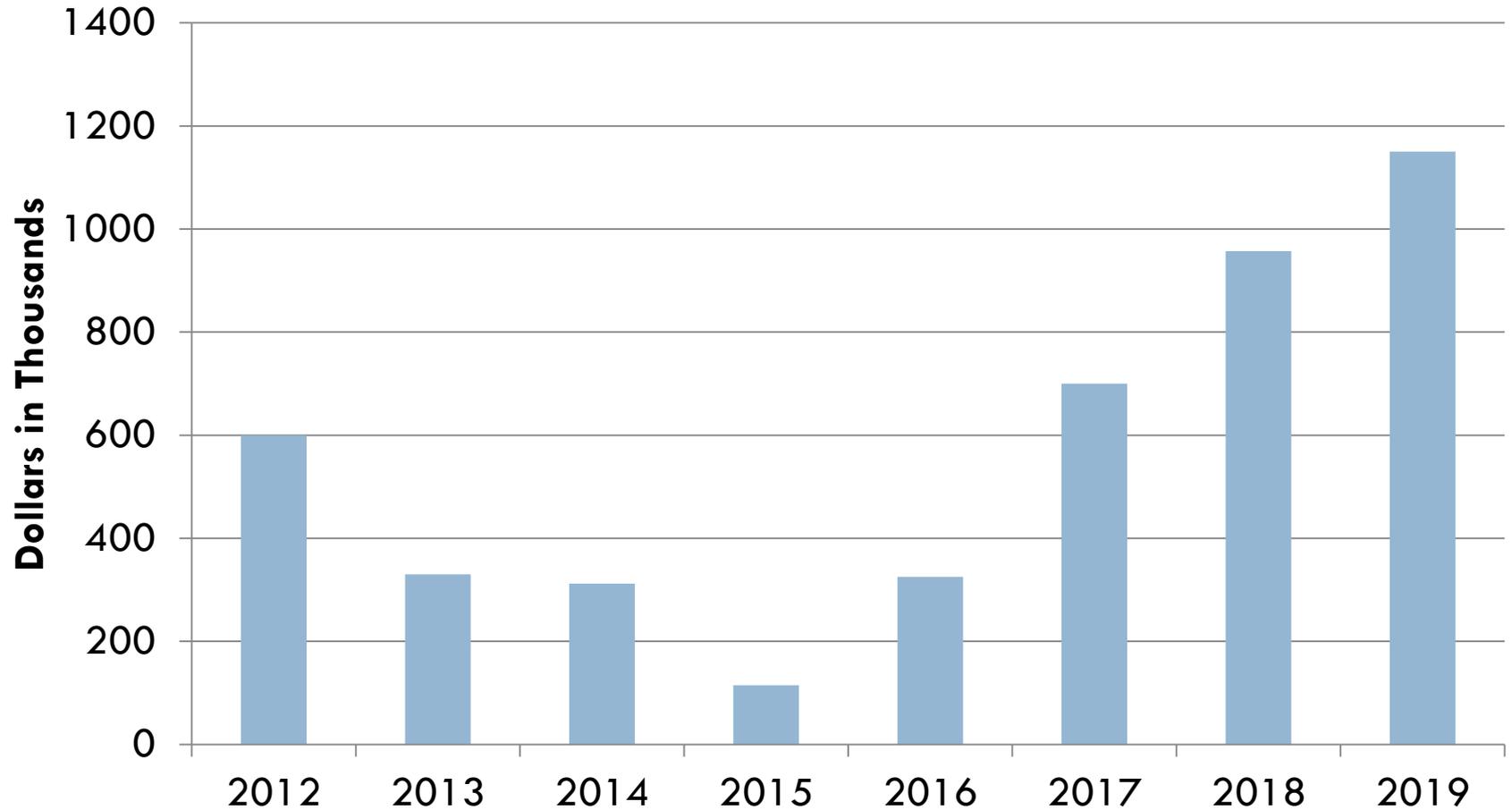


Asset fund appropriations

- Law Enforcement: \$21,000 for watercraft
- Lime Quarry: \$150,000 for front-end loader
- GAM: \$616,581 for debt service (2007 bond)
- Administration: \$75,000 for citizen service center software and planning

- Additional \$400,000 transfer from General Fund balance

Asset/internal investment fund balance



Property taxes in 2015



Polk County's Value

- Increase in value of 1.45%
 - ▣ First increase since 2007!
- New construction accounts for almost the entire increase
 - ▣ Up 1.14%
 - ▣ Balance increase in residential (+1% and commercial +2% offset by cut in land values)
- Very likely that next year's value will be substantially higher

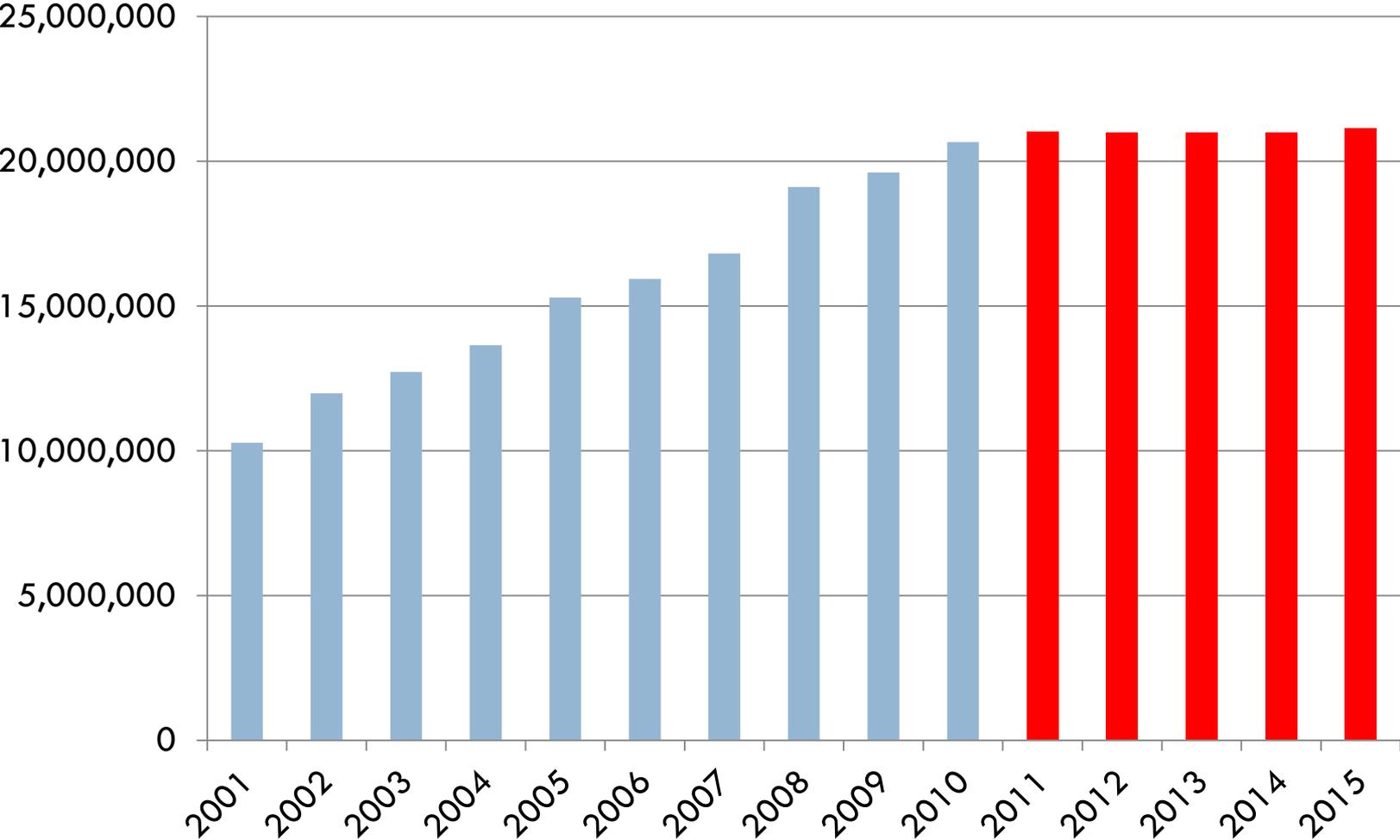
The levy cap

- General increase = 0%
- Increases for:
 - ▣ New construction (1.14% in 2014) = \$239,218
 - ▣ Increase in pre-2005 debt service = \$150,500
- Total allowable levy increase = \$389,718
- “Constant tax” levy increase = \$200,857
- Starting point in recommendation = \$143,919

Levy Impact

- 1.14% from new construction with small increase in levy
= small decrease in taxes on existing property
- Impact will vary by area, by type of property, and by relative value change
- Tax rate (excluding Library Act 150 and Bridge Aid) will drop from 0.00528471 to 0.0052698
- On a \$100,000 house the 2014 County tax was \$528.47
 - ▣ 2015 tax would be \$526.98

Polk County levy flat since 2011



Budget amendments

- Any County Board member may originate at any time
- Preferable if discussed at committee
- Administration is happy to help draft
- Other, technical amendments coming
 - ▣ More information from the State
 - ▣ Errors and omissions in original materials
 - ▣ Changes to implement Board decisions

Budget amendments

- Potential for savings with later data
 - ▣ \$8,000 more in shared revenues
- Board has discretion over levy
- \$50,000 to \$100,000 in requests for funding (so far):
 - ▣ Drug court at about \$25,000
 - ▣ Public transportation feasibility study at about \$2,300
 - ▣ Museum funding at about \$13,000
 - ▣ Land and Water lake quality initiative
 - ▣ Momentum West \$2,500

Now until October 21

- **Governing committees:**
 - Review budgets as proposed
 - Recommend amendments (if any)
 - Recommend approval of budgets
- **General Government committee:**
 - Reviews budgets and amendments
 - Recommends overall budget amount
 - Recommends financing sources
 - Prepares draft budget for publication (October 21 meeting)
- **Full Board (October 21):**
 - Amends draft budget and approves for publication

October 21st to November 12th

- **Governing Committees:**
 - ▣ Review changes from October 15 meeting if any
 - ▣ Recommend conforming amendments as needed
- **General Government Committee:**
 - ▣ Reviews direction set at October meeting
 - ▣ Recommends adjustments to financing or budget size
 - ▣ Reviews amendments from governing committee
 - ▣ Recommends final budget resolution
- **Full Board:**
 - ▣ Reviews, amends, and adopts final budget on November 12th



Thank you!