

2015 ANNUAL REPORT ON THE CONDITION OF POLK COUNTY AND COUNTY DEPARTMENTS



**DANA FREY, COUNTY ADMINISTRATOR
AUGUST 2015**

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LETTER OF TRANSMITTAL

July 31, 2015

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

Honorable Chair Johnson and Supervisors:

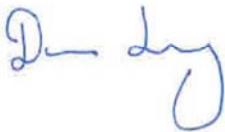
Pursuant to Wisconsin Statutes Section 59.18, I have the honor of presenting you my fifth annual report on the condition of Polk County as follows in this document.

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 once again show improvement over the prior year.

With respect to the economy, the County is beginning to fully recover from the 2007-09 recession. Employment is now well above the pre-recession peak (quantitatively, if not qualitatively). In part as a consequence, it is likely that overall population growth is resuming and returning to the pre-recession trend, i.e. one to two percent per year. The County's fiscal position has greatly improved, with an excellent fund balance and debt service approaching the lowest level in over a decade.

The management conditions of the County continue to improve as well. Succession planning remains a priority due to pending retirements, and a strategy has been developed to accelerate internal leadership development through training and support. A first draft of all of the core sections of a comprehensive General Code has been completed, and it is anticipated it will be ready for adoption later this year. Finally, initial work has been completed on service redesign that may be incorporated in the 2016 budget recommendation.

Respectfully submitted,



Dana W. Frey
County Administrator

About the cover: The horses pictured are owned by Polk County Land and Water Department's Patty Jo Andersen, who provides riding-based therapy for children at her farm, Quarter Moon Acres. The picture is by Brett Hart Imagery, used with permission.

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 may have reshaped the County’s economy permanently. Although unemployment has improved greatly and the number of people employed have passed the pre-recession peak, signs of a weak economy such as number of food share recipients remains quite high. County employers have not recovered as fully as well: place-of-employment data show that employers located in Polk County employed about 2,000 fewer people in 2013 than in 2007, before the recession, with the bulk of those losses coming in manufacturing, retail trade and construction. Sales tax collections continue at record levels, indicating the rebound of the retail industry, and it does appear that the real estate market recovery is sustained and the County’s equalized value has begun to increase once again.

As noted in past reports, the demographics of the County have also been affected by the recession. Both the U.S. Bureau of the Census and the Wisconsin Department of Administration estimate that the



The unassigned fund balance remains excellent at about 37 percent of expenditures, increasing by \$1.2 million in 2014.



County has lost population since the 2010 census due to outmigration, although the latter believes that is largely offset by natural population growth. The newest data, however, show that outmigration has been reversed and people again are moving to Polk County. This help confirm the long-term projections from the Wisconsin Department of Administration that show an annual increase in the County’s population of between one and one-half and two percent per year. If true, this means that overall population could reach 50,000 by the end of this decade.

The financial condition of the County continues to improve as past debt is repaid and fund balances increased. The undesignated General Fund balance remains at about 38 percent of expenditures and the General Fund ended 2014 \$1.2 million below budget. Every major

fund except Human Services ended with a positive balance: Golden Age Manor, Highway, and Lime Quarry.¹

The management condition of the County continues to progress, but issues of organizational fragmentation, succession planning, and policy direction are becoming increasingly important. This year is the second year of a management training program designed to improve capacity and customer service, and succession planning is ongoing. The County's organizational structure is fragmented, however, with 23 separate departments. This is neither efficient nor conducive to customer service and will need to be addressed.

On balance, it is again 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, a fragmented organizational structure and a yet uncertain future role for local government. The local economy continues to slowly get better and population growth has resumed, the County's financial status has improved again, and the County's management condition is also continuing to improve. Once again, as was written in all previous 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.

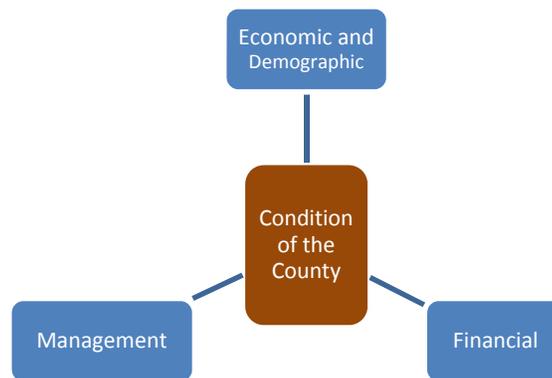
¹ The Lime Quarry audit showed a deficit only because of the purchase of a front-end loader.

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.



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.



Please note that this report is not intended to be a substitute for annual reports submitted by individual departments, and care has been taken to not repeat information included therein. This year, for the first time, this report and these annual reports have been combined so as to improve their applicability and value to the County Board and make them a resource for the public. In addition, as the descriptive section that follows this report indicates, the annual department reports have been developed using a consistent format and information, to complement the budget process. As noted in the past, 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.

THE CONDITION OF THE COUNTY

The most striking feature of the condition of Polk County is the ongoing steady improvement in the economy. Employment has now exceeded pre-recession levels and sales tax collections (and of course underlying retail sales) continue to set records. The County's population quite likely has stabilized: both the US Census Bureau and the Wisconsin Department of Administration report a slight increase in population over the period 2013 to 2014 (although the Census Bureau estimates that the County had lost population overall since 2010²). As noted in last year's report, population forecasts now call for reasonable growth through the next two decades, including growth in younger population groups. The two other dimensions – the County's internal fiscal condition and the County's management or operational condition – also show improvement. Financially, the County remains stable, with reasonable budget reserves at about 37% of General Fund expenditures, debt service costs returning to a more sustainable level and no substantial fiscal issues on the near horizon. Finally, the last pieces of major management reform in budgeting, reporting, succession planning and policy codification are also being implemented.

Challenges do remain. The current economic expansion is now over six years old, and even though there are now no storm clouds on the horizon another recession is inevitable. Although employment is growing, income issues from the past recession remain putting pressure on County services. The proportion of County residents receiving FoodShare benefits remains at a historically high level. There has been no change in state policy towards local government, meaning a frozen property tax levy for the fifth year in a row and limited state aid. The County's organizational structure remains fragmented and not well aligned to an administrator form of government. Lines of accountability are also unclear with the role of the committee structure still evolving, and there are challenges in policy direction and in planning. Finally, although the County's infrastructure is in generally good to excellent condition, the Highway Department facility is functionally obsolete and requires, at a minimum, a complete and total remodel.³



Polk County has now passed its pre-recession employment peak: according to data from the state, Polk County employment exceeded its pre-recession peak late in 2014



² The relative unreliability of population estimates is illustrated by the difference between the two estimates, both in level and composition of change.

³ That option requires further study, as it likely not cost-effective to rebuild/remodel on the current site.

ECONOMIC CONDITIONS

As recovery from the Great Recession continues nationwide, Polk County's economy continues to strengthen, with employment well past the pre-recession peak and sales tax collections at record levels. Although troubling signs do remain, the overall picture is one of improvement and reversion to overall trends apparent before that recession.

EMPLOYMENT

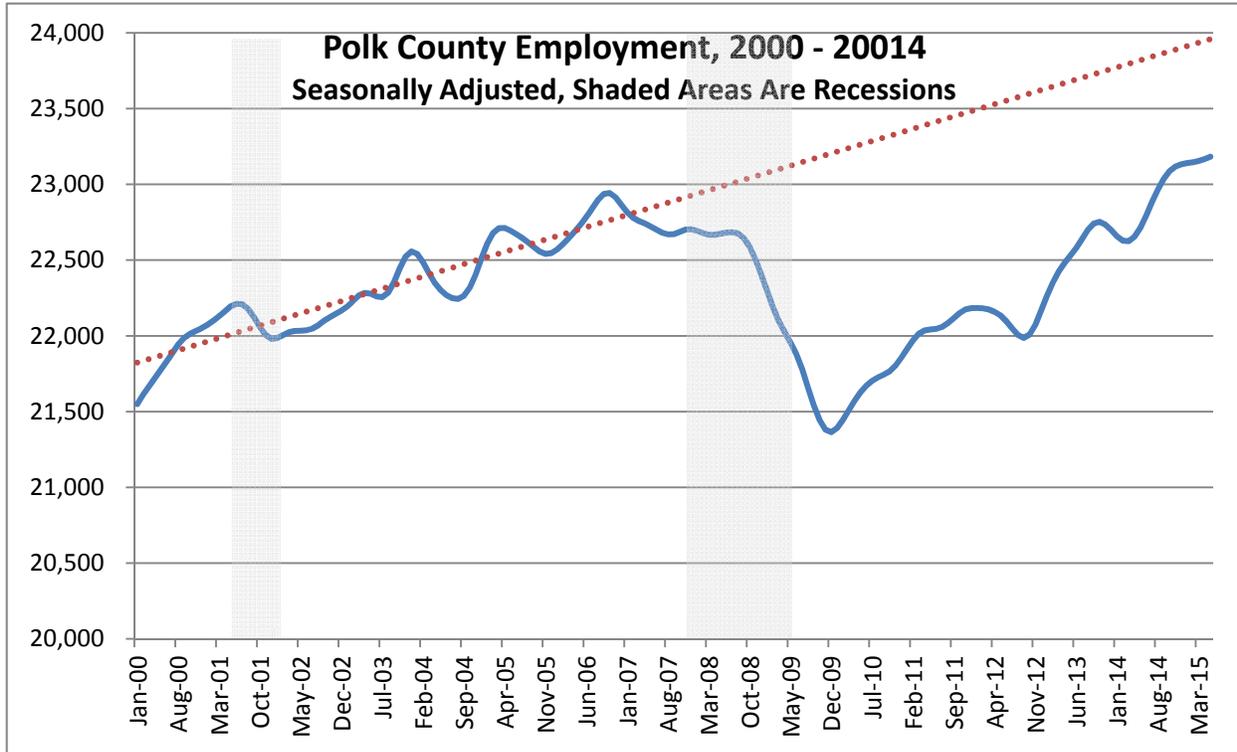
As noted in past reports, measuring employment and unemployment is problematic even at a national level; problems increase exponentially in attempting such measurements at a local level. Nonetheless, and all methodological issues aside, the employment picture continues to improve in Polk County, with the number of people employed now well above the pre-recession peak. However, the last recession may well have permanently cost the County as many as 1,000 jobs: as Figure 1 shows, the current level of employment is about 1,000 people fewer than what it would have been had the last recession not occurred, although the post-recession trend would seem to indicate some of this might be recoverable. (Note that these are employment data for County residents; other data discussed below are for County employers.) Part of this drop can probably be accounted for by the same factors reducing labor force participation nationally, and part is likely due to a net out-migration of working age adults.⁴

In May 2015, the County's unemployment rate was 4.7%, down from 5.7% in May 2014 and at the above the State average of 4.7% (not seasonally adjusted). This is in keeping with unemployment in the region: the U.S. Bureau of Labor Statistics estimates that the unemployment rate for the Minneapolis-St. Paul Metropolitan Area was 3.4% in May 2015, the third-lowest in the nation. Continued growth in employment in this metropolitan area will therefore require both in-migration and tapping into labor markets from a longer distance away, like Polk County.

As noted in past reports, employment and unemployment rates are quantitative, not qualitative statistics. This so-called "underemployment rate" measures those who indicate they would like a full time job, but have ceased actively attempting to gain employment. This rate is much slower to recover after a recession, and currently more than doubles the national unemployment rate, standing at 10.8 percent in May. That helps explain why poverty, although declining, is still high by historical standards.

⁴ The US Census Bureau estimates that Polk County lost 803 residents to outmigration during the period 2010 to 2014; the State of Wisconsin Department of Administration estimates a loss of only 272 people. See the section on Demographic Conditions following.

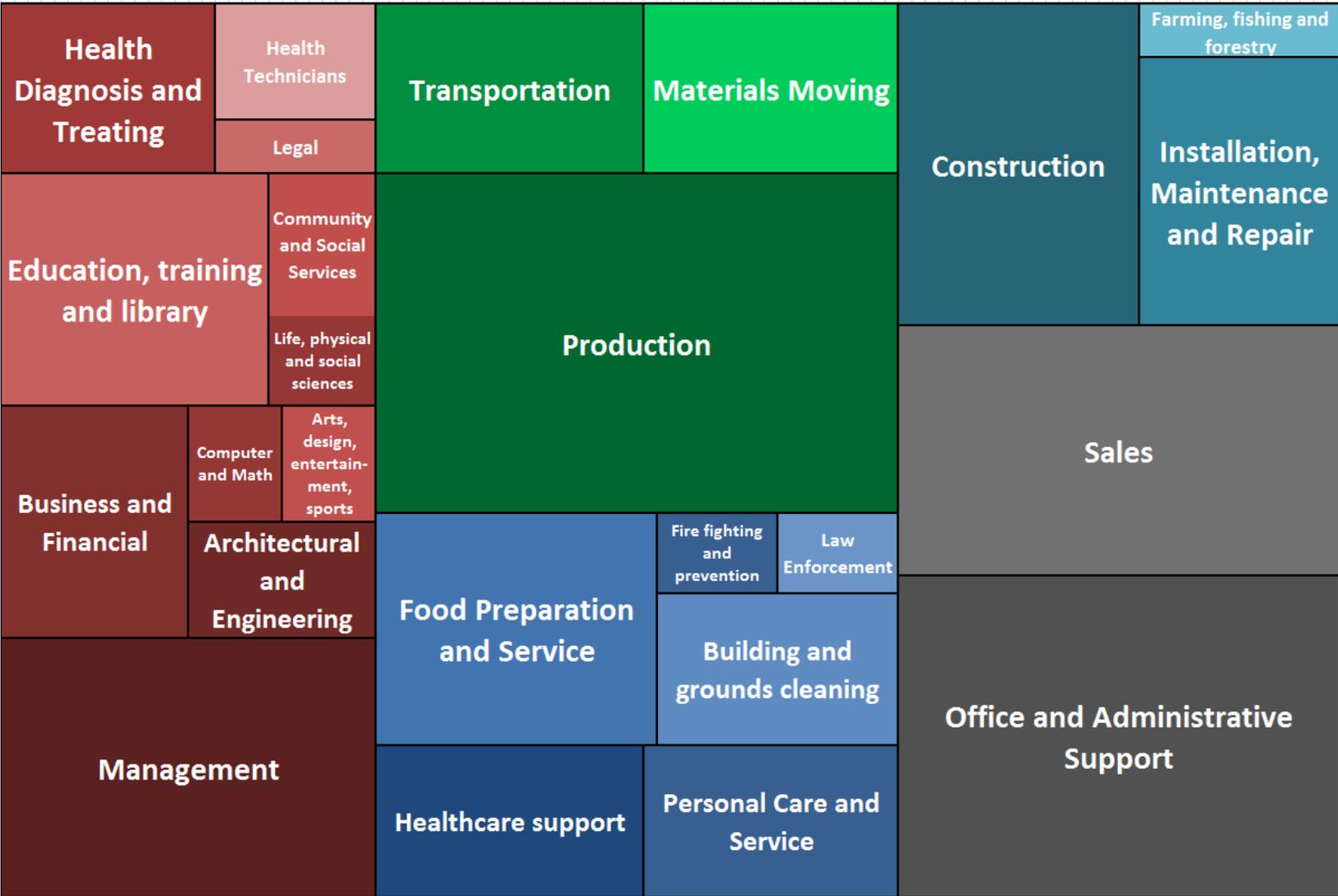
Figure 1



Trend line is from the 2001 – 2007 economic recovery

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

Data are also available on where people work and the categories of employees. Figure 2 is a look at these data for Polk County: the importance of manufacturing becomes readily apparent, with the single largest category of employees in the County being production workers, accounting for 14.6% of the total (note that this includes public sector employees); all told, production-related occupations including transportation and materials handling account for almost 22% of total jobs in Polk County. Office workers, which would include many public employees, are the next largest group, and healthcare-related employment also shows as significant, although spread across a number of occupational categories.



US Department of Commerce, Bureau of the Census, County Business Patterns 2012

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.

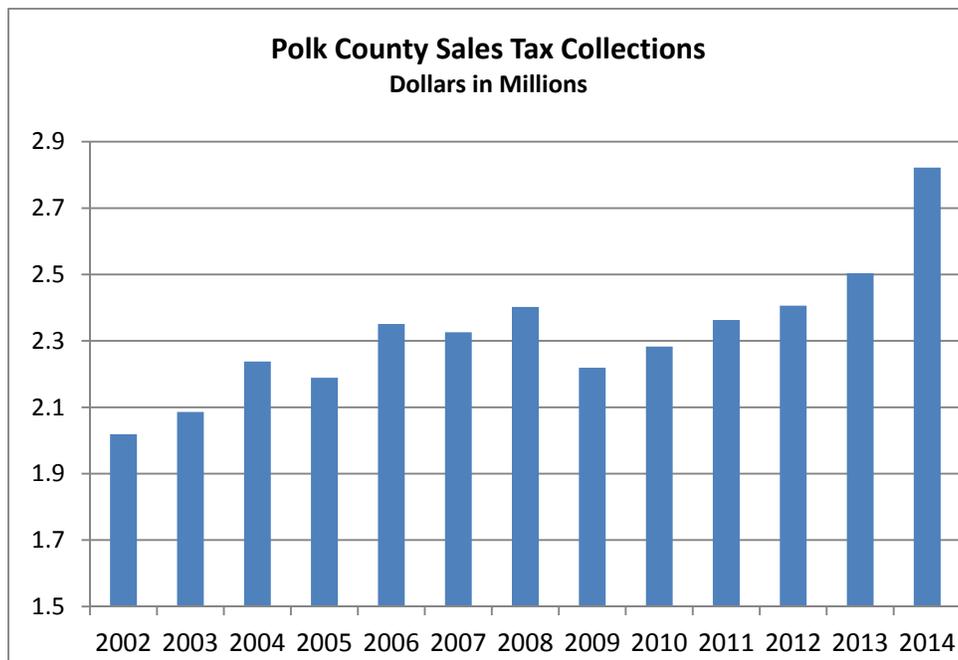


Tourism: in 2014, visitors to Polk County spent \$79.5 million and the tourism industry employed 1,061 people with a payroll of \$20.3 million



Figure 4 shows sales tax collections by year, and the explosive growth in these collections since the end of the recession is readily apparent. 2014, especially, was a banner year, with collections increasing. This indicates a number of areas where economic improvement is occurring: vehicle sales, which are at record levels nationally, improved retail sales, and for Polk County especially, higher tourism revenues. The Wisconsin Department of Tourism estimates that total direct visitor spending in Polk County was \$79.5 million in 2014, up 4.2% from 2013.

Figure 4

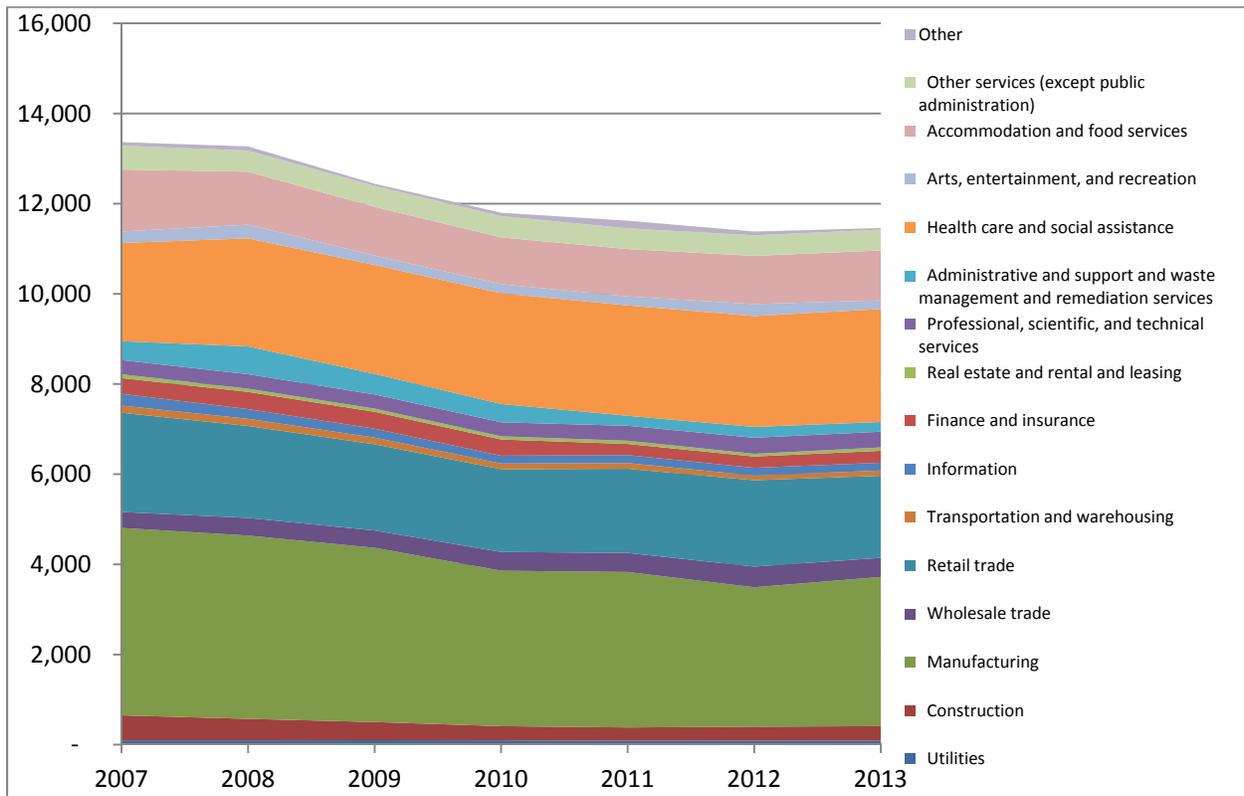


Source: Wisconsin Department of Revenue

The above discussion on employment has focused on Polk County residents who are employed; data are also available (albeit lagged one year) on Polk County employers, including self-employed individuals. Table 1, following, gives an overview of the County’s business patterns for 2013 including number of establishments, employees, and payroll. Table 2 shows number of employees by sector for 2007, 2012 and 2013 to show the impact of the recession and recovery on employment, and Table 3 provides data on self-employed individuals in Polk County by sector. Figure 5, below, illustrates employment by sector for that same period.

Figure 5

Polk County Employment by Sector



Source: U.S. Department of Commerce, Bureau of the Census, County Business Patterns 2013

Note the slow pace of recovery, overall, for County employers. The low point in employment was not reached until 2012 (note that these data are for the first quarter of each year only), and the recovery has overall been slight. This does conceal an underlying shift, however, away from retail employment towards manufacturing and health care. This recent trend is confirmed by the data in Table 2.

The most striking feature of these tables is the recent rebound in manufacturing and its importance to the County’s economy. Manufacturing accounts for 36 percent of total payrolls, and employment was reported to grow by seven percent between 2012 and 2013. Health care is the second-largest sector,

and this area does continue to grow as it did throughout the past recession. There is no reason to not expect this growth to continue.

Table 1

Distribution of Polk County Businesses, 2013

Sector	Establishments		Employees		Annual Payroll	
	Number	Percent of Total	Number	Percent of Total	Amount (\$000)	Percent of Total
<i>Agriculture, forestry, fishing and hunting</i>	4	0.4%	8	0.1%	209	0.1%
<i>Mining, quarrying, and oil and gas extraction</i>	2	0.2%	N/A	N/A	-	0.0%
<i>Utilities</i>	9	0.8%	93	0.8%	6,453	1.8%
<i>Construction</i>	133	12.0%	310	2.7%	12,015	3.3%
<i>Manufacturing</i>	105	9.5%	3,091	27.1%	132,068	36.1%
<i>Wholesale trade</i>	39	3.5%	460	4.0%	20,006	5.5%
<i>Retail trade</i>	168	15.1%	1,914	16.8%	39,914	10.9%
<i>Transportation and warehousing</i>	28	2.5%	104	0.9%	3,952	1.1%
<i>Information</i>	21	1.9%	N/A	N/A	5,171	1.4%
<i>Finance and insurance</i>	52	4.7%	N/A	N/A	12,075	3.3%
<i>Real estate and rental and leasing</i>	36	3.2%	60	0.5%	1,132	0.3%
<i>Professional, scientific, and technical services</i>	83	7.5%	358	3.1%	12,442	3.4%
<i>Management of companies and enterprises</i>	2	0.2%	N/A	N/A	-	0.0%
<i>Administrative and support and waste management and remediation services</i>	48	4.3%	240	2.1%	5,973	1.6%
<i>Educational services</i>	5	0.5%	9	0.1%	118	0.0%
<i>Health care and social assistance</i>	97	8.7%	2,458	21.6%	89,524	24.5%
<i>Arts, entertainment, and recreation</i>	25	2.3%	263	2.3%	2,208	0.6%
<i>Accommodation and food services</i>	118	10.6%	1,070	9.4%	11,173	3.1%
<i>Other services (except public administration)</i>	135	12.2%	457	4.0%	8,597	2.3%
<i>Industries not classified</i>	4	0.4%	8	0.1%	209	0.1%
Total for all sectors	1,110		11,386		366,142	

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 2013

Table 2**Number of Employees by Sector: 2007, 2012, and 2013, Polk County**

<i>Sector</i>	<i>Number of Employees</i>		
	<i>2007</i>	<i>2012</i>	<i>2013</i>
<i>Agriculture, forestry, fishing and hunting</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Mining, quarrying, and oil and gas extraction</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Utilities</i>	<i>99</i>	<i>93</i>	<i>89</i>
<i>Construction</i>	<i>556</i>	<i>310</i>	<i>324</i>
<i>Manufacturing</i>	<i>4,155</i>	<i>3,091</i>	<i>3,311</i>
<i>Wholesale trade</i>	<i>354</i>	<i>460</i>	<i>423</i>
<i>Retail trade</i>	<i>2,200</i>	<i>1,914</i>	<i>1,820</i>
<i>Transportation and warehousing</i>	<i>159</i>	<i>104</i>	<i>119</i>
<i>Information</i>	<i>261</i>	<i>N/A</i>	<i>N/A</i>
<i>Finance and insurance</i>	<i>349</i>	<i>N/A</i>	<i>263</i>
<i>Real estate and rental and leasing</i>	<i>86</i>	<i>60</i>	<i>73</i>
<i>Professional, scientific, and technical services</i>	<i>316</i>	<i>358</i>	<i>349</i>
<i>Management of companies and enterprises</i>	<i>22</i>	<i>N/A</i>	<i>N/A</i>
<i>Administrative and support and waste management and remediation services</i>	<i>419</i>	<i>240</i>	<i>216</i>
<i>Educational services</i>	<i>N/A</i>	<i>9</i>	<i>b</i>
<i>Health care and social assistance</i>	<i>2,175</i>	<i>2,458</i>	<i>2,506</i>
<i>Arts, entertainment, and recreation</i>	<i>257</i>	<i>263</i>	<i>196</i>
<i>Accommodation and food services</i>	<i>1,376</i>	<i>1,070</i>	<i>1,103</i>
<i>Other services (except public administration)</i>	<i>527</i>	<i>457</i>	<i>462</i>
<i>Industries not classified</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Total for all sectors</i>	<i>13,369</i>	<i>11,386</i>	<i>11,464</i>

Source: U.S. Department of Commerce, Bureau of the Census, County Business Patterns 2013, 2012 and 2007

Finally, and as noted in the past, it is readily apparent that a large part of the County's economy consists of self-employed individuals. The latest data are for 2013 are contained in Table 3.

Table 3

Self-employed Individuals by Sector, 2013, Polk County

Sector	Firms		Gross Receipts	
	Number	Percent of Total	Amount (\$1,000)	Percent of Total
<i>Agriculture, forestry, fishing and hunting</i>	83	2.52%	2,455	1.94%
Construction	601	18.22%	29,836	23.64%
<i>Manufacturing</i>	95	2.88%	2,493	1.98%
<i>Wholesale trade</i>	49	1.49%	2,463	1.95%
<i>Retail trade</i>	399	12.09%	12,591	9.98%
<i>Transportation and warehousing</i>	193	5.85%	21,284	16.86%
<i>Information</i>	36	1.09%	789	0.63%
<i>Finance and insurance</i>	76	2.30%	3,697	2.93%
<i>Real estate and rental and leasing</i>	284	8.61%	16,120	12.77%
<i>Professional, scientific, and technical services</i>	272	8.24%	8,820	6.99%
<i>Administrative and support and waste management and remediation services</i>	214	6.49%	4,476	3.55%
<i>Educational services</i>	61	1.85%	567	0.45%
<i>Health care and social assistance</i>	251	7.61%	4,076	3.23%
<i>Arts, entertainment, and recreation</i>	168	5.09%	2,741	2.17%
<i>Accommodation and food services</i>	49	1.49%	1,885	1.49%
<i>Other services (except public administration)</i>	468	14.19%	11,931	9.45%
Total for all sectors	3,299		126,224	

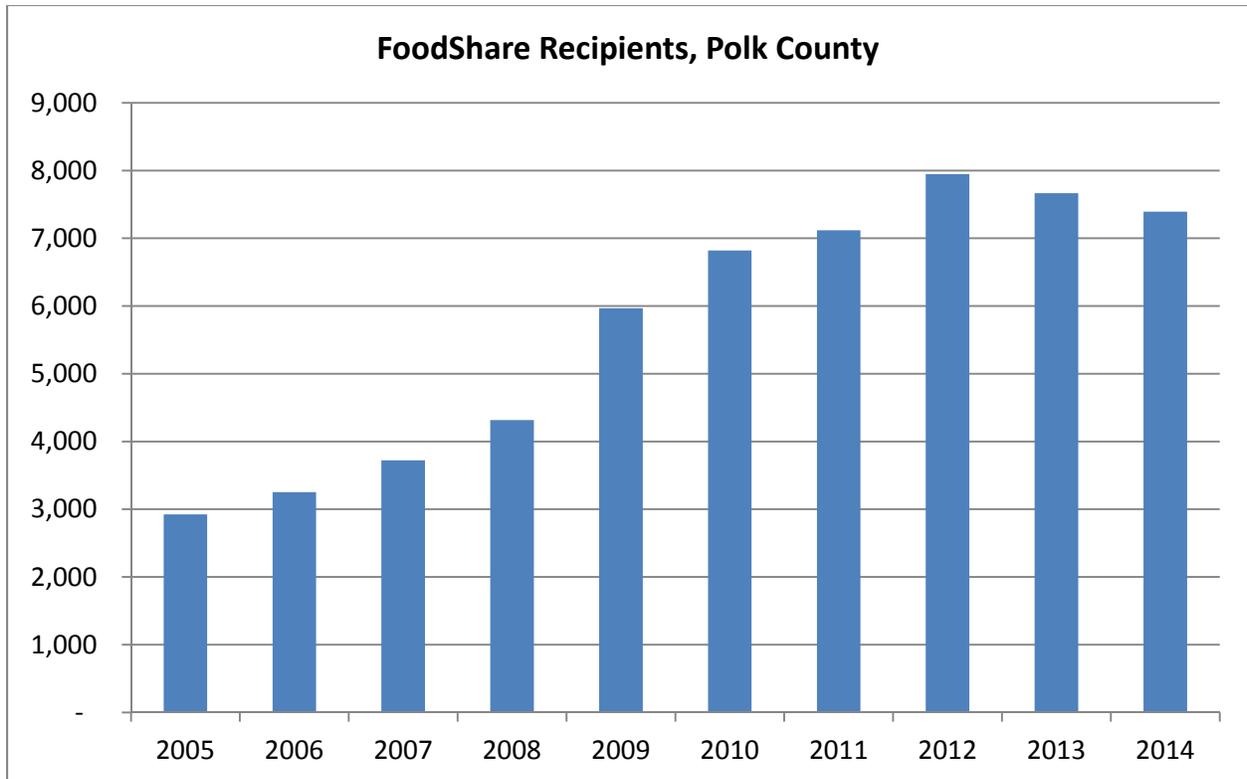
Source: U.S. Department of Commerce, Bureau of the Census, Non-employer Statistics, 2013

INCOME AND POVERTY

The severity of the past recession continues to be seen in measures of income and poverty. Although Polk County employment has largely recovered from the past recession, the median household income in 2013 is still slightly below that in 2008, at \$49,138 and \$50,520, respectively. The poverty rate remains at 10.5 percent, down from a peak of over 12 percent at the bottom of the recession in 2010 but still well above the pre-recession level of about eight percent. The poverty level for 2013 is defined as \$11,490 for one person and \$23,550 for a family of four.

Another, more current, method of looking at poverty is the number of people receiving food assistance – FoodShare – in a county. Figure 6 shows this total for Polk County from 2009 through 2014 based on State of Wisconsin data.

Figure 6

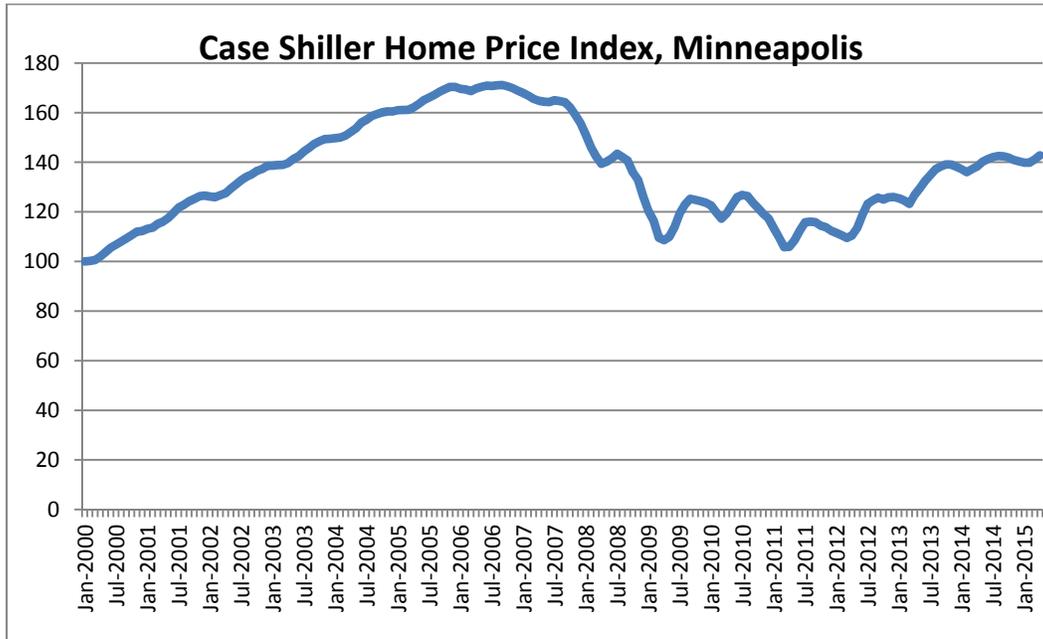


Source: Department of Health Services

HOUSING

The somewhat bumpy improvement in housing prices continues and, despite several setbacks in 2012 and 2013, appears to be sustained. Note that the median home price in the Minneapolis-St. Paul metropolitan area is still at a level equal to that last reached in early 2003. Further, as Figure 7 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 inevitable increases in mortgage rates.

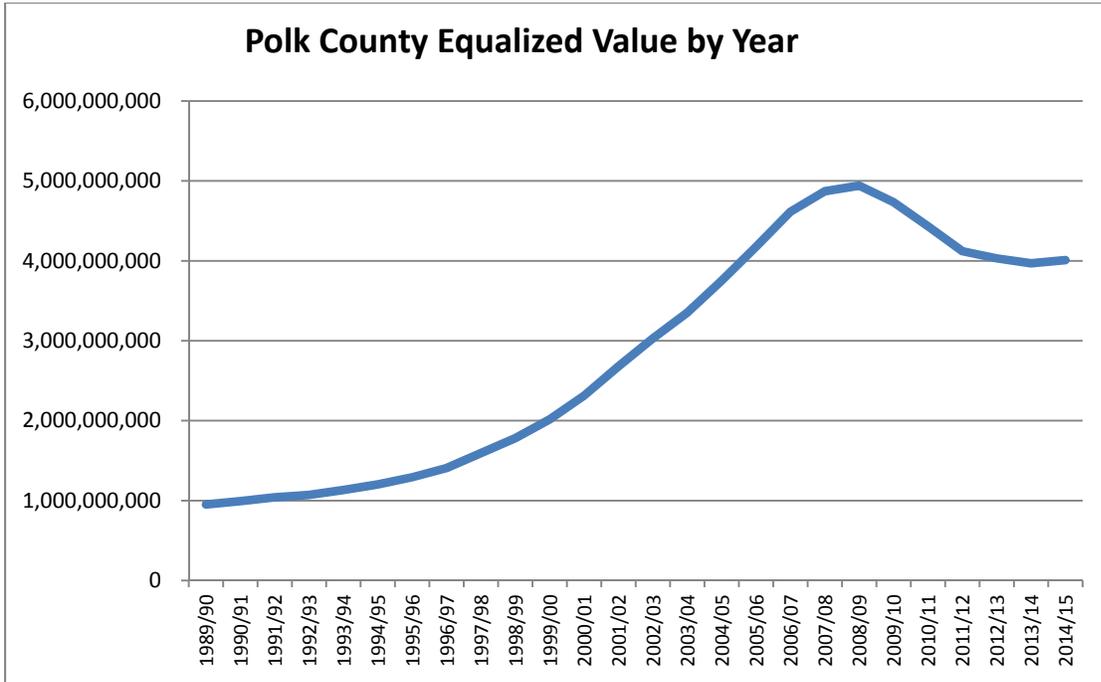
Figure 7



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

It appears that new construction coupled with flat values on other property has finally reversed the long-term decline in the County's equalized value (property value for tax purposes). Figure 8 shows equalized value for Polk County for the period 1990 – 1994. Note that the drop in value during the past recession was \$1 billion, or nearly 20 percent of the total pre-recession value.

Figure 8



DEMOGRAPHIC CONDITIONS

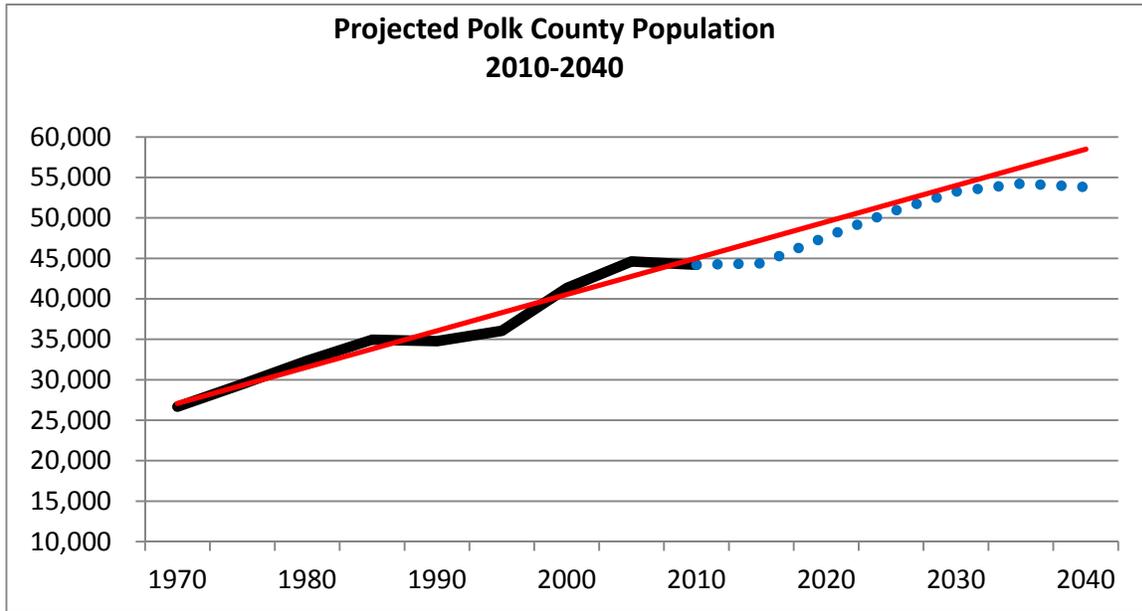
As with values, the U.S. Census Bureau now estimates that population growth has also resumed. The overall positive outlook for the economy is also reflected in the projections of the County’s demographic conditions. Although it is very likely that the County lost population during the past recession (the Wisconsin Department of Administration estimates that the County gained a net of only 22 people since the 2010 Census and the U. S. Census Bureau estimates that the County lost 768 people over that same period), the most recent projections from both sources are for net in-migration to resume; the DoA projects that the County will continue to grow over the next two decades. Figure 9 shows change in the County’s population from 1970 through 2010, projections by the Department of Administration for 2020 through 2040, and a projection using a trendline calculated from actual growth from 1970 to 2010. Note how close the projections are to that trendline, and the effect of past recessions on population growth. It appears that every national recession has been followed by a five year (or so) pause in County population growth.



A return to growth trends: Recent estimates are that the County’s population has resumed its historical rate of population growth of about 1.5-2 percent per year due to an improved economy and natural population growth (births exceeding deaths).



Figure 9



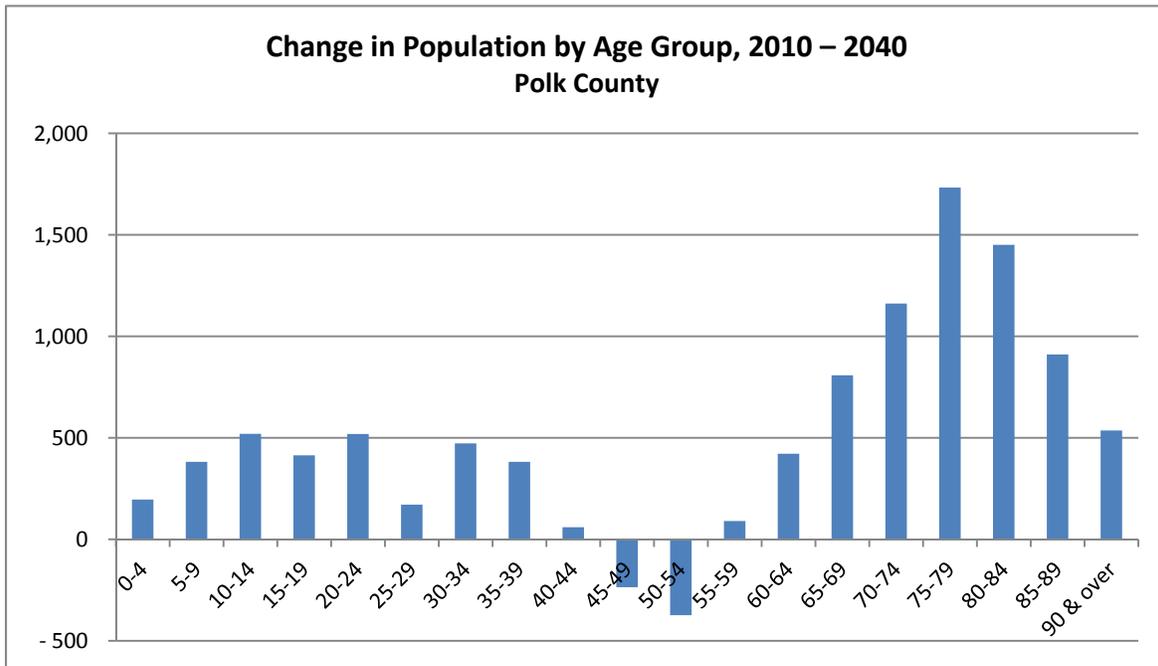
Source:

Wisconsin Department of Administration

This projection of growth also helps shape the demographic profile of the County. Previously, the most striking features of the County's demographic profile – like that of most rural counties – was its rapidly aging population and its loss of working-age adults. The former is inevitable, and over the next 20+ years the fastest growing age group in absolute terms will be residents in their 70s, adding another 3,000 people. However, with economic growth comes growth in working age adults and families; it is now projected that the County will gain in every age group except 45-55; Figure 10 shows the change in population by age group from 2010 to 2035; note the dramatic increases in the older groupings.

As noted in past reports, this rapid shift 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 residences. 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, this economic resurgence will assist in increasing values and revenues, providing some assistance in coping with these increased demands (although of course only within reason). All told, this economic growth and accompanying increase in working age population puts Polk County in a far better position than most truly rural counties in coping with this growth in older population.

Figure 10



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

Finally, the character of population growth will also change in the coming years. Much of Polk County's growth is projected to come from net migration, not natural increase (births minus deaths). This migration will likely increase the diversity of the County's population: the (Twin Cities) Metropolitan Council estimates that all of the net population growth in the metropolitan area will be in groups traditionally defined as minorities, i.e. no natural increase or net in-migration in populations defined as Caucasian; that same trend will likely occur in Polk County.

At present, Polk County has a limited but diverse minority population. According to the U.S. Department of Justice, in 2012 398 residents had limited English proficiency, of which 252 spoke Spanish or Spanish Creole, 39 Chinese, 22 German, 15 French, 13 Scandinavian languages, 10 Serbo-Croatian, 10 Native American and the balance other European, Indic or Asian languages.

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 the cumulative gap between revenues and expenditures – an indicator analogous to a deficit at a higher level of

government – was reduced again in 2014 and will fall substantially this year, through early repayment of a 2007 bond. (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 it appears that the County’s equalized value has begun to increase once again.

PROPERTY TAX CAPACITY AND TAX EFFORT

Despite the huge drop in value due to the past recession, Polk County remains a wealthy county in property terms, with \$ 4,080,686,600 in equalized value or over \$90,000 per capita. The fall in value is equally impressive: a loss of nearly \$1 billion from 2008 to 2013. Table 6 shows change in equalized value by class of property from 20113 to 2014. Note that nearly all of the growth in value is in new construction but, unlike in past years, the value of existing property did increase.

Table 6

Change in Equalized Value by Class, 2013 – 2014, Polk County

<i>Class of Property</i>	<i>2013 Value</i>	<i>New Construction</i>	<i>2014 Value</i>	<i>Change in Value</i>	
				<i>Dollar</i>	<i>Pct.</i>
Residential	3,143,570,000	16,032,500	3,170,059,200	26,489,200	0.8%
Commercial	337,778,500	15,700,100	354,837,500	17,059,000	5.1%
Manufacturing	88,500,500	11,230,500	101,938,300	13,437,800	15.2%
Agricultural	34,138,900	0	33,919,200	-219,700	-0.6%
Undeveloped	39,576,800	0	37,749,700	-1,827,100	-4.6%
Ag Forest	54,466,400	0	53,637,100	-829,300	-1.5%
Forest	207,270,800	0	209,214,400	1,943,600	0.9%
Other	122,458,400	885,100	119,331,200	-3,127,200	-2.6%
Total	4,027,760,300	43,848,200	4,080,686,600	52,926,300	1.3%

Source: Wisconsin Department of Revenue

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 2014, the County’s tax rate was \$5.42 per \$1,000 of equalized value (including Act 15 and Town Bridge Aid); this places the County exactly at the median, ranking 36th highest among the 72 counties, dropping from 35th in 2014. On a dollar basis, the County levy about the same as it has been for the past five years. (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.)

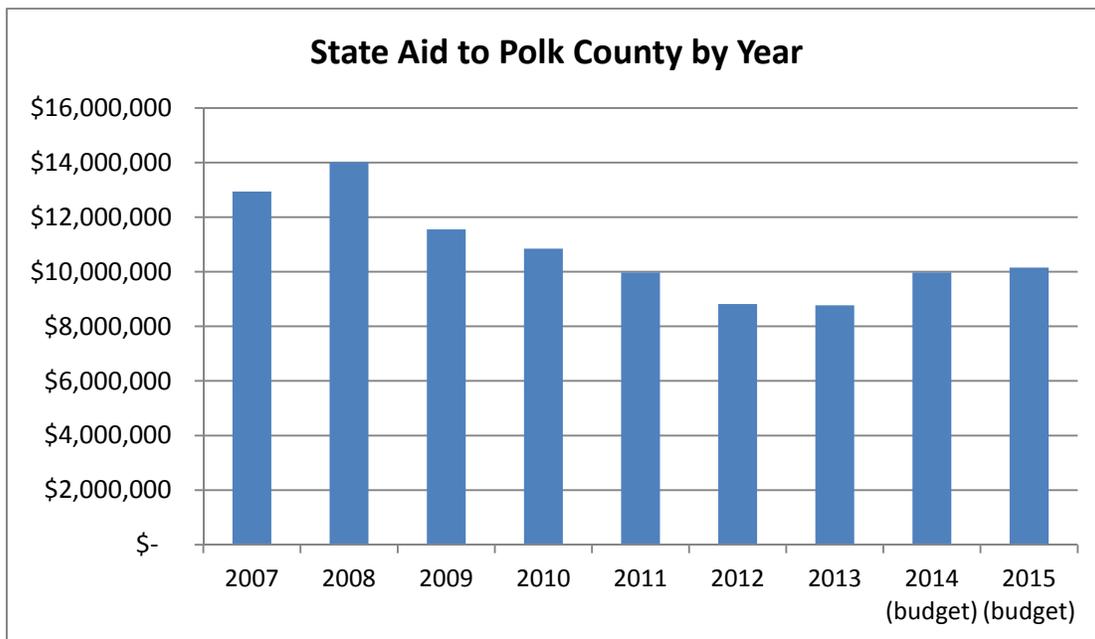
As noted in past years' condition of the county reports, much as a relatively low tax rate is not prima facie evidence of low tax effort or burden, as higher average values can result in higher average taxes holding rate constant, a relatively high per capita levy is not proof of a high tax effort. Tax 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

The long-term decline in State aid does appear to have stabilized and even increased, although only in two areas and at a level far below historical averages. As recently as 2008, state aid exceeded \$14 million annually; we expect it to be just over \$10 million this year (Figure 7). We do not expect any increase in state aid next year.

Beyond next year, the prospects for increased state or federal aid are slight. The Affordable Care Act will absorb much of any new federal revenue and the State of Wisconsin, while improving financially, must still deal with an ongoing structural imbalance. As Polk County is not substantially reliant on state aid, however, this should prove manageable (much of what is described as state aid below is in fact pass-through federal aid such as Medicaid).

Figure 11



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 2014 again set a record at \$2.85 million, and 2015 collections to date are five percent above that level. Other revenues remain generally flat, with interest income again miniscule despite the increase in the County's reserves. It now appears that land-use related fees have begun to increase. Golden Age Manor ended 2014 solidly in the black for the third year in a row, and the Lime Quarry was close to even despite a very wet spring in 2014. The following table compares actual to budgeted revenues for the General Fund for 2014.

Table 7

2014 General Fund Revenues, Budgeted and Actual

Revenue	Budget	Actual	Variance
Taxes	\$ 14,333,231	\$ 14,274,873	\$ (58,358)
Intergovernmental	3,638,218	3,842,460	204,242
License and Permits	311,010	297,241	(13,769)
Fines and forfeits	116,700	120,421	3,721
Public charges	1,651,581	1,790,933	139,352
Intergovernmental charges	402,875	514,769	111,894
Miscellaneous	443,578	781,582	338,005
Total	20,897,193	21,622,279	725,086

EXPENDITURES

Overall expenditures have largely flattened at just under \$60 million per year, with a slight uptick in 2015 resulting from the early payoff of a 2007 bond. 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 32 fewer FTE than in 2010.

As discussed in previous reports, 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 debt service shows 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. 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 four years, revenues have exceeded expenditures. 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
2013	40.885	40.788	0.097
2014	41.146	40.055	1.091

Detail may not add to total due to rounding; 2012 adjusted for debt refinancing.

Source: 2009 and 2014 Comprehensive Annual Financial Report, Polk County

General Fund expenditures for 2014 were a total of \$23,124,252 as compared to a budget of \$24,366,725, a savings of \$1,242,473 or about five percent. Table 9 compares actual and budgeted expenditures for 2013.

Table 9

Comparison of Budgeted and Actual General Fund Expenditures, 2014

Expenditure Category	Budget	Actual	Difference
General Government	6,971,963	6,095,060	876,903
Public Safety	7,770,968	7,503,077	267,891
Highway	4,726,090	4,726,090	-
Sanitation	625,301	606,452	18,849
Health and Human Services (General Fund Share Only)	1,592,458	1,569,915	22,543
Culture, Recreation and Education	1,010,994	962,319	48,675
Conservation and Development	1,668,951	1,661,339	7,612
Total Expenditures	24,366,725	23,124,252	1,242,473

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. The health insurance fund had an actual increase in for the last four years after several years of declines. The Highway Department fund balance also increased, as did Golden Age Manor.

FUND BALANCE

Overall, Polk County's unassigned fund balance increased significantly, by \$1,138,531 and from 30.3% of total General Fund expenditures to 36.5% (Table 10). Note that the 2014 budget set a minimum fund balance of 33 percent of General Fund expenditures; the end-of-2014 unassigned balance exceeded that amount by \$740,000.

Table 10

Polk County Unassigned Fund Balance by Year

	2009 Audited	2010 Audited	2011 Audited	2012 Audited	2013 Audited	2014 Audited
Beginning Fund Balance	\$2,987,002	\$2,878,036	\$6,635,325	\$7,254,080	\$6,739,432	\$7,304,853
Additions (Subtractions)	(108,966)	3,757, 289	618,755	(514,648)	565,421	1,138,531
Ending Fund Balance	2,878,036	6,635,325	7,254,080	6,739,432	7,304,853	8,443,384
Percent of General Fund Expenditures	12.3%	29.4%	31.1%	29.3%	30.3%	36.5%

Again, a fund balance of over 30 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 2015 budget is sustainable, and in fact goes further in reducing future costs; the 2016 budget will need be sustainable as well. For now the safest assumption is that these funds are all one-time resources.

DEBT SERVICE AND BORROWING

As of today, Polk County owes \$16.2 million in principal and, under current schedules (absent refinancing) will pay \$2.5 million in interest between now and 2021, when all debt is paid. Funding has been appropriated to pay off a 2007 bond two years early at a cost of \$1.65 million as well as make scheduled debt service payments; as a consequence, debt service for 2015 is a record \$5.7 million and, in one year, the County will retire nearly 30 percent of its long-term debt. In 2016, the County's debt service will be approximately \$3.1 million, or 15 percent of tax levy, a sustainable level for a growing county.

Starting in 2017 debt service will fall off very rapidly, with all of the County's debt repaid by 2021. This provides opportunity to consider new infrastructure investments without a levy increase by simply sustaining debt service at about 15 percent of levy, with of course restraint on other expenditures. Table 11 shows debt service by year from 2015 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.

Table 11

Polk County Debt Service Payments

2014 – 2021

Year	Principal	Interest	Total	Change from prior year
2015	4,842,777	850,210	5,692,987	1,831,682
2016	2,620,000	527,055	3,147,055	-2,545,932
2017	1,860,000	396,055	2,256,055	-891,000
2018	2,010,000	325,375	2,335,375	79,320
2019	2,140,000	229,000	2,369,000	33,625
2020	2,200,000	128,250	2,328,250	-40,750
2021	500,000	23,750	523,750	-1,804,500

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 less 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 and by so

doing 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"

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. The County has been operating under interim personnel policies since January 2012; the first permanent policies have been drafted as part of the General Code and circulated internally for comment. A second full draft of all fiscal policies has also been prepared, and it is anticipated that both drafts will be sent to the County Board for consideration yet this year.

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.

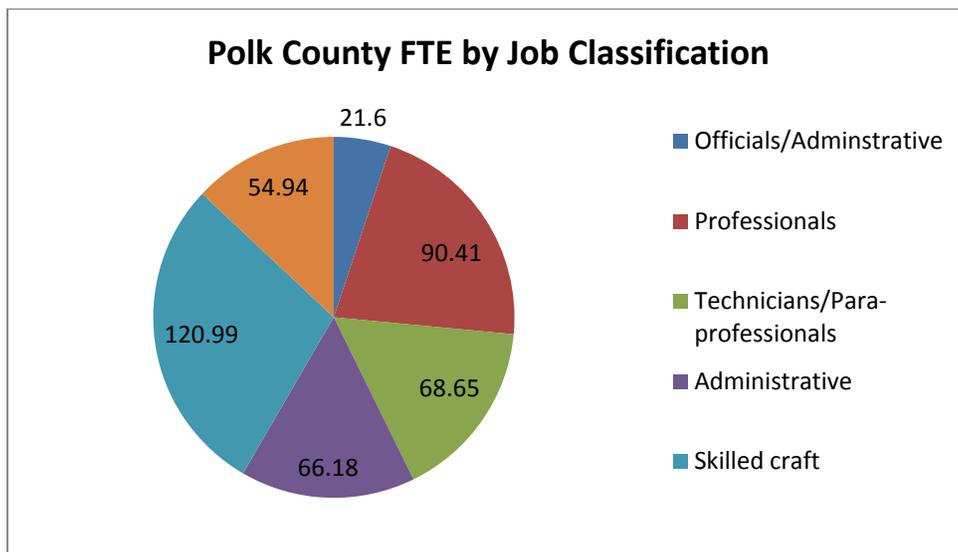
The 2016 budget is the first to be prepared in a complete, multi-year program format linked to overall priorities as set by the County Board capping a multi-year effort to introduce these concepts. The overall goals of this process are increased transparency, better information for decision making, and improvements to long-term financial stability.

STAFFING AND SUCCESSION PLANNING

The ongoing economic recovery has resulted in a tightening of labor markets and that has in turn has increased issues with recruitment and retention, especially for night and weekend shifts where the County provides 24/7 services. Turnover has been both advantageous and disadvantageous for Polk County, in that many who have left a position have taken another within county government. Recruitment and retention issues will continue to be problematic for the county for some time, especially with an aging workforce as discussed below.

By job classification, 21.6 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 10 shows the distribution of employees by category.

Figure 10

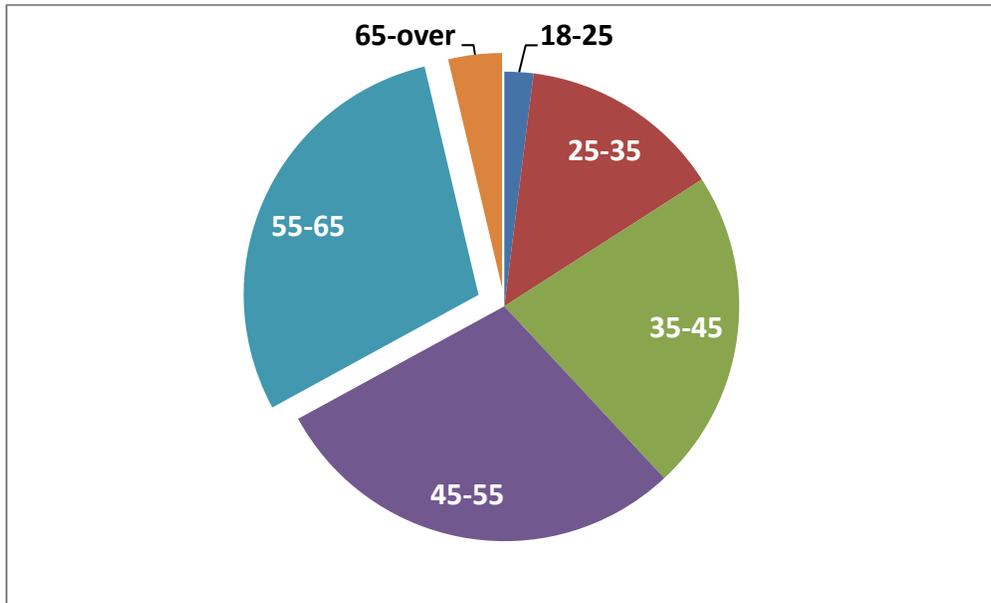


Also as noted last year, the County's work force also growing older: over one-third of County employees are currently eligible for retirement. Naturally, this includes most of the senior staff. There is also a large group of employees who will be eligible for retirement in the following five years. The average Polk County employee, excluding Golden Age Manor, is 46.5 years old.

Figure 11 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 11

Age of Polk County Employees



Excludes Golden Age Manor

STRUCTURE AND ORGANIZATION

Government structure is a balance between two conflicting sets of forces: specialization/division of labor and efficiency/customer service. Division of labor leads to a hierarchical organization, efficiency means optimal distribution of workload and minimization of overhead costs, and customer service means simple access to services, not bouncing from one agency to another. Even within specialized departments there is often further segregation of duties and responsibilities for a number of reasons including specific skill needs, a natural desire to limit the scope of assignment, and to increase responsibility – at least on paper – for promotional purposes. This further specialization causes further complexity for the customer/citizen due to “it’s not my job” type of issues. Finally, a separate organizational unit imposes additional costs by limiting resource sharing and reducing overall productivity: each unit must staff for peak demand (or nearly so) meaning there will often be unused capacity.

Like many Wisconsin counties, Polk County has a very fragmented, specialized organizational structure. This basic structure developed decades ago, with only modest changes since. Polk County has 23 departments, of which nine have five or fewer employees and another five have between five and ten employees. Some of this of course results from state law which assigns certain positions to elected officials, but the remainder evolved along with the county’s responsibility. Departments were created to implement new programs and assigned to a County Board committee for oversight; this structure has never been reviewed in the context of a county administrator form of government. A related issue

concerns the lack of clarity in the relationship between standing committees and department heads. Under the old system of government, departments took direction from and were accountable to standing committees; under an administrator form of government departments are directly accountable to the administrator who is directly accountable to the full County Board. However, consequent issues of authority, responsibility and accountability have yet to be sorted out.

It is becoming increasingly clear that the County cannot long afford to have 23 separate departments for reasons of accountability, citizen/customer service, and for efficiency. First, it is a challenge for an administrator to work with this many direct reports – the usual recommendation for span of control is six to eight subordinates. This, along with the historical semi-independence of departments and unclear relationship to committees has served to blur accountability in some cases. Second, as noted such fragmentation results in inefficiency: although comparisons are difficult, as many as one in five county employees (outside of Golden Age Manor) is considered administrative support staff. Each department that interacts with the public must staff for full coverage, limiting the opportunities for resource sharing and for cross training. Finally, again as noted this fragmentation does not make for seamless citizen/customer service.

A related problem is fragmentation in financial systems and operations. Each department has its own budget, financial management and reporting systems and sometimes its own financial information system. Most departments also handle cash payments, which elsewhere has proven problematic. Proper financial management requires uniformity in processes, procedures, controls, reporting and software, and the fewer individuals that are responsible for cash handling and the more the controls the better.

POLICY DIRECTION

The second major issue relating to Polk County government, and one currently being addressed, is the need to improve policy direction to help the government evolve to meet an uncertain future. The fundamental policy challenge is that, as there is not enough money to do everything, you have to decide what to do. The new challenges facing the County – the ones mentioned above such as an aging population, increased diversity, population growth as well as those not yet identified – will require shifting resources, and doing so requires a plan. Five years ago, I made the distinction between a government in transition – one knowing where it needs to go and taking active steps to get there – and one in transformation – uncertain of path, and letting others set that for them, reactive instead of proactive.

The current strategic planning exercise will provide an opportunity for setting overall priorities from which departments may derive their own strategic plans. A robust methodology has been developed that allows for such derivation and linkage to the annual budget, so that the flow of funds can better follow priorities as set by the County Board.

CONCLUSION

Overall, the condition of the County continues to improve in all three dimensions. The local economy has recovered substantially from the past recession, although there are still challenges, with employment surpassing pre-recession levels. Sales tax collections are at record levels, and the housing market is improving. Newer data are needed to ascertain the impact of the recovery on the County's employers, but given the general economic improvement (and unofficial indicators such as help wanted ads) it is likely that these sectors are improving as well. Finally, the County's equalized value has resume growth this past year.

The County's financial status is also improved, with final expenditures less than the original budget amount for the past five years in a row. 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.

Financial challenges are substantial as well. Polk County has seen a dramatic drop in equalized value, although it is likely that the bottom has been reached. Even though levies were not increased, the County's tax rate remains high by historical standards and 36th 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. Progress continues in the draft of the General Code, and County employment has been reduced significantly without major service disruption or loss, although most redundancies have been eliminated. Succession planning continues, and 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.