

October 13, 2011
Honorable Chair, Vice Chair, and Members
Rock County Board of Supervisors

2011 has been an extraordinary year of change for local governments and local government employees. The passage of the State Budget Repair Bill as well as the State Budget have completely altered the environment we operate in. Changes include major reductions in the level of state aid counties receive to carry out State mandated programs as well as major changes in the working relationship all local governments have with their employees.

These changes have created much uncertainty for our employees. I want to commend all of the County's employees for the professionalism and commitment they have shown all year long as they have watched what has happened in Madison and the effect those changes are having or will have on their compensation and bargaining rights. They have continued to do their jobs well and I appreciate that. We will be working with our employees and the County Board over the next couple months as we prepare for January 2012 when our County collective bargaining agreements end.

My goals for the 2012 Budget remain similar to the goals I had for the 2011 Budget. They include 1) Maintain the County's financial integrity; 2) Maintain service levels during this time of need; and 3) Position the County as well as we can to address issues in 2013 and beyond.

The budget I submit to you for 2012 contains \$175,214,034 in total expenditures. This is a decrease of \$1,877,489 from the prior year. The budget for operational expenditures is actually decreasing by \$3,406,585 while debt service and capital outlay are up a combined \$1,529,096 for a net expenditure decrease of \$1,877,489.

The recommended property tax levy of \$60,154,989 is \$1,222,421 or 2.07% higher than the prior year. On average, this will raise the County portion of the property tax by \$11.80 on a property valued at \$100,000.

The tax levy increase is within the tax levy limits as imposed by the State of Wisconsin. It can be thought of as made up of three parts. Those parts are the amount allowed under the State imposed levy limits for operational costs; the amount for items funded by limited tax levies which are exempt from levy limits; and the amount needed for debt service. These amounts and percentages are as follows:

Levy Increase for Operations	\$578,734	0.98%
Levy Increase for Limited Levies	108,685	0.18%
Levy Increase for Debt Service	<u>535,002</u>	<u>0.91%</u>
	\$1,222,421	2.07%

The levy for operations is allowed to increase by 0% or the increase in net new construction. Rock County's net new construction went up by approximately .90% from 2010 to 2011. This generates the allowable \$578,734 in additional property tax levy. It appears as .98% on the

above chart due to the various adjustments required as part of the formula for calculating the levy limit.

The County is also allowed to increase the operations levy by an additional .5% with a 3/4 vote of the County Board. Doing so would generate an additional \$256,632 in property tax revenue. This would be allowed because Rock County did not tax at the maximum allowed under the levy limits for the prior year. While increasing the levy an additional \$256,632 would be allowed under State law I have not recommended doing so.

The levy increase of \$108,685 which is exempt from levy limits consists of a levy increase of \$63,685 for the Arrowhead Library System and \$45,000 for Town Bridge Aid. The Arrowhead levy taxes property in the towns plus the Village of Footville while the levy for Town Bridge Aid is levied on property in the towns.

The levy increase for debt service is an estimate based on projected results of a late October sale of \$22,000,000 of bonds for the Rock Haven project. We will have the sale results prior to the County Board adopting the 2012 Budget. The sale results could increase or decrease the amount needed for debt service in 2012 and thus slightly increase or decrease the property tax levy. In any case, the projected impact of .91% on the property tax levy for debt service compares very favorably with what we presented the County Board as the Board made the decision to proceed with the Rock Haven project.

The tax rate of \$6.40 per thousand is an increase of 4.94% or approximately 30¢ per thousand. You will note that a tax levy increase of 2.07% raises the tax rate by 4.94%. This occurs as a result of the equalized value (taxable property value) of the County decreasing by 2.73% from 2010 to 2011. This rate is also a countywide average based on the County's equalized value as determined by the Wisconsin Department of Revenue. Each taxing unit (town, city or village) will have a rate for county taxes which is different depending on assessment practices.

I am recommending no undesignated General Fund balance be applied in the 2012 Budget. One of the goals noted in both the 2010 and 2011 Budgets was to stabilize the County's fiscal position and maintain the County's fiscal integrity. We have accomplished this and seen our undesignated financial reserves and working capital increase the last two years to a level where our reserves were at 15.42% of expenditures as we closed the 2010 books. This trend was looked at very favorably by both Moody's and Standard and Poors as the rating agencies reaffirmed our Aa1 and AA ratings respectively last month. This is very important as we look to issue debt to fund the Rock Haven project later this month as well as next year. In addition, given the uncertain state of the economy and the State's unreliability when it comes to funding its mandates it is important to maintain strong fiscal reserves.

As you know, the County Sales Tax was adopted as part of the 2007 Budget and became effective April 1, 2007. The 2011 Budget includes a total of \$9,430,849 of sales tax revenue with \$7,522,973 devoted to operational costs and \$1,907,876 applied to capital expenditures.

The University of Wisconsin Extension provides projections of county sales tax proceeds by county on an annual basis. UW Extension projections for 2012 indicate Rock County should realize \$10,106,150 in sales tax proceeds. Given the state of the local economy, I feel it is

prudent to budget sales tax revenue at a lower level than the projections. Therefore, I have included \$9,700,000 in sales tax revenue in the 2012 Budget to be used as follows:

\$7,522,973	Operational Costs
<u>2,177,027</u>	Capital Expenditures
\$9,700,000	

The amount recommended for Operational Costs is at the same level as the amount used in the 2011 Budget. The amount designated for Capital Expenditures covers a variety of construction projects and equipment that I would otherwise recommend be funded through deferred financing.

A number of existing initiatives are underway and/or are included in the 2012 Budget. Obviously, we are all excited to see earth being moved as construction of the new Rock Haven begins. A year from now we should be nearing completion of the facility. It will be a wonderful new facility which will be cutting edge and serve our citizens well for decades.

Earlier this year the County commissioned a study of the Behavioral Health System. The report issued by ZIA Partners provided a roadmap for changes which could improve services provided by both County departments and non-County agencies. The 2012 Budget includes resources to improve services in the Behavioral Health System including making the Crisis Intervention Unit mobile 24/7 and establishing a position of AODA Coordinator.

The County Board is well aware of the Governor's proposal made earlier this year to centralize Economic Support at the State level. That was replaced by a proposal adopted as part of the State Budget to form no more than ten consortia statewide to administer Economic Support programs. The 2012 Budget includes the resources for Rock County to become the fiscal and administrative lead for a seven county Economic Support consortium effective January 1, 2012. This will allow us to maintain services in Rock County provided by our very capable County Economic Support staff.

Jail diversion programming continues to be very effective. Electronic monitoring, Workender and Community Recap are keeping our Jail population stable and well below the rated capacity of the Jail. The State aid for Community Recap is projected to decrease in 2012. I have included an additional \$57,845 in County funding in the 2012 Budget to continue this program at its current level.

Points of Interest

- 1) State Aid reductions total approximately \$2.6 million and appear in many program areas throughout the Budget. Major reductions occurred in State Shared Revenue, Youth Aids, Transportation Aids, Child Support and Income Maintenance. Many State Aid funding sources now provide less funding than they provided in the mid 1990s. In addition, revenues from Indirect Cost Recovery are decreasing \$189,000 and Investment Income revenues are decreasing \$279,800 compared to the 2011 budgeted amounts.

- 2) One of the provisions included in the State Budget Repair Bill requires public employees (other than sworn law enforcement) to pay half of the required Wisconsin Retirement System contribution. This amounts to 5.9% of wages in 2012. It became effective in August 2011 for non represented employees and will apply to represented employees when the current contracts end, which is January 1, 2012. The total amount of cost this shifts from the County to employees in 2012 is \$2.9 million.
- 3) The savings to the County from the cost shift of pension contributions is distributed unevenly among departments based on the amount of the individual departments' budget dedicated to personnel costs. For example, the Human Service Department, with a total budget of \$52.6 million and 335 staff, will save approximately \$960,000. The Developmental Disabilities Department, with a budget of \$30.2 million and 8 staff, saves \$24,000. This disproportionate impact is one of the primary factors driving some departmental budgets to have a recommended tax levy decrease while others may have an increase.
- 4) The 2011 Budget included \$100,000 to begin operations of an OWI Court or fund whatever services the Criminal Justice Coordinating Council felt would best address the stricter OWI laws which became effective July 1, 2010. My understanding is that planning is underway for an OWI Court but that it will not become operational until 2012. Therefore, I am recommending the \$100,000 contained in the 2011 Budget be carried forward for use in 2012
- 5) Sales Tax proceeds collected in 2010 exceeded the amount budgeted by \$847,350. The County Board designated these proceeds in the General Fund for future capital projects. I have recommended using these proceeds to fund the Health Care Center, Glen Oaks Complex and Sheriff / Jail Facility Parking Lot redesign and reconstruction. Additional funds may be available from the Jail / HCC Complex account, which is funding the Jail Project. I recommend General Services proceed yet this winter with design so the project is ready to bid out early in 2012.
- 6) A major project contained in the Information Technology budget for 2012 is the replacement of the Countywide Law Records Management System. The current system went into service in 1999 and is at the end of its useful life. The total project cost is \$750,000 with participating municipal law enforcement agencies funding \$170,000 of the project cost and the County funding \$580,000. I have recommended the County's share of the funding come from Sales Tax proceeds.
- 7) The recommended road construction budget for 2012 totals \$2,837,000. Included is \$2,303,000 to reconstruct 3.5 miles of CTH "M" and \$534,000 to upgrade 2 miles of CTH "A" west of Janesville. The \$2,837,000 is funded with \$430,631 of Sales Tax and \$2,406,369 of deferred financing. This is the only item funded with deferred financing in the 2012 Budget.
- 8) Personnel actions recommended in the 2012 Budget result in a net decrease of 13.3 full time equivalent positions. Many of these positions are now vacant. It is hoped the

majority of the other position reductions can be handled through attrition rather than layoffs.

- 9) Outstanding debt at the end of 2011 will total \$39,475,000.
- 10) A property tax levy of \$65,426,807 was requested by County Departments for 2012. The recommended property tax levy is \$60,154,989 or \$5,271,818 less than requested.

Issues for 2013 and Beyond

As difficult as the 2012 Budget was to put together I foresee the 2013 Budget and beyond as potentially more difficult. Reasons for this include:

- 1) The 2012 budget saves the County \$2.9 million as a result of the State imposed cost shift of 1/2 the Wisconsin Retirement System pension payment from the County to our employees. That “savings” will be built into the base budget as we look to 2013 and won’t be available as additional savings to cover 2013 cost increases and revenue reductions.
- 2) The federal government continues to struggle with its deficit. As the federal government cuts domestic discretionary funding those cuts will impact the State which has a practice of passing the funding reductions on to counties.
- 3) In addition to tax levy limits, the County is also subject to State imposed tax rate limits. Tax rate limits were enacted in the early 1990s and in essence require that a county not exceed the tax rate adopted in 1992, which funded the 1993 Budget. As property value (equalized value) has declined over the last three years Rock County’s tax rate for the operational levy has approached the allowable limit. Recognizing the problem this causes many counties, the State has suspended the tax rate cap for operational levies for the 2012 and 2013 budget years. If property values don’t begin increasing soon and tax rate limits go back into effect for 2014, Rock County may be forced to reduce the property tax levy for operations at that time.

The Administrator’s Letter, which is found near the front of your budget document, contains additional budget information. Also, each departmental budget contains “Administrator’s Comments” which summarize the important points in each departmental budget.

The timetable for budget consideration includes:

9:00 A.M.	Monday, November 7	County Administrator’s Review and Explanation of the Budget with Questions from the Board
6:00 P.M.	Wednesday, November 9	Public Hearing on the Budget
9:00 A.M.	Tuesday, November 15	Statutory Annual Meeting and Budget Adoption

As you review the 2012 Budget the staff and I stand ready to assist you and answer your questions. Please feel free to contact us with whatever questions you may have.

As I close I want to acknowledge and publicly thank Jeff Smith for all his hard work, counsel and support through 25 years of service and 25 budget cycles. The fact the County is financially sound with an excellent bond rating is a credit and in large part due to everything Jeff has done for the County over 25 years. Thank you, you will be missed by every one of us.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig Knutson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Craig Knutson
County Administrator