

October 14, 2010
Honorable Chair, Vice Chair, and Members
Rock County Board of Supervisors

Every budget is a balancing act. It requires me as County Administrator, but ultimately you as the County Board, to balance the level of taxation with the type and quantity of service to be provided.

This process of balancing taxation with service provision is much more difficult under the current economic conditions of high unemployment and a stagnant economy. On the one hand, increased property taxes are more difficult for people to pay. On the other hand, the need and demand for services is higher.

Counties in particular are affected by this. That is because the State of Wisconsin is one of 13 states that use counties as the administrative arm of the State to carry out State human service functions. It is these human service functions such as mental health, child protection, AODA, economic support and others that are looked to and sought out by citizens during times of economic stress. These are also the areas that have been particularly hard hit by State aid reductions and cost shifting.

So, as you examine the 2011 Budget be aware that you will probably receive heartfelt pleas to increase funding for certain programs while you also may hear pleas to reduce the tax levy.

My goals for the 2011 Budget remain similar to the goals I had for the 2010 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 2012 and beyond.

The budget I submit to you for 2011 contains \$177,482,647 in total expenditures. This is an increase of \$6,639,488 or 3.89%. The majority of this expenditure increase is composed of Capital Project cost funded by a combination of sales tax and deferred financing. Operational expenditures for 2011 are recommended to increase only \$2,964,194 or 1.79%

The recommended property tax levy of \$59,323,692 is \$2,102,051 or 3.67% higher than the prior year. On average, this will raise the County portion of the property tax levy by \$20.30 on a property valued at \$100,000.

The tax rate of \$6.15 per thousand is an increase of 8.45% or approximately 48¢ per thousand. You will note that a tax levy increase of 3.67% raises the tax rate by 8.45%. This occurs as a result of the equalized value (property value) of the County decreasing by 4.40% from 2009 to 2010. 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 General Fund balance be applied in the 2011 budget. One of the goals noted in the 2010 budget was to stabilize the County's fiscal reserves and maintain the County's fiscal integrity after several years of declining reserves. This was accomplished and we realized a small increase in the unreserved General Fund balance as we closed the 2009 books. We expect the General Fund balance will be further increased as we close the 2010 books. However,

we will still have a balance below where we were at the end of 2008 and for years prior to that. Our undesignated financial reserves and working capital will still be at the lower end of our policy which requires reserves to fall between 10% and 17% of expenditures.

As you know, the County Sales Tax was adopted as part of the 2007 Budget and became effective April 1, 2007. The 2010 Budget includes a total of \$8,800,000 of sales tax revenue with \$6,995,849 devoted to operational costs and \$1,804,151 devoted 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 2011 indicate Rock County should realize \$9,810,250 in sales tax proceeds. Because UW Extension estimates have been high over the past few years as the economy has slowed, I feel it would be more responsible to budget sales tax revenue at a lower level than the projections. Therefore, I have included \$9,430,849 in sales tax revenue to be used as follows:

\$7,145,849	Operational Costs
<u>2,285,000</u>	Capital Expenditures
\$9,430,849	

The amount designated for capital expenditures is for a variety of construction projects and equipment that would otherwise be considered for deferred financing. The amount recommended to be used for operational costs is \$150,000 more than the amount used in 2010.

While the 2011 Budget includes the increased cost of health insurance and Wisconsin Retirement System contributions for County employees, the wage rates contained in each departmental budget request are 2009 wage rates. We budgeted for no wage rate increase in 2010 and the 2011 budget presumes there will be no 2010 increases. We have settled one of ten labor contracts and that contract contained a 0% increase in 2010, a 1% increase as of January 1, 2011 and a 1% increase year-end 2011. This equates to a 1% cost impact on wage costs in 2011.

A 1% increase in wage cost countywide in 2011 would have a cost impact of approximately \$700,000. I have included \$200,000 in a countywide salary reserve account and expect costs over and above the \$200,000 would be covered by savings from vacant positions which would occur during the year.

Other Points of Interest

In addition to the issues I have already discussed, a number of other items merit further discussion. These include the following:

- 1) One of the proposed capital projects is the facility to replace the Rock Haven nursing home. The 2011 Budget includes \$850,000 for the additional architectural work on the new nursing home. We expect the design work will allow for bidding the project by mid-year 2011. At that time the County Board will be asked to amend the budget to cover the construction cost as we will then have a specific figure for the project.
- 2) Two major capital projects are contained in the Communication Center budget. One of these projects involves replacing the aging Computer Aided Dispatch System along with

the Mobile Data System software. Both systems were originally purchased in 2001 and need to be replaced. The estimated cost of doing this is \$1,184,000.

The other project results from an unfunded federal mandate which requires radio frequencies be "narrow-banded" by January 1, 2013. After considerable investigation and discussion the best alternative is to convert the analog radio systems to digital. The projected cost to the County for doing so is \$2,275,717. I propose to fund this from unspent sales tax funds remaining in the Jail Expansion/HCC Complex account.

- 3) \$857,200 of deferred financing is recommended as the County share to match Federal and State aid for a variety of repair and improvement projects at the Airport. Included in this amount is funding for the first phase of the renovation and expansion of the Terminal building.
- 4) The recommended road construction budget for 2011 totals \$2,499,000. This is funded through a combination of \$290,000 in State aid, \$1,209,000 of sales tax and \$1,000,000 of deferred financing. Included is \$1,875,000 to reconstruct three miles of CTH "M" from Townline Road to Emerald Grove Road. This is the first phase of an 11-mile segment which needs to be reconstructed.
- 5) County service areas where pressure for increased tax levy is greatest are the human services functions. This is a result of State cost shifting and aid reductions as well as the economy and higher unemployment increasing the demand for service. The Human Services Department budget has a recommended tax levy increase of \$1,074,069 or 5.7% while the Developmental Disabilities budget has a \$204,883 or 6.2% increase. Together, these two departments account for \$1,278,952 or 61% of the total County tax levy increase.
- 6) The Criminal Justice Coordinating Council (CJCC) has been discussing ways to best address the new stricter OWI laws which became effective July 1, 2010. An option being considered is to establish an OWI Court providing treatment, intensive case management and regular judicial oversight to high risk 3rd and 4th offense OWI offenders. A request was made for funding for an OWI Court or whatever option is decided is best to address the impact of the new OWI legislation. I have included \$100,000 in the 2011 Budget to be used for this purpose.
- 7) Personnel actions recommended in the 2011 Budget result in a net decrease of 2.3 full time equivalent positions. The 2011 recommended personnel roster includes 1,171.8 positions. Since 2000, Rock County will have reduced its workforce by 267.4 positions or 18.6%.
- 8) Outstanding debt at the end of 2010 will total \$16,040,000.
- 9) A property tax levy of \$62,953,988 was requested by County Departments for 2011. The recommended property tax levy is \$59,323,692 or \$3,630,296 less than requested.

Issues for 2012

The current State biennial budget runs from July 1, 2009 through June 30, 2011. That budget has resulted in State aid cuts and cost shifts to Rock County in excess of \$2 million per year. These cuts have been primarily in the health and human service areas. The current State budget was

adopted using billions of dollars of federal stimulus funding built into parts of the budget like medical assistance, aids to counties and education aids.

As the State wrestles with the next biennial budget it will have to do so without much of this federal stimulus funding. This puts counties at further risk for large State aid cuts. If this does happen, the State must address the issue of eliminating or relaxing many of the underfunded mandates counties are currently laboring under as counties will need much greater flexibility to deal with the resulting fiscal stress.

State budget problems being handed down to counties could be further complicated by tax rate limits in 2012.

In addition to being subject to tax levy limits, counties are subject to tax rate limits on the general operations portion of their property tax levy. 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. This did not impact most counties for many years as property values rose at a rate equal to or greater than tax levies. However, in 2008 and 2009 Rock County as well as many other counties began to experience falling property values. As property value (equalized value) falls it takes a higher tax rate to raise the same amount of revenue (tax levy). This is pushing Rock County's tax rate for operational levy closer to the tax rate cap. A chart illustrating this follows:

	<u>2010</u>	<u>2011</u>
*Allowable Operating Tax Rate	5.893137	5.893137
Actual Operating Tax Rate	<u>5.182828</u>	<u>5.660695</u>
Difference	.710309	.232442
Percentage	12.05%	3.94%

*Operating Rate only, does not include debt service rate

The actual operating tax rate in the 2010 Budget was 12.05% below the tax rate cap. For the 2011 Budget the combination of a 4.40% decrease in equalized value (property value) and the recommended 3.67% increase in the levy will use up over 8% of the 12.05% difference. That leaves Rock County only 3.94% below the tax rate cap. If property values decrease 3.94% during 2010 the County will not be able to increase the tax levy for operational costs for 2012 at all. If taxable property values (equalized value) decrease more than 3.94% the County will have to decrease the tax levy funding 2012 operations. This would have grave consequences for the County's ability to provide the current level of service so long as the State continues freezing and/or cutting the State aid which is supposed to fund these services.

Efforts will be made by the Wisconsin Counties Association to either repeal or amend the 1992 tax rate cap legislation. There is already a tax levy limit which applies and will continue to apply to all counties. All counties are attempting to fund the rising costs of unfunded and underfunded state mandated programs. Only certain counties including Rock County will be affected by the disparate impact of the old tax rate limit law in the near future. If the Legislature and Governor truly want counties to provide State required services at an acceptable level they will need to deal with this issue.

The Administrator's Letter, which is found near the front of your budget document, contains additional information on these and other initiatives. Furthermore, each departmental budget contains "Administrator's Comments" which summarize the important points in the budget and describe the reasoning behind my recommendations.

The timetable for budget consideration includes:

9:00 A.M.	Monday, November 1	County Administrator's Review and Explanation of the Budget with Questions from the Board
6:00 P.M.	Wednesday, November 3	Public Hearing on the Budget
9:00 A.M.	Tuesday, November 9	Statutory Annual Meeting and Budget Adoption

As you review the 2011 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.

Sincerely,



Craig Knutson
County Administrator