

September 6, 2005

TO: Waseca County Board of Commissioners

FR: Bruce M. Boyce, County Coordinator

RE: 2006 Waseca County Preliminary Budget Overview

By state law, Waseca County's 2006 preliminary budget and tax levy must be established by September 15, 2005. This action sets the maximum amount for the final levy, which will be adopted after completing our December 1, 2005, public hearing. The final budget (total expenditures) may, however, vary up or down from the preliminary amount. The recommended 2006 preliminary budget equals \$ 18,028,246, a 10.9% increase compared to 2005. This budget has been prepared based on a preliminary levy of \$ 8,514,646, a 7.9% rise over last year.

Although the reasons for these amounts are varied, as usual, the overriding budget issues for 2006 include: the continued reduced level of state aids, increased health insurance costs, the need to advance geographic information systems (GIS), improvements to Clear Lake water quality, Human Services revenue reductions and increased program costs and the need to increase local funding for road/bridge construction. These and other key factors are noted in this summary.

County Board Defines Maximum Levy:

Historically, Waseca County has been conservative concerning property tax increases. Over the past 10 years, the tax levy has risen by an average of about 4 % annually--even after larger than usual increases in recent years. This average is consistent with or below the level of increase in area counties over the same time span.

In most previous years, the legislature imposed strict limitations on most aspects of county tax levies. However, the legislature eliminated levy limits for 2005 and did not re-enact them for 2006. This means that the County Board defines the "levy limit" for 2006--that is, the amount necessary to fund identified needs and maintain financial stability while keeping taxes at an acceptable level. Setting the budget and tax levy is the major policy decision made by the Board each year.

Decreased State Aid, Increased Reliance on Local Revenue:

Increasingly, the county budget depends on local tax revenue due to reduced state funding. County Program Aid--the primary state aid received by the County--is certified at \$955,927. This is about \$ 20K more than the 2005 level (\$936,282) but nearly \$400K below the amount certified for 2003. As ever, the budget is based on possible cuts in the certified amount and also relies on fee income from increases adopted in Zoning, Environmental Health, Sheriff's, and the Records Office.

Personnel Costs:

- At present, 2 labor contracts are resolved for 2006. The 2 law enforcement union contracts will be resolved through arbitration this fall, so their precise salary costs are unknown. The supervisory pay plan was completely revised in 2005, and those salaries are budgeted at a % consistent with the settled union contracts.
- Health insurance premiums are budgeted for a 10% increase based on estimated BC/BS renewals.
- In 2004, the County approved a "high deductible" (\$ 3000) insurance plan and contracted with a third party administrator to self-insure for lesser claims. This has resulted in cost savings which eventually could be used to lessen future premium increases. The deductible was raised to \$ 4000 in 2005 and the County may want to consider an even higher deductible for 2006.
- Labor contract agreements have created a union-management insurance committee, and it is expected that the arbitration settlements will include this provision as well. The committee will be used as a way of studying and recommending cost-saving measures for health care, such as VEBAs.
- Worker's compensation premiums have risen by about 9% on average.
- The budget does not include any new positions for 2006, although several were requested. County staffing levels remain lower than 2003.
- The County VLWOP (leave without pay) policy continues. Over the past 2 years this has resulted in a savings of over \$ 30K.

Court Administration:

- Most Court Administration costs are now paid directly by the state. There may be some costs for courtroom furnishings, equipment, etc. related to the appointment of Judge Worke's successor, but these are unknown at this time.

Information Technology:

- The County had been actively studying GIS (geographic information systems) prior to 2003 state budget cuts. This software would be beneficial to citizens and useful for departments involved in engineering, property records, law enforcement and land use. \$75K is included in the IT budget for implementation.

- In addition, funding for integrated land records management software (such as the NAZCA system viewed earlier this year) is included.
- The IT budget includes \$27.5K for either continuing or replacing the current law enforcement shared records system.

Central Services (miscellaneous expenses and revenue):

- The MCIT dividend is lower than last year (\$113,002/2005 > \$85,649/2006).
- Property/liability insurance premiums are virtually equal to 2005.
- Interest earnings are up, projected to increase by \$ 50K.
- \$40K is included for redoing the county pay equity system, which is more than 20 years old and in need of updating.
- \$ 125K is included for the County share of the Gaiter Lake diversion project, which will result in improved water quality for Clear Lake.

Elections:

- Per the HAVA federal mandate, new voting equipment will be needed. The County will be receiving a state grant to apply toward these costs. If County costs exceed the grant amount, capital improvement and/or solid waste funds can be used without including an amount in the 2006 tax levy.

Attorney:

- Counties are now required to assume new court-related costs for the commitment of convicted sex offenders, which may include evaluation panels, expert witnesses, outside attorneys and confinement. \$60K is included for costs involved in court proceedings, while an increased cost for confinement is included in the Human Services budget.

Buildings:

- Anticipating future building upkeep and improvements, the Building Fund levy is at \$ 75K.
- Maintenance needs have been effectively met by hiring a part-time employee, which has kept staffing below prior levels.

Sheriff:

- 1 new Dispatcher/Jailer and 1 new Deputy were requested but not approved. An additional Deputy and Dispatcher/Jailer were included in the 2005 budget.
- Cost increases for board and medical care of prisoners, law enforcement supplies and other operating expenses are stable compared to 2005.

- The budget plans for replacement of one patrol vehicle, as well as one or more electronic speed control signs.

Court Services:

- Based on a possible increased workload when a new District Judge is appointed, Court Services requested an additional officer at a net cost of \$28K. The position is not included in the preliminary budget.

Public Health Services:

- The department's focus has shifted from home care to WIC (Women, Infants and Children) and medical assistance clientele. Fee income has never matched initial projections. Reliance on property taxes has increased from 2005 but is still well below the tax levy required five years ago.

County-Funded Agencies (inc. Library):

- The budget generally maintains 2005 appropriations and allows, at least partially, consideration for special cases. The SWCD had requested a sizable (\$56K) increase to fund a new position, but this is not included in the budget. Any added staffing for the District would need to be funded through work done for the County ditch system.

Extension:

- The 2006 budget continues a full-time 4H Coordinator and 1 FTE office staff. Funding is included for horticultural and other programming as well. A copier requested by Extension and Planning/Zoning could be funded from the capital improvement plan fund and is not included in the 2006 tax levy.

Economic Development:

- The budget includes no appropriation to the county revolving loan fund. With the Janesville Service Center loan approved earlier this year and expenses to Springsted and Associates for work on the proposed ethanol plant, the fund balance stands at ~\$121K.
- Funds for ED appropriations to New Richland, Waldorf and Janesville, are included
- at the same level as 2005 (\$ 10K total)
- The levy for economic development tax abatements rises (\$30,189/2005> \$38,515/2006) as the Latham Place (Lakeshore Inn) abatement takes effect.

HRA:

- The ongoing Amberfield Place settlement expense rises by 2% (\$69,237/2005>\$70,622/2006).

County Program Aid:

- In 2004, Homestead Agricultural and Credit Aids (HACA) and other aids were reduced and combined into County Program Aid (CPA), lowering state aid to the county by ~\$452K (\$1,263,360/2003>\$811,801/2004). The 2006 CPA amount is budgeted at \$ 908,131, still \$ 350K+ less than what we received 3 years ago. Based on the 2003 experience and continuing state budget questions, it is uncertain that we will receive the amount certified. In that event the county would need to reconsider the 2003/2004 cost cutting moves proposed and discussed earlier.

Road/Bridge/Parks:

- Since the Clear Lake Drive and Trail project is delayed, 2006 construction is based on \$ 1.6 million in bituminous paving work. The projects to be done will be determined by the Board but might include work on CSAH 10, 12, 22 and/or 23.
- This represents a substantial rise in construction spending from 2005 (\$1.05M) and 2004(\$ 600K). Increasingly, the shortage of state revenue means that these costs are borne by local property taxes.
- The increase also helps to build the construction levy for the 2007 Clear Lake work. Based on early estimates of costs and available outside revenue, County costs for constructing Clear Lake Drive and Trail may exceed \$600K and require added construction levy.
- The budget allows \$250K for equipment costs, based on identified needs for a new tandem truck, several “pup” trailers, and two pickups. It does not include for the costs of a requested salt shed, in hopes that a new joint state/city/county facility in Waseca will meet this need.
- No bridge replacements are included for 2006.
- The budget includes increased amounts for bituminous (\$135K>\$145K) and aggregate (\$90K>\$110K) maintenance materials, in order to keep pace with rising costs and needs.
- The budget is not reliant on the 2004 capital equipment notes bond levy. This money (\$ 267,342) was levied with the intention of issuing bonds for Road/Bridge equipment. However, this was not done and the funding could be devoted to capital outlay in Road/Bridge or other areas.
- The Parks budget includes \$ 10,000 for potential development of a camping area at Courthouse Park.
- In 2005, the Road/Bridge levy rose substantially (\$1,058,270/2004>\$1,659,145/2005). The 2006 preliminary Road/Bridge/Parks levy is up to

\$1,730,193 based on the factors cited above. Proposed Road/Bridge/Parks spending would rise from \$ 3,655,372/2005 to \$ 4,332,110/2006.

Human Services:

- Staff reductions made in 2003 were largely restored in 2005. A new case aide position, funded 25% from federal sources, was requested for 2006 but is not included in the preliminary budget.
- Increasingly, costs for mandated social services are falling on local funds due to lack of state and federal money:
 - Targeted case management and IV-E federal funds are down by ~ \$67K.
 - Inpatient hospitalization/outpatient treatment costs are up nearly \$20K.
 - Regional treatment center costs continue to rise by \$5K.
 - Professional family based services costs are up by \$ 10K.
 - Child care and child day treatment costs increase by ~\$15K.Even after modest reductions for the preliminary budget, these factors outweigh other positive Human Services trends and contribute to a needed levy increase.
- Mandatory out-of-home placement costs have been estimated according to recent trends and are virtually stable (\$752.5K/2005>\$756.5K/2006).
- Human Services spending is up by about 4% (\$4,167,175/2005>\$ 4,321,525/2006). However, the shortage of state and federal resources requires a significant levy increase of 11.9% (\$1,245,451/2005> \$1,394,318/2006) even after using \$ 50K of fund balances to minimize the levy.

Solid Waste:

- As usual no levy is included; the budget is supported by customer and hauler fees, household assessments and commodity sales.
- Staffing level includes 3 county employees and contracts for service, primarily with the Senior Citizen's Center.
- A loader, used for moving materials received by the Solid Waste Center, was requested and is included (\$ 180K), although it is funded primarily through the use of Solid Waste fund balance.
- The 2006 budget does not plan on using Solid Waste funds for capital outlay. However, \$ 300,000 of Solid Waste fund balance was previously budgeted for completion of the emergency radio system but has not yet been transferred into the capital improvement projects fund, from which the radio system costs were paid. The transfer should be made in early 2006 so that current Solid Waste investments can be maintained.

Capital Improvement Plan:

- Completion of the emergency radio system depleted all remaining proceeds from the 1999 capital improvement plan bond issue. As noted above, though, the planned Solid Waste transfer would leave ~\$300K available for additional capital outlay.

Debt Service:

- In December, 2004, the County “refunded” (refinanced) its outstanding capital improvement debts which were incurred in 1991 and 1999, saving ~ \$140K over the term of the bond issue. The method used is known as “crossover” refunding, which means that instead of having two concurrent bond repayments, the earlier bond issue will be paid off prior to repaying the later one. 2006 debt service costs are similar to 2005 (\$514,137/2005 > \$515,701/2006). The savings will result from smaller debt service levies in the latter years of the bond issue, which will be retired in 2015.

Further Notes:

- Departmental budgets not listed above are all close to their 2005 amount. All departmental and agency budget requests were reviewed repeatedly and in detail, and many needed to be reduced to arrive at the current preliminary figure. Funding the total of departmental and agency requests would have required an 18.6% levy increase.

SUMMARY:

Overall, the 2006 preliminary budget (estimated expenditures) shows an increase of 10.9% (\$16,254,506/2005 > \$18,028,246/2006). The final 2006 budget, when adopted in December, may be increased or decreased from this figure.

The budget is based on a levy of \$ 8,514,646, which is 7.9% above the 2005 levy of \$7,886,993. This guideline was established by the Budget Committee following its meetings this summer. Primary factors in this increase include: personnel costs, GIS implementation, the Gaiter Lake diversion project, sex offender commitments, Road and Bridge construction/equipment/maintenance, and Human Services program costs/revenue shortages. The budget does not include any of the new staffing requested by county departments and agencies.

Proposing a tax increase is never easy or popular, but considering the needs identified for 2006 and the ongoing lack of state aid, the preliminary amount is appropriate. As we saw in 2003, there is no assurance that the state will provide all the aid it has committed to for 2006.

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The preliminary levy set in September cannot be increased but may only be reduced before final adoption. The 2006 preliminary budget and levy are based on the best current estimate of next year's financial needs. Board adoption of the preliminary amounts does not indicate approval of any department or agency budget; this occurs only after final budget action in December. During the fall, the budget will be reviewed in detail at regular county board meetings and work sessions. Ultimately, the 2006 tax levy will be the smallest amount the Board finds necessary to fund identified needs and maintain financial stability.

I would like to express my thanks to the Coordinator's and Information Technology staff, County department heads, employees and agency representatives for their role in helping prepare this budget during the summer. As always, their assistance was crucial and is deeply appreciated.

BMB:mlw