



December 7, 2006

TO: Waseca County Citizens and Board of Commissioners

FR: Bruce M. Boyce, County Coordinator

RE: 2007 Waseca County Preliminary Budget Overview

This evening the Waseca County Board of Commissioners is holding a public hearing concerning its proposed 2007 budget and tax levy. The hearing is informational only and for purposes of public comment. No decisions will be made at the meeting, and the final budget and levy will be scheduled for action at the December 19th, 2006, County Board meeting.

Per state law, Waseca County's 2007 preliminary budget and tax levy was established on September 12, 2006. This action set the maximum amount for the final levy. The final budget (total expenditures) may, however, vary up or down from the preliminary amount. The 2007 preliminary budget equals **\$26,437,381**, compared to \$18,028,246 in 2006. The large increase is primarily due to the inclusion of two major capital projects, a new County building and the Clear Lake Drive and Trail. This budget has been prepared based on a preliminary levy of **\$9,338,640**, a **9.6%** rise over last year.

Beyond the two major projects, the overriding budget issues for 2007 include:

- the continued reduced level of state aids
- negotiation of new labor contracts for all bargaining units
- implementation of a classification/compensation study for all positions
- geographic information systems (GIS)
- Human Services revenue reductions
- funding for road/bridge construction
- construction of a salt shed for road maintenance
- road/bridge equipment needs
- jail maintenance and remodeling
- various new position requests.

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 less than 5% 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 has not re-enacted them. This means that the County Board defines the “levy limit” for 2007; that is, the amount necessary to fund identified needs and maintain financial stability while keeping taxes at a minimum level. Setting the budget and tax levy is the major policy decision made by the Board each year.

Decreased State Aid Means 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 budgeted at \$937,432. This is about \$30K more than the 2006 level 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 substantial fee income, particularly in the Zoning, Environmental Health, Sheriff’s, and Recorder’s Offices.

Personnel Costs:

- State law enables County employees to join labor unions, and about 75% of them are covered by union contracts. All labor contracts will expire in 2006 and are currently being renegotiated. Coupled with this, the County is undertaking a classification and compensation study for all positions. This is being done in compliance with state pay equity laws and to determine how County positions are being paid compared to the related labor market. The study, when approved, may lead to needed adjustments in individual positions. The budget has been prepared anticipating across-the-board adjustments in contract rates and includes a lump sum in addition for implementation of the study.
- Health insurance premiums are budgeted for a 4.5% increase based on BC/BS renewals with the South Central Service Cooperative.
- Labor contract agreements have created a union-management insurance committee. The committee will continue to be used as a way of studying and recommending cost-saving measures for health care, such as VEBAs or HSAs.
- Worker's compensation premiums have risen by about 5% on average.
- The budget includes a number of new positions requested for 2007, in Public Health Services, Human Services, Court Services and the Sheriff's Office.
- The County VLWOP (leave without pay) policy continues. Over the past 3 years this has resulted in savings estimated at over \$40K.

Information Technology:

- The County has been actively studying GIS (Geographic Information Systems). This software would be beneficial to citizens and useful for departments involved in

engineering, property records, law enforcement and land use. In addition to \$75K levied in 2006, \$65K is included in the IT budget for implementation.

- 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 (\$85,649/2006 > \$79,959/2007).
- Property/liability insurance premiums are reduced by ~ \$10K by adopting a higher deductible (\$2,500).
- Interest earnings are up, projected to increase by \$87K. (\$200K/2006 > \$287K/2007)
- \$100K is included for implementing the classification/compensation study. Costs may need to be phased in over more than one year, depending on the outcome of the study and of labor contract negotiations.
- \$50K is included for the County share of the Gaiter Lake diversion project, which will result in improved water quality for Clear Lake. This is in addition to \$125K in 2006.

Attorney:

- Counties have been 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. \$50K is included for costs involved in court proceedings.
- The contract revenue for city prosecuting services is budgeted for a 3% increase.

Buildings:

- Anticipating future building upkeep and improvements, the Building Fund levy is increased to \$125K. The fund would be used for any needed maintenance and improvements in the county jail, as requested by Sheriff Dann.
- The budget is based on restoring building maintenance staffing to 2003 levels (5 FTEs).

Sheriff:

- 2 new Dispatchers, 1 new Jailer and 2 new Deputies were requested. A new Deputy position is included for 2007. An added Dispatcher/Jailer was included in the 2005 budget.
- Cost increases for board and medical care of prisoners, law enforcement supplies and other operating expenses are fairly stable compared to 2006.
- The budget plans for replacement of two patrol vehicles, plus an added vehicle for the new Deputy position.

Court Services:

- Based on an increased workload since the appointment of District Judge Collins, an added Court Services Officer is included in the preliminary budget, at a cost of ~\$53K for salary and benefits. \$8K to establish a juvenile restitution fund is also included.

Public Health Services:

- The department's focus has shifted from home care to WIC (Women, Infants and Children) and Medical Assistance clientele.
- The PHS budget is much larger than prior years due to the addition of seven new positions (3 nurses, 2 social workers and 2 case aides) created primarily to serve senior Medical Assistance clients from the South Country Health Alliance (SCHA). These positions are fully funded by SCHA and do not fall on local property taxes. They do pose significant issues about office space. A temporary office unit has been installed near the current Public health offices.
- Due to the inclusion of new revenue from SCHA the required levy for PHS falls significantly (~\$153K/2006 > ~\$23K/2007).

County-Funded Agencies (inc. Library):

- The budget generally maintains 2007 appropriations and allows for modest increases based on requests. The SWCD had requested a sizable (\$54K) increase to fund a new position, but this is not included in the budget.

Extension:

- The 2007 budget continues a full-time 4H Coordinator and 1 FTE office staff. Funding is included for horticultural and other programming as well.

Economic Development:

- The budget includes no appropriation to the county revolving loan fund. With recent outlay for the Janesville Service Center and "Someplace Else" loans and expenses to Springsted and Associates for work on the proposed ethanol plant, the fund balance stands at ~\$108K.
- Funds for ED appropriations to New Richland, Waldorf and Janesville, are included at \$12K total)
- The levy for economic development tax abatements doubles (\$38,515/2006 > \$79,043/2007) as the Northwest Industrial Park abatement takes effect.

HRA:

- The ongoing Amberfield Place settlement expense rises by 2% (\$70,622/2006 > \$72,034/2007).

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 2007 CPA amount is budgeted at \$937,432 still ~\$325K+ less than what we received 4 years ago. Based on the 2003 experience and continuing state budget questions, it is never a sure thing that we will receive the amount certified. If CPA were reduced from the certified level the county would need to reconsider cost cutting moves.

Road/Bridge/Parks:

- Due to increases in the estimated costs of the Clear Lake Drive and Trail project, it is not feasible to fund the entire project with the 2007 tax levy. Instead, the budget proposes removing the County share of the project cost (estimated at \$2,068,000) from the Road/Bridge budget and funding it with proceeds of a capital improvement plan bond issue.
- Despite removal of the Clear Lake project the Road/Bridge levy is still proposed to increase (\$1,720,193/2006 > \$1,773,938/2007). This is necessary due to the ongoing needs and increased costs for road construction and maintenance, as well as the absence of new State funding to help pay for these costs.
- The budget includes increased amounts for bituminous (\$145K > \$175K) and aggregate (\$110K > \$125K) maintenance materials, in order to keep pace with rising costs and needs.
- \$130K is included for the County share of a new salt storage facility, to be shared with MnDOT. Use of the current facility limits the County supply of salt to two days capacity during a winter storm. It should be noted that this is a “one-time” cost and that if the Road/Bridge levy is sustained in 2008 and beyond this money can be devoted to additional road construction.
- The budget allows \$243K for equipment costs, based on identified needs for a new motor grader, mower tractors, and pickup trucks. The budgeted amount is \$40K less than the amount requested.
- In recent years the Road/Bridge levy has risen substantially (\$1,058,270/2004 > \$1,659,145/2005 > \$1,720,193/2006 > \$1,773,938/2007), largely to meet road construction needs.

Human Services:

- Staff reductions made in 2003 have been restored. A new Financial Worker position, partially reimbursed from federal sources, is included in the preliminary budget.
- Increasingly, costs for mandated social services are falling on local funds due to lack of state and federal money. For 2007, federal funding for targeted case management is projected to drop by \$90K. This is the single biggest factor in the Human Services budget.
- Mandatory out-of-home placement costs have been estimated according to recent trends and are identical to 2006. (756K/2006 and 2007).

- Funding for the family collaborative program is being phased out (\$225,000/2006 > \$100,000/2007).
- Considering all of the above, Human Services spending is down by 1% (\$4,321,525/2006 > \$4,280,758/2007). However, the shortage of state and federal resources, particularly targeted case management revenue, requires a levy increase of 5.9% (\$1,344,318/2006 > \$1,424,920/2007) even after using \$20K 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. The fee structure will be reviewed at a Board meeting during the fall.
- Staffing level includes 3 county employees and contracts for service, primarily with the Senior Citizen's Center.
- Capital outlay needs include replacement of a 2-ton truck and construction of an outdoor storage facility.

Debt Service/ Capital Improvement Plan:

- In 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. 2007 existing debt service costs are similar to 2006 (\$515,701/2006 > \$514,916). The savings will result from smaller debt service levies in the latter years of the bond issue, which will be retired in 2015.
- The budget proposes issuance of \$5.7M in new capital improvement plan general obligation bonds in 2007 to finance the County share of the Clear Lake Drive and Trail (as described above) as well as a new County building to house Human Services, County Commissioners, Coordinator/Information Technology and possibly Public Health Services. The bond amount is based on the County's current maximum CIP debt capacity. Various cost estimates for the building have been provided and discussed. These range from \$2.23M to \$4.02M, depending on the chosen site and which offices are included. The bond issue should be sufficient to fund the building needs that are ultimately identified by the Board. The bond issue will require preparation of a new capital improvement plan, approval by the state and a public hearing prior to Board action.
- Estimated initial new debt service costs of \$175,446 are included in the 2007 budget. However, it should be emphasized that this only for the 2007 payment of interest on the bonds. When the full interest and principal are paid in 2008, the levy for this debt service will need to rise by an estimated additional \$381,723. This effectively spreads the increase in the debt service levy over two fiscal years.
- The portion of the annual interest payment related to Human Services space would be eligible for partial Federal reimbursement. However, this amount is unknown at this time and is not reflected in the budget as it would not be received until 2008.

Further Notes:

- Departmental budgets not listed above are all close to their 2006 amount. All departmental and agency budget requests were reviewed repeatedly and in detail during County Board meetings this summer and fall. Funding the total of departmental and agency requests, the Clear Lake project, and the new County building from 2007 taxes would have required a ~\$6M levy increase- clearly an unacceptable amount.

SUMMARY:

Overall, the 2007 preliminary budget (estimated expenditures) shows an increase of ~ \$8M (\$18,028,246/2006 > \$26,437,381/2007) due chiefly to the inclusion of the two major capital projects. The spending level can be expected to drop in 2008 and beyond since these are one-time costs. The final 2007 budget adopted on December 19th, 2006 may be increased or decreased from this figure.

The budget is based on a levy of \$9,338,640, which is 9.6% above the 2006 levy of \$8,514,646. Primary factors in this increase include a new County building and the Clear Lake Drive and Trail. Other issues concern the continued reduced level of state and federal aids, new labor contracts, classification/compensation study costs, ongoing funding for road/bridge needs, jail facility needs and various new positions.

Proposing a tax increase is never easy or popular. It impacts all county citizens. Considering the needs identified for 2007, however, the proposed amount is appropriate. Increasingly, the county budget depends on local tax revenue due to reduced state funding. 5 years ago, only 1/3 of the budget was funded by property taxes--the remainder was paid through state, federal and other sources. Today, almost 1/2 the budget--47%--is dependent on local tax dollars. There is no reason to think that this trend will change. As we have seen in recent years, we cannot take it for granted that the state will provide the aid it has committed to.

It should be noted that the County's 2006 tax capacity (used for payable 2007 taxes) is \$16,848,820, 11.4% above the 2005 level.

The 2007 preliminary budget and levy are based on the best current estimate of next year's financial needs. During the fall, the budget has been reviewed in detail at regular county board meetings and work sessions. Ultimately, the 2007 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.

2007 WASECA COUNTY PRELIMINARY BUDGET SUMMARY

FUND	EXPENDITURES	NON-LEVY REVENUE	NET TAX LEVY
GENERAL REVENUE	8,951,904	3,853,923	5,097,981
BUILDING	125,000	0	125,000
ROAD & BRIDGE/PARKS	5,721,765	3,947,827	1,773,938
HUMAN SERVICES	4,280,758	2,855,838	1,424,920
LIBRARY	226,439	0	226,439
WASTE MANAGEMENT	591,153	591,153	0
DEBT SERVICE	690,362	0	690,362
CIP PROJECTS	5,700,000	5,700,000	0
DITCH	150,000	150,000	0
TOTAL	26,437,381	17,098,741	9,338,640

2007 PRELIMINARY LEVIES IN AREA COUNTIES

As of 9/7/06

COUNTY	% INCREASE
Blue Earth	9.5%
Brown	6.4%
Faribault	8.4%
Freeborn	5.9%
Le Sueur	8.5%
Martin	7.02%
Nicollet	7.5%
Rice	7.56%
Sibley	7.02%
Steele	9.7%
Waseca	9.6%
Watsonwan	8.0%

Prepared by Mn Valley Council Of Governments

MAJOR FUND BALANCE TRENDS

(investments and cash, in thousands of \$)

FUND	12/03	6/04	12/04	6/05	12/05	6/06	2007 PRELIM BUDGET	6/06 \$\$ AS% OF BUDGET
General Revenue	4,356	3,866	4,388	3,931	4,617	4,334	8,952	48%
Road/Bridge/ Parks	1,973	2,392	1,533	2,493	1,495	3,130	5,722	55%
Human Services	3,155	2,886	3,117	2,732	3,073	2,977	4,281	70%
Waste Management	1,323	1,245	1,290	1,224	1,215	1,115	591	189%

Why is the preliminary budget up 46.6%??

<u>Area of Increase</u>	<u>Amount</u>	<u>Why It's Increased</u>
Court Administration	36K	personnel/operating costs, (reimbursed by state)
Recorder	29K	insurance (2006 underestimate)
Planning/Zoning/Water Planning	30K	zoning consultant, SWCD grant
Sheriff	280K 1.6%	new Deputy, equipment, vehicles
Court Services	86K .47%	new CSO, restitution fund
Public Health Services	397K 2.2%	6 new positions, SCHA funded
Economic Development	42K	NW Industrial Park abatement
Building Fund	50K	jail repairs/remodeling
Road/Bridge	1.399M 7.8%	non-County portion of Clear Lake Drive project (paid for by city/state/federal \$) salt shed
Human Services: Income Maintenance	37K	new Financial Worker, contracts
Social Services	48K	Collaborative, MVAC/MFIP, CD CMH/TCM, SCHRC/CMH
CIP Debt Service	175K .97%	Clear Lake Drive/new building
Capital Outlay	2.068M 11.5%	Clear Lake Drive Project (County share)
Capital Outlay	3.632M <u>20.1%</u>	new County building
TOTAL	8.309M 46%	increase in 2007 spending is 8.409M or 46.6%