

December 6, 2007

TO: Waseca County Citizens and Board of Commissioners

FR: Bruce M. Boyce, County Coordinator

RE: 2008 Waseca County Preliminary Budget Overview

This evening the Waseca County Board of Commissioners is holding a public hearing concerning its proposed 2008 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 18th, 2007, County Board meeting.

Per state law, Waseca County's 2008 preliminary budget and tax levy were established on September 11, 2007. 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 2008 preliminary budget equals **\$25,198,296**- very similar to the 2007 amount of \$25,134,381. This will very likely be reduced by removal of \$4.6 million dollars, which was included in the September estimate for new building construction to be financed by a bond issue.

The budget has been prepared based on a preliminary levy of **\$ 10,101,975**, a **10.9%** rise over the preceding year.

Some of the prominent budget issues for 2008 include:

- substantial new county funding for road/bridge construction, maintenance, and equipment needs
- office space needs for Human Services, Public Health and other offices
- little increase in state aid for general government or transportation
- applying the terms of new labor contracts for all bargaining units
- implementation of a classification/compensation study for all positions
- no increase in human services levy
- ongoing jail maintenance and remodeling needs, and
- various new position requests.

These and other key factors are noted in this summary.

The County Board Determines the County's Tax Levy:

Historically, Waseca County has been fairly conservative concerning property tax increases. Over the past 10 years, the tax levy has risen by an average of about 5% annually, even after larger than usual increases in recent years. This average compares favorably with increases in area counties over the same time span. Before 2005, the legislature imposed strict limitations on most aspects of county tax levies. However, these limits were eliminated and have not been re-enacted. This means that it is up to the County Board to define the "levy limit"- 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.

Lower State Aid Means Increased Reliance on County Taxes:

State funding to counties is substantially less than it was 5 years ago. County Program Aid (the primary state aid received by the County) is budgeted at \$938,000. This is virtually the same as the 2007 level but nearly \$400K below the amount certified back in 2003, prior to state budget cuts. The state has decided against new gas tax revenues for road and bridge work. Various other sources of state funding, especially in human services, have been reduced as well.

Therefore, the county budget depends increasingly on local tax revenue. The budget is based on possible cuts in the certified Program Aid amount, for the November 30, 2007 state revenue forecast is not encouraging. "People are going to have to take a step back again," Sen. Tarryl Clark, DFL-St. Cloud, said. She worried that the report would be the "tip of the iceberg." "The real question is what are we going to see by February," she said.

Personnel Costs Make Up About 37% of the County Budget:

- State law enables County employees to join labor unions, and about 75% of them are covered by union contracts. All 4 labor contracts are settled for 2007-2009, with "re-opener" language to address 2009 insurance provisions. The budget has been prepared according to contract terms calling for 2.5% increases in wage and salary rates for all county positions.
- Coupled with this, the County is completing a classification and compensation study for all positions. This is a major effort, ongoing since mid-2006. After County Board approval, the study may lead to pay rate adjustments for individual positions based on evaluation of job duties or labor market comparisons. \$100K is included for implementing the classification/compensation study. At this point exact costs of implementation are uncertain. It is likely that implementation would be phased in over more than one year, depending on the overall cost and number of positions affected. For positions covered by labor contracts this will require wage reopeners.

- Health insurance premiums rose by 13.9% for 2008, reflecting higher than average claims experience. In the past, the County has paid for 100% of the premium costs for employee coverage at the lowest deductible available. In 2008, however, the County will no longer cover 100% of this cost, and employee cost-sharing will be required for low deductible coverage. In addition, the lowest available deductible amount has been raised in two of the labor agreements. Cost-sharing for family coverage has always been in effect and will continue.
- For the first time, the County is offering a VEBA (voluntary employee beneficiary account) insurance plan in addition to traditional coverage. This involves a much higher deductible insurance coverage and a monthly deposit into a trust for the employee, which is used to pay for expenses not covered by insurance. Any deposits not used are kept in the employee's trust and carry over from year to year. Thus, there is a real incentive for employees to avoid incurring claims and thereby lessen future premium increases.
- On the whole, worker's compensation premiums are about equal to 2007; the Sheriff's department shows an increase while Road/Bridge is decreased.
- The budget includes a number of new positions requested for 2008, which are noted below.
- The County VLWOP (leave without pay) policy continues. Over the past 4 years this has resulted in savings estimated at over \$50K.

Departmental Activities Have Significant Budget Impacts:

Information Technology:

- The County is implementing GIS (Geographic Information Systems), a computerized mapping system through a contract with ProWest Associates. GIS will be beneficial to citizens and useful for departments involved in engineering, property records, law enforcement and land use. Eventually, a wide variety of this information will be available online. During 2006 and 2007, a total of \$130K was included in the IT budget for implementation. Ongoing GIS costs above this amount can be funded with fee revenue from the Recorder's Office, dedicated to technology upgrades. For this reason, no GIS funding is included in the 2008 IT budget. A separate department will be established to track GIS costs and funding sources.

Central Services (Miscellaneous Expenses and Revenue):

- The MCIT dividend is up 16K from last year (\$79,959/2007 > \$95,872/2008).
- Property/liability insurance premiums are up significantly despite adopting a higher deductible (\$2,500). One reason for this is the 2007 budget increase, which was largely due to the Clear lake Drive project and planned construction of a new County building. If the adopted 2008 budget is significantly less than 2007, insurance premiums will likely drop as well.
- Interest earnings are up by ~\$30K, projected to increase to \$350K.
- \$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 and \$50K in 2007.

- \$125K is included for purchase and installation of 911 signage, although this is funded using Solid Waste fund balance rather than tax levy. Sign bids are scheduled for opening in January 2008.

Elections:

- The budget includes the costs of holding elections every other year. In 2008 ~\$34K is estimated for expense of a general election, mostly for supplies and software programming.

Coordinator:

- The budget allows for a .5FTE Personnel Administration position to assist in recruiting, interviewing, safety, benefits, pay equity and other related duties as needed. At present, personnel functions are not always receiving full and prompt attention due to other time demands. Total costs for the position equal ~\$35K.

Attorney:

- In addition to other court-related costs (for example, commitment of convicted sex offenders) the budget allows added funds for expenses of a trial for Michael Zabawa. This might include forensic studies, expert witnesses, and attorney lodging and transport costs. \$65K is included for costs involved in court proceedings, compared to \$50K in 2007.
- The County Attorney has requested added .5 FTE clerical staffing due to caseload increases, and the budget allows for this. The increase would cost ~\$23K.
- The Attorney's Office provides prosecution services on a contract basis for the cities in Waseca County. The contract revenue for city prosecuting services is budgeted for a 3% increase, plus half of the added clerical costs if the position request is approved. Even with the increase, this measure saves money for the cities compared to hiring private attorneys. It also results in improved operations for law enforcement and the court system.

Buildings:

- Anticipating future building upkeep and improvements, the Building Fund levy is maintained at \$75K. This fund is used for major repairs and remodeling, and the current fund balance is ~\$212K. It would be used for any needed maintenance and improvements in the county jail, as requested by Sheriff Dann. Jail improvements, especially to air conditioning and ventilation, are already underway.

- Utilities are, as usual, a substantial budget item. Rising city electrical costs are a particular concern, and the County continues to take conservation measures. The table below summarizes these expenses:

ELECTRICITY

NATURAL GAS/LP

BUILDING	06 Total	07 Budget	11/07 YTD	08 Budget	06 Total	07 Budget	11/07 YTD	08 Budget
Courthouse	27615	26500	30019	29000	12395	12500	10795	14000
LEC	19046	17000	19184	20000	10556	12000	10369	12000
Human Services	8525	8000	8357	9000	2305	2500	2345	2600
East Annex	4860	5000	4875	5500	2309	2500	1919	3000
Public Health	4007	4000	5207	4500	3372	5000	3999	5000
Highway	21009	23000	16450	23000	20526	22000	22759	24000
Solid Waste	7133	6700	7365	7700	3183	7000	1570	7000
TOTAL:	92195	90200	91457	98700	54646	63500	53756	67600

Coroner:

- Due to a change in state law, trained nurses are no longer eligible to be Coroners. In the past, the Waseca Area Medical Center had provided this service with one of their nurses, who had been previously been the Coroner. Under the new arrangement the Ramsey County Medical Examiner's Office will perform formal coroner functions while the majority of the work will be done by the same trained nurse, designated as a Deputy Coroner. Costs are estimated at \$ 15K.

Planning/Zoning:

- Based on increased office workload, litigation and delays in preparation of the County water plan, a .5FTE clerical position and a .5FTE water planner have been requested and are included in the budget at a total cost increase of ~\$51K. Freeing the time of other office staff and adding the water planner position may pave the way for greater collaboration with the Soil and Water Conservation District, as they also play an important role in land and water use and had likewise asked for increased staffing.

Sheriff:

- Staffing levels are always a concern for the Sheriff's Office. A new Dispatcher and a new Deputy were requested for 2008. In addition to patrol duties, the Deputy position would act as an armed bailiff for the Courtroom. The Deputy position is included at a cost of ~\$60K, but the Dispatcher/Jailer is not. A new Deputy position was also added in 2007, and the most recently increase in Dispatcher/Jailer staffing was in 2005.
- Costs for board of prisoners are budgeted \$30K above 2007 (\$120K/2007>\$150K/2008) with the prospect of the Zabawa trial being held outside Waseca County.

- Law enforcement supplies and other operating expenses are fairly stable compared to 2007. The total cost of law enforcement supplies, jail and medical supplies and small equipment expenses equals \$100K.
- The budget plans for replacement of two patrol vehicles, plus an added vehicle for the new Deputy position. These 3 vehicles total \$67K.
- The Sheriff's capital outlay request mainly concerned jail remodeling, which would be paid from the Building Fund and is therefore not included in the Sheriff's budget. \$25K is included, however, for an improved records system.

Public Health Services:

- In the past few years the department's focus has shifted from home care to WIC (Women, Infants and Children) nutritional programs and Medical Assistance clientele.
- The PHS budget includes 13 FTEs due to positions created in 2007, primarily to serve senior Medical Assistance clients from the South Country Health Alliance (SCHA). SCHA is a consortium of counties who have joined together for cost-effective delivery of Medical Assistance services. The positions are fully funded by SCHA and do not fall on local property taxes. The object of the new positions is to provide comprehensive client care using teams of physicians, nurses and social workers.
- PHS staffing levels pose significant issues, both short and long-term, about office space. At present some employees are housed in a temporary office trailer at the Public Health building. There is a serious prospect that Public Health offices will be relocated to leased space, along with Human Services. Further staff expansion, again funded by SCHA, is expected once the space issues are resolved.
- Due mainly to SCHA revenue the required levy for PHS is down slightly (~\$36K/2007>~\$17K/2008) and in any case is minimal considering the total PHS budget is ~\$954K.

County-Funded Agencies:

- The budget generally maintains current appropriations and allows for modest increases based on special requests. Among other things, this includes a \$5K increase for the Historical Society and "Phase 3" blacktopping at the fairgrounds, with costs to be shared with the Agricultural Society.
- The Library's revised budget request, which calls for no 2008 increase, is included. This follows extensive discussion with the City of Waseca and LeSueur County concerning each jurisdiction's share of the funding and the appropriate amount of fund balance to be maintained.
- The Soil and Water Conservation District had requested a sizable increase to fund a new position. This is not included in the budget, but the District's preliminary allocation is still up by nearly 5% to ~\$ 76K. As noted earlier, further study of collaboration between the SWCD and Planning/Zoning is recommended.

Economic Development:

- The budget includes no appropriation to the county revolving loan fund. Following recent outlay for 2006 ED loans and expenses to Springsted and Associates for work on the Janesville ethanol plant, the fund balance still stands at ~\$113K.
- Funds for ED appropriations to New Richland, Waldorf and Janesville, are included at \$12K total). These funds are used for housing development and economic development loans in these cities.
- The levy for six economic development tax abatements-all in conjunction with the City of Waseca-continues at the same level as 2007 (\$79,043). These abatements reimburse tax increases resulting from business startup and expansion for a limited time period.

HRA:

- The ongoing Amberfield Place settlement expense rises by 2% (\$72,034/2007 > \$73,475/2008).

County Program Aid:

- In 2004, due to the state fiscal crisis, existing state aids were reduced and combined into County Program Aid (CPA), lowering state revenue 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 that experience and present state budget questions, it is never a sure thing that we will receive the amount certified. If CPA were again reduced from the certified level the county would need to again consider varied cost cutting moves.

Road/Bridge/Parks:

- The Road/Bridge levy is by far the single biggest contributor to the 2008 preliminary budget increase.
- In 2007, the County share of the construction of Clear Lake Drive was funded with state aid road bonds rather than the tax levy. The resulting 2007 Road/Bridge levy (\$1,708,938) was slightly less than the 2006 amount.
- Due to the ongoing needs and increased costs for road construction and the absence of new State funding, the preliminary levy amount is \$2,308,969. This is \$600K above the 2007 amount. The budget for 2008 construction stands at \$1.534M.
- The debt service for the new Clear Lake project bond is included in the 2008 Road/Bridge budget. Debt service on a prior bond issue for the Road/Bridge building will be retired in 2008, thus freeing up state aid construction funds in future years. The debt service will drop from ~\$349K in 2008 to ~\$115K in 2009.
- The budget includes large increases for bituminous (\$175K > \$225K) and aggregate (\$125K > \$135K) maintenance materials, in order to keep pace with rising costs and needs. Even with these increases the County will only be seal coating about 20 miles of road surface, compared to 25 miles/year a few years ago.
- \$75K is included for the County share of a new salt storage facility, to be shared with MnDOT. This is in addition to \$65K levied last year- the total County share is \$130K. 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 expense,

so if the Road/Bridge levy is sustained in 2009 and beyond this money could be devoted to additional road construction.

- The budget allows \$318K for equipment costs, based on identified needs for a new tandem truck, loader and distributor (in that order of priority). This is the amount requested by the Engineer.
- In recent years the Road/Bridge levy has grown substantially (\$1,058,270/2004 > \$1,659,145/2005 > \$1,720,193/2006 > \$1,708,938/2007 > \$ 2,308,969/2008 preliminary), largely to meet road construction and upkeep needs in the absence of new State gas tax funding to help pay for these costs.

Human Services:

- The Human Service budget calls for no levy increase and instead is based on other revenue increases:
 - \$97K more revenue from the South Country Health Alliance (SCHA).
 - increased collections of parental and detox fees
 - \$30K more case management revenue for vulnerable adults and developmentally disabled
 - increased MFIP grant dollars
- The budget provides for changing the current part-time case aide position to a full-time social work position in the Developmental Disabilities/Adult Services unit, funded chiefly through the increased SCHA revenue.
- Increasingly, costs for mandated social services are falling on local funds due to lack of state and federal money. As an example, county costs for Adult Day Training and Habilitation for the developmentally disabled are projected to rise (\$90K/2007 > \$140K/2008) based on current needs.
- Mandatory out-of-home placement costs have been estimated according to recent trends and are identical to 2006 and 2007 (756K). These county-funded expenses involve the placement of children at risk in foster care or group facilities. Although these costs are very expensive and volatile, they have been slightly under budget in recent years.
- The Human Services budget includes funds for rental of new office space. At present, these funds are paid to the County for lease of the current building.
- Funding for the family collaborative program remains at a minimal level (\$100K/2007 > \$107.5K/2008).
- Considering all of the above, Human Services spending is up by ~\$301K or about 7%. (\$4,280,748/2007 > \$4,581,902/2008). However, with ~\$322K in increased revenue from non-levy sources plus the use of \$30K of fund balance, the levy declines by 2% (\$1,424,920/2007 > \$1,396,474/2008).

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.
- Capital outlay needs include replacement of a 2-ton truck and construction of an outdoor storage facility.

Debt Service/ Capital Improvement Plan/New Office Space:

- In 2004, the County “refunded” (refinanced) its outstanding capital improvement plan (CIP) 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. The savings begin to show up in the 2008 budget as existing debt service costs drop (\$514,916/2007> \$495,054/2008). The lower debt service levies will continue until the bond issue is retired in 2015.
- Estimated new CIP debt service costs of \$175,446 were approved in the 2007 budget. This was based on a 2007 payment (interest only) on a CIP bond issue designed to fund both the Clear Lake Drive project and a new County building. As described earlier, the Clear Lake project was funded through a separate state aid road bond and no bonds for a new building have been issued. This 2007 debt service amount remains in fund balance and would be available to use when and if the Board decides to issue new CIP bonds. This would require preparation of a new capital improvement plan, a public hearing and approval by the state. There is no new CIP debt service included in the 2008 budget.
- At present it appears likely that the County will meet many of its office space needs through leasing space at the former E.F. Johnson building for a minimum of 3 to 5 years. Discussions continue with the City of Waseca about long-range development of the “Bratrud” property and/or the current Human Services site near the Courthouse. If a new building is ultimately approved, it might be financed through a bond issue, through planned year-by-year savings, or by a combination of the two. As noted earlier the 2008 budget will be reduced from the preliminary amount by removal of \$ 4.6 million in building construction costs.

Further Notes:

- Departmental budgets not cited above show minimal changes and are all close to their 2007 amount. All departmental and agency budget requests were reviewed repeatedly and in detail during initial budget meetings with the Coordinator and at County Board meetings this summer and fall. Some requests needed to be reduced to arrive at the current preliminary figure. If all departmental and agency requests were from 2008 taxes it would have required a 20%+ levy increase.

SUMMARY:

Overall, the 2008 preliminary budget (estimated expenditures) is very similar to 2007(\$25,134,381/2007>\$25,198,296/2008). This budget, however, was adopted in September when it appeared more likely that the County would proceed with a new building in 2008. For that reason it contains the same CIP projects spending as 2007 (\$4.6M). This amount will be removed if the Board decides against building in 2008. The final 2008 budget, to be adopted on December 18th, 2007, will likely be decreased from the September preliminary amount.

The budget is based on a levy of \$10,101,975, which is 10.9% above the 2007 levy of \$9,102,157. The primary factor in this increase is \$600K in new County funding for Road/Bridge needs. Other issues concern the continued reduced level of state and federal aids, classification/compensation study costs, jail facility needs and various new positions. It should be noted that the County's 2007 tax capacity (used for payable 2008 taxes) is \$17,910,347, 6.8% above the 2006 level.

Proposing and enacting tax increases is never easy or popular. Higher taxes affect all County citizens. At the same time, counties need sufficient funding to carry out their responsibilities. Considering the needs identified for 2008, the proposed levy is appropriate. The county budget depends increasingly 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 is dependent on local tax dollars. There is no reason to think that this trend will change.

The 10.9% preliminary levy cannot be increased, but it may be reduced prior to final adoption. The 2008 preliminary budget and levy were based on the best estimate of next year's financial needs at the time. During the fall, the budget has been reviewed in detail at regular county board meetings. Final Board adoption of the 2008 budget, including each department or agency amount, is scheduled for December 18th, 2007. Ultimately, the 2008 tax levy will be the smallest amount the Board finds necessary to fund identified needs and maintain financial stability.

As always, 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. The process is ongoing from May until December, and their assistance was crucial and is deeply appreciated.

BMB:mlw

2008 PRELIMINARY BUDGET
WASECA COUNTY
Summary by Fund

FUND	EXPENDITURES	NON-LEVY REVENUE	NET TAX LEVY
General Revenue	9,575,484	3,975,445	5,600,039
Building	75,000	0	75,000
Road & Bridge/Parks	4,963,010	2,654,041	2,308,969
Human Services	4,581,902	3,185,428	1,396,474
Library	226,439	0	226,439
Waste Management	601,407	601,407	0
Debt Service	495,054	0	495,054
CIP Projects	4,600,000	4,600,000	0
Ditch	80,000	80,000	0
Total	25,198,296	15,096,321	10,101,975
% Change	+0.3%	-5.8%	+10.9 %

PRELIMINARY LEVY INCREASE SURVEY

*Prepared by the Minnesota Valley Council of Governments
September 2007*

COUNTY	2008 PRELIMINARY LEVY INCREASE
Blue Earth	11.0%
Brown	10.0%
Faribault	6.9%
Le Sueur	4.2%
Martin	9.2%
Nicollet	9.8%
Rice	7.9%
Sibley	4.2%
Waseca	10.9%
Watonwan	9.5%

MAJOR FUND BALANCE TRENDS

(investments and cash, in thousands of \$)

FUND	12/04	6/05	12/05	6/06	12/06	6/07	2008 PRELIM BUDGET	6/07 \$\$ AS% OF BUDGET
General Revenue	4,388	3,931	4,617	4,334	5,189	4,513	9,575	47%
Road/Bridge/ Parks	1,533	2,493	1,495	3,130	1,169	744	4,963	15%
Human Services	3,117	2,732	3,073	2,977	3,193	3,542	4,582	77%
Waste Management	1,290	1,224	1,215	1,115	1,113	1,181	601	196%