



December 4, 2008

TO: Waseca County Citizens and Board of Commissioners

FR: Bruce M. Boyce, County Coordinator

RE: 2009 Waseca County Preliminary Budget Overview

This evening the Waseca County Board of Commissioners is holding a public hearing concerning its proposed 2009 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 16th, 2008, County Board meeting.

Per state law, Waseca County's 2009 preliminary budget and tax levy were established on September 9, 2008. 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 2009 preliminary budget equals **\$22,566,705**, up from the 2008 amount of **\$20,611,437**.

The budget was prepared based on a preliminary levy of **\$10,451,640**, a **5.4%** rise over the preceding year's levy of **\$9,912,249**.

Historically, Waseca County has been conservative concerning property tax increases. Over the past 10 years, the County 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 many previous years, the legislature imposed strict limitations on most aspects of county tax levies. Between 2004 and 2008, however, there was no maximum levy limit set by the legislature. For 2009, levy limits have been restored. Most areas of the budget are restricted to an overall levy increase of no more than 3.9%, according to the levy limit formula. Certain budget items, however, are considered "special" levies and are exempt

from this limitation if approved by the Department of Revenue. Some examples include: bond payments, matching funds for state/federal grants, economic development tax abatements, jail operations, and law enforcement salaries and benefits.

After review of Waseca County's proposed special levies, the Department has determined that **the total 2009 property tax levy cannot exceed \$10,412,677 or 5.0%** - meaning that the 5.4% preliminary levy certified in September will need to be reduced by at least \$38,963. In any case, the County's goal is always to bring the total levy down to the minimum necessary amount. Levy limits have made this difficult.

Some of the prominent budget issues for 2009 include:

- the prospect of reduced state funding due to an upcoming budget deficit
- major increases in health insurance premium costs
- planned implementation of a classification/compensation study for all positions
- funding for road/bridge construction, maintenance, and equipment needs
- new lease costs for Human Services/Public Health Services offices
- significant cuts in Federal funding to Human Services, and
- new position requests.

These and other key factors are noted in this summary.

The County Board Has Limited Authority Over the Tax Levy:

In recent years, prior to the resumption of levy limits, the County Board has had sole authority to determine the County tax levy. The state has now substantially restricted that authority. Nonetheless, setting the budget and tax levy is still the major policy decision made by the Board each year. It is the process of finding the amount necessary to fund identified needs and maintain financial stability while keeping taxes at the lowest possible level.

Lower State Aid Means Increased Reliance on County Taxes:

State funding to counties is less than it was 5 years ago. County Program Aid (the primary state aid received by the County) is budgeted at \$1,108,000 and has increased substantially from 2008 to 2009. Still, this is more than \$150K below the amount certified back in 2003. As a result the county budget depends increasingly on local tax revenue.

The state has announced that it is facing a major budget deficit in 2009. This makes it probable that County Program Aid will again be cut in the middle of our budget year. The County will then be faced with reducing its budget or relying on fund balances to make up the difference. Some of the expenditures proposed in the 2009 preliminary budget may be suspended and/or eliminated, depending on the severity of budget cuts.

Personnel Costs Make Up About 40% of the County Budget:

- State law enables public employees to join labor unions, and about 75% of Waseca County's labor force is covered by union contracts. All 4 labor contracts are settled for 2007-2009, including recent changes to 2009 insurance provisions. The budget

has been prepared according to contract terms agreed to in 2007 which call for 3% increases in union wages and similar adjustments for non-union 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. This will happen primarily through renegotiation of labor agreements. \$200K is included for implementing the classification/compensation study in 2009, in addition to earlier budgeted amounts.

The current labor contracts contain wage re-openers which could make adjustments retroactive to 2008. At this point exact costs of implementation are uncertain, though it is likely that this will be phased in over a period of years depending on the overall cost and number of positions affected.

- Health insurance premiums rose by 19.4% for 2009, reflecting extremely high claims experience during 2007. In past years, the County's premium contribution for individual employee coverage was based on 100% of the costs for the lowest deductible available. In 2009, this formula has been scaled back. Cost-sharing for family coverage has always been in effect and will continue, with employees paying significant cost increases for family insurance. Further, \$200 deductible coverage has now been eliminated in favor of \$500 deductible coverage.
- The County is also offering 2 VEBA (voluntary employee beneficiary account) insurance plans in addition to traditional coverage. These involve 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. Many employees have converted to VEBA coverage for 2009.
- On the whole, worker's compensation premiums are about equal to 2008.
- The budget includes 2 new positions requested for 2009, which are noted below.
- Based on probable budget difficulties, all position openings, whether for new or existing positions, are being studied carefully to determine whether they need to be filled. Filling vacancies may be delayed, or they may be left unfilled.
- The County VLWOP (leave without pay) policy continues. Over the past 5 years this has resulted in savings estimated at over \$60K.

Departmental Activities Have Significant Budget Impacts:

Information Technology:

- Information Technology expense is down slightly (\$447K/2008 > \$439K/2009) based on staffing revisions and less cost for technology services.
- 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. Beyond this amount, GIS costs are funded with \$50K annual fee revenue from the Recorder's Office, dedicated to technology upgrades. A separate department has been established to track GIS costs and funding sources.

Central Services (Miscellaneous Expenses and Revenue):

- The MCIT dividend is about the same as last year (95,872/2008 > \$94,317/2009).
- Property/liability insurance premiums are down about \$5K.
- Interest earnings are projected to increase to \$450K based on long-term investments in certificates of deposit.
- No new funds are included for the County share of the Gaiter Lake diversion project, which will result in improved water quality for Clear Lake. A total of \$225 K was budgeted in 2006, 2007 and 2008.

Elections:

- Although the County holds elections every other year, each annual budget now includes the ongoing costs of software maintenance (\$11K).

Coordinator:

- The budget contains a Personnel Administration position to assist in recruiting, interviewing, safety, benefits, pay equity and other related duties as needed. This would provide more specialization for these duties, which are often in conflict with other time demands. Total costs for the position equal ~\$70K.

Attorney:

- In addition to other court-related costs (for example, commitment of convicted sex offenders) the budget allows added funds for expenses of the trial of Michael Zabawa, which is scheduled for February 2009. This might include forensic studies, expert witnesses, and attorney lodging and transport costs. \$65K is included for costs involved in court proceedings.
- County Attorney staffing includes 7 full-time employees: 4 attorneys, a paralegal position, and 2 clerical positions.
- The Attorney's Office provides prosecution services on a contract basis for the cities in Waseca County. Based on turnover in an attorney position, no increase in contract revenue is proposed. Over the past several years, this service has saved 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 increased from \$75K to \$100K. This fund is used for major repairs and remodeling, and the current fund balance is ~\$153K which is down by about \$50K from a year ago at this time. During 2008, the fund has been used for significant maintenance and improvements in the county jail. In 2009, building fund expense might include demolition or alteration of the former Human Services building, as well as remodeling in the East Annex to accommodate relocation of the Information Technology Department.
- Utilities are, as usual, a substantial budget item. To minimize these costs, the County has installed more energy-efficient cooling systems in the Courthouse and jail and participates in the City of Waseca's load management program. Weather

permitting, the boiler system is shut off on weekends. Light fixtures are replaced with energy-efficient bulbs and ballasts on an ongoing basis. The table below summarizes these expenses:

ELECTRICITY

NATURAL GAS/LP

BUILDING	07 Actual	08 Budget	11/08 YTD	09 Budget	07 Actual	08 Budget	11/08 YTD	09 Budget
Courthouse	32238	29000	28429	32000	12219	14000	13467	16000
LEC	20693	20000	19168	22000	11507	12000	9672	14000
Human Services	9038	9000	8537	0	2652	2600	2306	0
East Annex	5241	5500	5830	6000	2173	3000	2145	2500
Public Health	5632	4500	5738	6000	4459	5000	3863	5000
Highway	20122	23000	17540	23000	33082	24000	17225	26000
Solid Waste	8043	7700	7200	8700	2429	7000	3844	7000
TOTAL:	101007	98700	92442	97700	68521	67600	52522	70500

- The budget does not anticipate 2009 utility costs for the former Human Services building, although there has been discussion of short-term conversion of the space for storage. Utility costs for the new Human Services and Public Health Services offices are included in their lease, and it is expected that the former Public Health building will be used by Extension.
- Since Human Services has moved the County will no longer receive rental payments for the former office space. This represents a \$47K revenue loss. Human Services will, however, reimburse the costs of a custodial position.

Coroner:

- Per recent changes on state law the Ramsey County Medical Examiner’s Office will perform formal coroner functions while the majority of the actual work is done by a trained nurse, designated as a Deputy Coroner. The Examiner’s fees have risen. With this costlier arrangement the budget has risen from \$15K to \$25K.

Planning/Zoning:

- Based on increased office workload and the possible addition of water plan implementation, septic and ditch inspection functions, a second Technician position is included in the budget at a total cost increase of ~\$70K. As the comprehensive land use plan and water plans have been completed in 2008 costs for consultant services have largely been removed from the budget.

Sheriff:

- Staffing levels are always a concern for the Sheriff’s Office. 2 new Dispatchers and 2 new Deputies were requested for 2009. These are not included in the preliminary budget. New Deputy positions were added in 2007 and again in 2008. The most recent increase in Dispatcher/Jailer staffing was in 2005.
- The Sheriff requested special 2009 salary increases for supervisory positions in the office which were over and above the 3% planned for the supervisory pay scale. The

budget contains the amount requested by the Sheriff for his own position pending the outcome of his current salary appeal.

- \$50K is included for implementation of salary adjustments based on the classification/compensation study. Including this amount in the Sheriff's budget makes it exempt from levy limits.
- Overtime costs have increased from \$120K to \$150K, based on the current pattern of expense and expected overtime for the Zabawa trial.
- Costs for board of prisoners are budgeted \$25K above 2008 (\$150K/2008>\$175K/2009) related to the Zabawa trial being held outside Waseca County.
- Gasoline costs are up \$20K from 2008.
- Total operating expenses are up by more than \$50K compared to 2008 (\$480,200>\$531,400). The total cost of law enforcement supplies, jail and medical supplies and small equipment expenses equals \$108K.
- The budget plans for replacement of two patrol vehicles at a total of \$46K.
- Capital outlay includes \$25K for an improved records system.
- Income from administrative fines adopted by the County has proven valuable and totals more than \$12K year to date. These fines permit the County to keep revenue which would otherwise be submitted to the state.

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 object of the new positions is to provide comprehensive client care using teams of physicians, nurses and social workers. However, initial plans to expand staffing beyond the present level have been placed on hold due to shortages of SCHA funding.
- Earlier in 2008, Public Health Services was working in cramped offices at the County Fairgrounds, including a temporary trailer. In November they moved into leased space at the former EF Johnson Building, which provides a much better facility for both clients and employees. The cost of leasing this new space is \$10/square foot/year, or \$71,050. This is a new expense in the Public health budget.
- Due mainly to the decline in SCHA revenue and the lease costs the required levy for PHS is up significantly (~\$17K/2008>~\$242K/2009) even after maximizing revenue estimates for grants and fees. However, the tax levy is still a relatively small portion of the ~\$1.345M total PHS budget.

County-Funded Agencies:

- The budget generally maintains the current appropriations to these organizations, which are not operated by the County but rely heavily on County funding. They include:
 - County Historical Society
 - Farmamerica

- Tourism Advisory Committee
 - Waseca Arts Council
 - Cannon River Watershed Partnership
 - Soil and Water Conservation District
 - County Agricultural Society (Fair Board)
 - Small Business Development Center
 - Southern Minnesota Initiative Foundation
 - Waseca-LeSueur Regional Library
- The Soil and Water Conservation District has requested a special funding increase for the salary of a 2nd Technician position, which is \$40,540 above their 2008 allocation. However, some of this salary cost can be reduced through a grant that the District has obtained.
 - The Library's budget request is up 4.4% based on the state-required "maintenance of effort" amount. This amount, as well as the library assessments for the City of Waseca and LeSueur County, was adopted by the Library Joint Powers Board after extensive discussion.

Economic Development:

- The budget includes no appropriation to the county revolving loan fund. After recent outlay for loans, and expenses to Springsted and Associates for work on the Janesville ethanol plant, the fund balance still stands at ~\$99K.
- Funds for ED appropriations to New Richland, Waldorf and Janesville, are included at \$12K total as in years past. These funds are used for housing development and economic development loans in these cities.
- The levy for six economic development tax abatements is down slightly (\$79,043/2008 > \$72,682/2009). A previous abatement to Delta Truck Body has now expired, while a new abatement to The Willows restaurant is beginning. The net total declines. Five of the six abatements have been done in conjunction with the City of Waseca, while The Willows abatement is a partnership with the City of New Richland. Economic development tax abatements reimburse tax increases resulting from business startup and expansion for a limited time period. No abatement has been approved for the Janesville ethanol plant.

HRA:

- The ongoing Amberfield Place settlement expense rises by 2% (\$73,475/2008 > \$74,945/2009).

Road/Bridge/Parks:

- In recent years the Road/Bridge levy has grown rapidly (\$1,058,270/2004 > \$1,659,145/2005 > \$1,720,193/2006 > \$1,708,938/2007 > \$2,308,969/2008), largely to meet road construction and upkeep needs in the absence of new State gas tax funding.
- Apart from the General Revenue, the Road/Bridge levy is the largest of any Waseca County fund.
- Unlike many years, the road construction budget is based almost entirely on the level of state funding available rather than using county funding. \$2.125M in state construction funding is included, based on new gas tax revenues and an advance

appropriation. Possible projects include overlays on CSAH 18 north of Janesville and CR 55 southwest of Janesville, and grading on CSAH 3 south of TH 30. Mill Street in Janesville/Janesville Township is the only project planned with county funding. County funding for road construction will be limited in the next few years due to state levy restrictions.

- The budget includes large increases for bituminous (\$225K>\$275K) and aggregate (\$135K>\$145K) 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.
- Fuel expenses are up dramatically from 2008 (gas: \$205K>\$350K, diesel: \$170K>\$340K). Estimates were prepared in mid-summer when gas and diesel costs were at their peak. Recent price declines are encouraging and may offer some room to reduce the 2009 amounts, but this is likely not a long-term trend.
- The budget allows \$174K for equipment costs, down from \$318K in 2008. This would likely be used for a new tandem truck.
- In 2007, the County share of the construction of Clear Lake Drive was funded with state aid road bonds rather than the tax levy. Though construction costs were far less than expected, related expense for right-of-way acquisition and engineering services exceeded estimates. This has placed a severe strain on Road/Bridge fund balances. Part of this problem was addressed through transfers to Road/Bridge, which are being repaid. This repayment is included in the 2009 budget.
- The debt service for the bond issued for last year's Clear Lake project is also included in the 2009 Road/Bridge budget. Debt service on a prior bond issue for the Road/Bridge building was retired in 2008, freeing up state aid construction funds.

Human Services:

- The Human Service levy is increased (\$1,396,374/2008>\$1,552,001/2009) based on a number of factors:
 - A reduction of \$103K in Federal revenue for targeted case management and child support
 - \$25K in increased costs for Adult Day Training and Habilitation services to developmentally disabled
 - Increased rental expenses for new office space
- Due to the decline in revenue from SCHA, a Social Worker position is being shared with Public Health Services, rather than both departments filling the vacancy full-time.
- Mandatory out-of-home placement costs have been estimated according to recent trends and are down by 30K (756K/2008>726K/2009). 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 under budget in 2008.
- Funding for the family collaborative program has decreased to a minimal level (107.5K/2008>\$50K/2009).
- By using \$75K of fund balance the Human Services levy has been contained to the minimum amount possible. Although it is up by \$156K in 2009, this follows a \$28K decline in 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 2 skid loaders.

Debt Service/ Capital Improvement Plan:

- 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. Because of this annual debt service costs are dropping slowly (\$514,916/2007 > \$495,054/2008 > \$488,492/2009). The lower debt service levies will continue until the bond issue is retired in 2015.
- The Board considered the prospect of issuing additional CIP bonds, mainly to finance road construction. This would have been a special levy, exempt from limits. Ultimately, however, new debt service was not included in the 2009 budget.

County Program Aid:

- In 2003, 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). Based on past history and the looming state budget deficit, it is unlikely that the County will receive the full amount certified for 2009 (\$1,108,000). If CPA is again reduced from the certified level the county will need to again consider varied cost cutting moves, use of fund balances and/or future property tax increases in order to make up the difference.

Further Notes:

- Departmental budgets not cited above show minimal changes and are all close to their 2008 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.
- Many requests needed to be reduced to arrive at the current preliminary figure. If all departmental and agency requests were included in the 2009 budget it would have required a 20%+ levy increase.
- It should be noted that the County's 2008 tax capacity (used for payable 2009 taxes) is \$18,625,896, 4.0% above the 2007 level. This is a slower rate of growth than in recent years.

SUMMARY:

Overall, the 2009 preliminary budget (estimated expenditures) has increased to **\$22,566,705** from the 2008 amount of **\$20,611,437**. About 46% of this budget would come from property taxes with the preliminary levy at **\$10,451,640**. As stated, this is a **5.4%** rise over the preceding year's levy of **\$9,912,249**. The levy will need to be reduced to **\$10,412,677** due to state limits; this will equal a **5.0%** increase. Primary factors in the

budget include insurance costs, classification/compensation study implementation, road/bridge needs and revenue losses and cost increases in Human Services.

The 2009 budget will be adopted on December 16th, 2008, but it will likely need to be reduced further in the new year based on expected cuts in state funding. In a sense, it is uncertain when the 2009 budget will be "final". Board and department head decisions about spending will need to be very cautious until the amount of the reduction is clear.

Higher taxes affect all County citizens, especially in difficult economic times. At the same time, counties need sufficient funding to carry out their responsibilities. Considering the needs identified for 2009, 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 with the probable losses in state funding. The levy amount offers little safeguard against these cuts.

During the fall, the budget has been reviewed in detail at regular county board meetings and work sessions. The 5.4% preliminary levy still must be reduced to 5.0% prior to final adoption. The 2009 preliminary budget and levy were based on the best available estimates of next year's financial needs. These assumptions may very well change as the 2009 budget situation evolves. When adopted on December 16th, the 2009 tax levy will be the smallest amount the Board finds necessary to fund identified needs and still maintain financial stability.

I would like to express my thanks to the Board of Commissioners, County department heads, Coordinator's and Information Technology staff, employees and agency representatives for their role in helping prepare this budget. The process has been ongoing from May until December, and it will continue into 2009. The assistance and cooperation of everyone involved is crucial and is deeply appreciated.

BMB:mlw

2009 PRELIMINARY BUDGET WASECA COUNTY

Adopted 9/9/08

FUND	EXPENDITURES	NON-LEVY REVENUE	NET TAX LEVY
GENERAL REVENUE	10,235,455	4,543,620	5,691,835
BUILDING	100,000	0	100,000
ROAD & BRIDGE/PARKS	5,882,274	3,499,592	2,382,682
HUMAN SERVICES	4,871,254	3,319,253	1,552,001
LIBRARY	236,630	0	236,630
WASTE MANAGEMENT	652,600	652,600	0
DEBT SERVICE	488,492	0	488,492
DITCH	100,000	100,000	0
TOTAL	22,566,705	12,115,065	10,451,640

PRELIMINARY LEVY INCREASES

*Area Counties
as of September/October 2008*

COUNTY	2009 PRELIMINARY LEVY INCREASE
Blue Earth	7.6%
Brown	6.2%
Faribault	7.6%
Le Sueur	6.2%
Martin	7.0%
McLeod	5.0%
Nicollet	7.0%
Rice	7.9%
Sibley	4.5%
Waseca	5.4%
Watonwan	4.6%
Average	6.3%

MAJOR FUND BALANCE TRENDS

(investments and cash, in thousands of \$)

FUND	12/05	6/06	12/06	6/07	12/07	6/08	11/08*	2009 PRELIM BUDGET	6/08 \$\$ AS% OF BUDGET
General Revenue	4,617	4,334	5,189	4,513	4,577	3,976	2,221	10,235	39%
Road/Bridge/ Parks	1,495	3,130	1,169	744	1,606	2,261	376	5,882	38%
Human Services	3,073	2,977	3,193	3,542	3,176	3,024	2,841	4,871	62%
Waste Management	1,215	1,115	1,113	1,181	1,259	1,239	1,229	653	190%

* prior to 2nd half 2008 property tax settlement