

October 8, 2009
Honorable Chair, Vice Chair, and Members
Rock County Board of Supervisors

Several years ago around the time we were preparing the County budget, staff from the Public Health Department gave me a hat with a stuffed rabbit in it, along with encouragement to pull the rabbit out my hat whenever difficult budget situations arose.

In some ways, this has been an appropriate analogy for the County budget. With declining State revenue and a worsening economy, it has been increasingly difficult to make the budget balance without hoping for some magic to help solve the problem. Although we've gotten a good laugh from this rabbit and hat that now sit in my office, the challenges we have been faced with—and will continue to be faced with for at least the next several years—are no laughing matter to the citizens who rely on County services.

Furthermore, this simple joke about how to fix the County's budget crisis raises an important but subtle point. We often look at the set of issues that we need to address in the budget each year as being "solved" by the time the County Board adopts the budget in November. To me, the word "solved" implies that the problem has gone away. In the current environment of governmental budgeting, however, it's more appropriate to say that we've simply made the best decisions we can based on the decisions we've made in the past and the decisions we think we'll need to make in the future. In this way, we aren't really solving problems, but rather we are just better positioning ourselves to deal with the issues that we know will arise next year and beyond.

With that in mind, I began the 2010 Budget process with three main goals:

- 1) *Maintain the County's financial integrity.* Over the last several years, we have used applications from the General Fund, including \$700,000 in 2009, to fill budgetary shortfalls. The Finance Committee has established a policy requiring that the amount of funds in the County's General Fund be maintained at a minimum level, consistent with sound financial practices. The amount in the General Fund has now fallen to the lower end of this level and in order to protect the County's financial position it should not be tapped in 2010.
- 2) *Maintain service levels during this time of need.* Caseloads in the Human Services Department have risen to unprecedented levels, particularly in the Economic Support Division. We are beginning to see it in other areas of Human Services as well, such as mental health, alcohol and other drug abuse and child protection. The County has a legal, and some would say moral, obligation to do the best it can to provide services for our citizens during this time of great need.
- 3) *Position the County to address issues in 2011 and beyond.* If the 2010 Budget could truly "solve" the problems we face, making decisions on how to expend the available resources would be much easier. However, the problems that we face in 2010 will not be gone by the time you consider the 2011 Budget. In fact, the recently passed State budget includes more aid reductions and cost shifts that won't go into effect until 2011. Given this and the state of the economy, I would speculate that 2011 may be an even tougher budget year than 2010.

As you can tell, the goals I had in crafting the Recommended Budget are rooted not so much in focusing on solving one year's problems but in placing 2010 in the context of what happened in 2009 and before as well as positioning the County to handle what may happen in 2011 and beyond.

Last year when I presented the 2009 Budget, I spoke of the economic crisis that was affecting families and businesses in Rock County, and how the demand for County services would be increasing. As anticipated, the economy has worsened, caseloads have increased, and revenues have fallen. We were able to manage these changes in the 2009 Budget through a number of measures, including reducing expenses, operating more efficiently, and applying revenue from the General Fund and sales tax to cover operational costs.

What we could not predict at that time was the magnitude of these changes. The most recent figures show unemployment in Rock County at 12%, up from 6.5% at this point a year ago. The interest rate we receive on funds held in the Local Government Investment Pool fell from a high of 4.07% in January 2008 to the current rate of 0.27%. Home foreclosures in 2009 have been up by 46% as compared to the prior year. The equalized value of property in Rock County decreased for only the second time in the last 50 years. The amount of delinquent taxes is up by 20% over the past year. An unanticipated level of State budget cuts during this time of increasing need have also hit the County hard.

Although we all knew that 2009 was a very difficult budget year, the magnitude of continuing changes to the economic climate has made the 2010 Budget the most difficult budget I have faced. I hope this isn't news to you, as over the course of 2009 I've met with the County Board, employees, the media, our legislative delegation, and anyone else who would listen regarding the County's grim budget situation. During these discussions, I've highlighted some areas in which the County faced decreasing revenues and increasing expenditures. Given that these figures have provided the context for the 2010 Budget throughout its preparation, I thought it made sense to update you on how these figures have changed. The major items are as follows:

\$1,800,000	State Budget Cuts
\$1,500,000	Inflationary Cost Increases (at a rate of 2%)
\$ 967,500	Reduced Revenue from Interest on Investments
\$ 700,385	General Fund Application Unavailable
\$ 600,000	Increased Health Insurance Costs
<u>\$ 450,000</u>	Increased Contribution to Wisconsin Retirement System
\$6,017,885	Total Budget Gap

Based on these figures, we began preparations for the 2010 Budget facing a budget gap of more than \$6,000,000, which is even higher than the figure we had been discussing over the summer. Keep in mind that this figure does not include the cost of increasing wage rates. In fact, the Recommended Budget assumes no increase in salary or wage rates in 2010. Closing this budget gap is the challenge we face prior to November 10th, when the County Board will adopt the 2010 Budget. Let me describe for you how the Recommended Budget addresses this.

First, I would like to thank the department heads and staff who rose to the challenge and were able to present cost savings measures that reduced the budget gap. I would particularly like to

thank employees who came up with some creative ideas for saving money and operating more efficiently. We've included many of those ideas in the Budget, including such things as reducing the cost of the cleaning contract at the Job Center, transitioning from desktop computers to laptops in some units so staff can use their time more efficiently, and modifying the intake process for clients who need Economic Support services. I am encouraging department heads to make sure that those ideas that aren't reflected in the 2010 Budget continue to be given consideration. Although it is difficult to quantify a dollar savings for these efforts as a whole, they were the first step in reducing costs.

Second, the recently adopted State Budget extended levy limits on local governments, although at a basic level allowing a 3% increase in the property tax levy for operational expenditures rather than the 2% increase that was allowed for the 2009 Budget. This base level allowable increase is modified by excluding levies for County Bridge Aids, the Library System, and debt service, resulting in the ability to raise the levy by an estimated 3.66%. The State Budget also contained a provision which would allow any unused capacity from the 2007 levy (for 2008 operations) to roll forward and be available to use in the 2009 levy (for 2010 operations). Although we've not yet received the information from the State to be able to calculate this levy limit, Mr. Smith has estimated that new provision would allow for up to an 8.13% increase in the tax levy. Given the balance I am attempting to strike between tax levy increases and maintaining service levels, I feel that adhering to the base level allowable increase of 3.66% is a prudent figure to use. This would generate an additional \$2,013,955 in revenue for 2010 operations.

Third, as you know, the County Sales Tax was adopted as part of the 2007 Budget and became effective April 1, 2007. The 2009 Budget projected that \$10,000,000 would be collected in 2009 and allocated as follows:

\$ 6,013,184	Operational Costs
<u>\$ 3,986,816</u>	Jail/Health Care Center Complex Project
\$10,000,000	

Given the slowdown in the economy, our current projection of 2009 sales tax collections is \$9,500,000, with \$3,486,816 of this amount being credited to the Jail/Health Care Center Complex Project account.

The University of Wisconsin Extension provides projections of county sales tax proceeds by county on an annual basis and projects that Rock County should realize \$9,462,657 in sales tax proceeds in 2010. Because UW Extension's 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 \$8,800,000 in sales tax revenue in the 2010 Budget to be used as follows:

\$7,166,435	Operational Costs
<u>\$1,633,565</u>	Capital Expenditures
\$8,800,000	

The amount recommended to be used for operational costs is \$1,153,251 more than the amount used for operational costs in 2009. The amount designated for capital expenditures is for a

variety of construction projects and equipment I would otherwise recommend be funded through deferred financing.

As I indicated to you over the summer, there are numerous ways to get from where we are to where we need to be, as a combination of tax levy, sales tax revenue, and cost decreases can be used at various levels to get to the same result. My recommendation simply represents my best judgment for balancing the desires to limit the increase in the tax levy during difficult economic times, limit the use of the sales tax for operations, and limit reductions to services when those services are needed the most.

As I have noted, nowhere do those increasing needs for service manifest themselves more than in the County's Economic Support operation. Anticipating increased caseloads, the 2009 Budget authorized two additional positions in Economic Support as well as the transfer of an Administrative Assistant. Unfortunately, caseloads have increased at a greater rate than we have ever experienced. So far in 2009, the unduplicated caseload for Economic Support programs is 15,776, an increase of 1,958 cases or 14% over the average 2008 caseload. I feel we have an obligation to provide timely and accurate services for our citizens while they are in need. Therefore, based on this increase—which is only likely to grow once unemployment and sub-pay benefits end for more of our citizens—I am recommending two additional Economic Support Specialist positions be authorized in 2010.

I should note that despite the hardships staff in Economic Support are facing, Rock County was the only large County in the State to be offered the ability to continue operating the W-2 program without competing for that right, which is due to the excellent work staff do in running the program. The Economic Support Division also received an award earlier this year for its low error rate in calculating benefits under the FoodShare program.

I should also pause here to thank County staff throughout the organization who have been performing well under difficult circumstances. For example, during a recent "Quality Service Review" by the State, the Child Protective Services Division received a score of 92% on "case practice," which is the highest score any County has received on that criterion since those reviews began several years ago. Staff at the Health Department continue to work diligently to plan for and deal with the effects of the H1N1 virus. The Planning Department recently completed the County's "Smart Growth" Comprehensive Plan. The Communications Center was recently re-accredited through the Commission on Accreditation of Law Enforcement Agencies for the third time and has been designated as one of only a handful of "flagship" (or model) communication centers nationally. The Sheriff's Office continues to successfully operate the diversion programs which eliminate the expense of housing offenders in other counties' jails. The Criminal Justice Coordinating Council, and all the agencies and staff represented on that body, continue to develop creative ways of providing services to clients, including the \$200,000 grant the County recently received to provide drug treatment and mental health services.

I don't provide these examples to be an exhaustive list of all the good things that are going on in the County, but rather just as a reminder that despite all the bad news, County staff continue to provide quality service.

Other Points of Interest

In addition to the items I have already discussed, a number of other changes affecting County operations for 2010 merit further discussion. These include the following:

- 1) As noted, the recently adopted State Budget has either cut funding or shifted costs from the State to the County in an amount of approximately \$1.8 million. This is particularly painful as it follows about 15 years during which the State has basically frozen funding for the State programs it requires the County to provide.
- 2) The Human Services Department is having to absorb approximately \$930,000 of the \$1.8 million in State cuts and cost shifting. This is the primary reason the tax levy for the Human Services Department is going up \$1,654,861. Also, the demand for services is going up due to high unemployment and the condition of the economy.
- 3) In addition to the State Aid cuts, the State will be delaying the payment of many of the State Aid amounts the County will be receiving. For example, traditionally the County receives 1/12 of its Community Aids funding per month. The State Budget allows the payout of only 25% of the funding in the first six months of 2010. This forces the County to use County cash to provide State required services earlier in the year. It will affect the County's cash flow by several million dollars in 2010 and is in essence a mandated no interest loan from the County to the State.
- 4) Given the impact the delay the State payments will have on County cash flow, I have recommended that \$1 million of sales tax be used to purchase a portion of the equipment for the Public Works Department. This would typically be funded with County cash and recouped through depreciation, which would take many years. Using sales tax will help the County's cash flow.
- 5) The primary capital project in 2010 will be construction of Phase I of the Jail Project. It is anticipated that Design Development for this project will be completed in October 2009, with approval being given by the County Board to move forward with Construction Documents and bidding. This should allow for awarding the contract and beginning construction in early 2010. It is anticipated that sufficient funding for Phase I will be available from sales tax deposited in the Jail/HCC Complex Project account.
- 6) Over the next several months, the County Board and Committees will need to examine the Rock Haven facility report which was recently released, as well as operational information and questions relative to the nursing home business. A decision will then need to be made as to whether or not to proceed with renovating or replacing Rock Haven. If the County Board decides to proceed with a nursing home project, funds will be necessary for architectural work. Therefore, I have included \$690,000 in the 2010 Budget offset with deferred financing. This would enable the Board to proceed with schematic design and design development should the Board so choose. We would borrow the \$690,000 only if the Board chooses to proceed.
- 7) The 2010 expenditure budget is \$170,843,159, which is an increase of \$986,608 or 0.58%.

- 8) The Recommended Budget includes a tax levy of \$57,040,055. This is an increase of \$2,013,955 or 3.66%. The recommended tax rate is \$5.65 per thousand, which is an increase of 27¢ per thousand or 5.04%.
- 9) Personnel actions recommended in the Budget result in a net decrease of 11.2 full-time equivalent positions. In 2000, Rock County had 1,439.2 full-time equivalent positions. The 2010 recommended personnel roster includes 1,172.3 positions. Since 2000, Rock County will have reduced its workforce by 266.9 positions.
- 10) Outstanding debt at the end of 2009 will total \$13,475,000. This is the lowest total since 1984.

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 2	County Administrator’s Review and Explanation of the Budget with Questions from the Board
6:00 P.M.	Wednesday, November 4	Public Hearing on the Budget
9:00 A.M.	Tuesday, November 10	Statutory Annual Meeting and Budget Adoption

Sincerely,

Craig Knutson
County Administrator