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# 2014 ANNUAL REPORT ON THE CONDITION OF POLK COUNTY

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DANA FREY, COUNTY ADMINISTRATOR  
JULY 2014

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## LETTER OF TRANSMITTAL

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July 15, 2014

Polk County Board of Supervisors  
100 Polk County Plaza  
Balsam Lake, Wisconsin, 54810

Honorable Chair Johnson and Supervisors:

Pursuant to Wisconsin Statutes Section 59.18, I have the honor of presenting you my fourth annual report on the condition of Polk County as follows in this document.

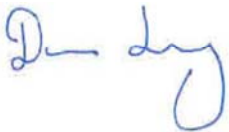
In this report, as in the past, I measured the condition of the County using three dimensions: external economic and demographic conditions, internal fiscal conditions, and management conditions. I am pleased to report that all three are continuing in a positive direction and again show improvement over the prior year.

With respect to the economy, the County is beginning only now to fully recover from the 2007-09 recession. Last year's hoped-for acceleration in employment growth appears to have occurred, and employment rates are close to their pre-recession levels, as is the overall employment rate. Loss of jobs had caused some outmigration, but current estimates are that this will reverse itself. The Wisconsin Department of Administration estimates that over 2,000 people will move into Polk County in the remainder of this decade. Our fiscal position remains solid, and continues to improve as past debt is repaid and fund balances increase.

There continue to be improvements in the management conditions of the County in the past year. Work continues on consolidation of all policies into a comprehensive General Code. The new County website has been launched, with a customer focus that will serve as a direction for the provision of other County services. Succession planning continues to be a priority, and progress has been made in developing contingencies for key positions as well as leadership development. Finally, the 2015 budget proposal will incorporate a reformed classification structure to replace the current Byzantine system.

We will discuss much more of the fiscal outlook as part of the budget process later this summer and fall. In the interim, please advise me if you have any questions.

Respectfully submitted,



Dana W. Frey  
County Administrator

## EXECUTIVE SUMMARY

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Wisconsin Statutes section 59.18 requires a county administrator to annually communicate to the county board the condition of the county. As the administrator is the chief administrative officer of the county and the county board the policy setting body, this would imply that the administrator communicate matters of relevance in policy making, specifically in setting the annual budget and responding to strategic issues such as workforce development and succession, infrastructure improvements, and changing service needs and issues.

The condition of Polk County (“the County”) is measured on three dimensions: the economic and demographic condition, or the context within which the Polk County Board of Supervisors (“the County Board”) must make its decisions and the administrator his recommendations; the fiscal condition, or the current financial status and financial trends affecting the County; and the management condition, or the ability of the administration to effectively implement policy as set by the County Board.

The last recession hit Polk County very hard, and it is only now – five years after it ended - that full economic recovery is beginning to occur. A year ago, this document set out the hope that the robustness of the recovery in the Minneapolis-St. Paul metropolitan area would spur greater employment growth in Polk County (at the time, that area had an unemployment rate of 4.7%, the lowest of any metropolitan area). That hope may have been realized, as preliminary data indicate a significant acceleration of employment in Polk County, perhaps now reaching pre-recessionary levels. However, it may also be that this growth is not broadly shared by County employers, but recent data are not available to either confirm or dismiss this concern. Sales tax collections continue at record levels, indicating the rebound of the retail industry, and it does appear that the real estate market recovery is sustained, although this has yet to be recognized in estimates of the County’s equalized value by the Wisconsin Department of Revenue.

As noted in past reports, the demographics of the County have also been affected by the recession. Both the U.S. Bureau of the Census and the Wisconsin Department of Administration estimate that

★★★★★★★★★★  
*The unassigned fund  
balance remains excellent,  
at about 30 percent of  
expenditures, increasing by  
\$565,000 in 2013.*

★★★★★★★★★★

the County has lost population since the 2010 census due to outmigration, although the latter believes that is largely offset by natural population growth. Longer-term estimates are far more encouraging, in large part because of the growth in the Minneapolis-St. Paul metropolitan area and associated effect on the local economy. The latest estimates from the Wisconsin Department of Administration show an annual increase in the County’s population of between one and one-half and two percent per year, meaning that overall population could well reach 50,000 by the end of this decade. Further, this new population is younger, indicating a return of working-age adults and families.

The financial condition of the County continues to improve as past debt is repaid and fund balances increased. The undesignated General Fund balance remains at about 30 percent of expenditures and the General Fund ended 2013 \$800,000 below budget. Every major fund ended with a positive balance: Golden Age Manor, Human Services, Highway, and Lime Quarry. In addition, with the elimination of the home care program every program that had routinely exceeded its budget is now either eliminated or its budget brought under control.



The management condition of the County continues to improve as well. A key issue remains succession planning: one-third of County employees eligible to retire, including many in management positions. Further, as the labor market improves increased turnover is inevitable; some of these will be key positions. Succession planning, therefore, cannot be limited to just positions where incumbents are eligible for retirement, but must be broader-based. Work has been underway in contingency planning and cross-training, but this will need to remain a priority for management for years to come.

With increasing population also comes increasing demands on County government and services, and also a priority area for management. Polk County has eliminated about 44 positions in the last six years, largely through attrition, but this does mean that most program areas are thinly staffed. As demands increase, it will require that staff meet these demands, but finances will likely not permit a substantial increase in staffing levels. As a result, it will become more important to streamline work procedures and to develop mechanisms that can objectively and independently determine whether there is a need for additional funding.

Citizen or customer focus is also a priority, and one in which some progress has been made in the past year with the rollout of the new County website. Instead of a department orientation (that mirrors the current organization) the new website contains a menu that begins with a “How do I...” pull-down menu: How do I apply for a permit, How do I find a library, How do I pay my taxes, How do I file a small claims court claim, and so on. By realigning service provision around what people want, service delivery can be improved without greatly increasing cost. The direction is to use this approach to reform the provision of all county services.

Work to reform the County’s antiquated job classification system to allow for more opportunity for internal transfers and advancements as well as better linking our compensation system to the labor market continues. Accompanying changes include job descriptions, evaluation systems, and even the basic interview process. All of these changes will be rolled out over the coming year.

With an improved labor market and an aging workforce succession planning becomes an even higher priority. One-third of current employees are eligible to retire, a number that will only grow over the coming years. Although everyone is replaceable, without proper planning these losses can be disruptive and expensive; however, resource limitations do not allow for redundancy that could mitigate these losses and other approaches such as cross-training must substitute.

A final aspect of the management condition of the County is organizational on a broader sense, as discussed last year, and concerns the role of county government in Wisconsin. Largely frozen resources coupled with increased costs will force change eventually; the basic challenge is whether this will be a transition, where the eventual outcome is at least known and planned, or a transformation, where there is no long term planning and the outcome is not known. Polk County is in a transition to a known future: a smaller, more efficient, and more nimble system of governance that provides just the services people want and are willing to pay for.

On balance, it is fair to say that the condition of Polk County continues to improving in every aspect, but serious challenges loom: severely limited revenues, demands on social services for placements, a rapidly aging population, a coming wave of employee retirements, and a yet uncertain future role for local government. The local economy continues to slowly get better, and while the population has stabilized, we expect that growth to soon return. The County’s financial status has improved again, and the County continues to pay off past debt. Finally, the County’s management condition is

also continuing to improve, but much more needs to be done to ensure continued employee retention and the continued ability to attract high quality employees. But, as has been written in all three of these reports, Polk County is in a position most would envy: solid reserves, a foundation of good fiscal practices, an outstanding work force, and a great place to live.

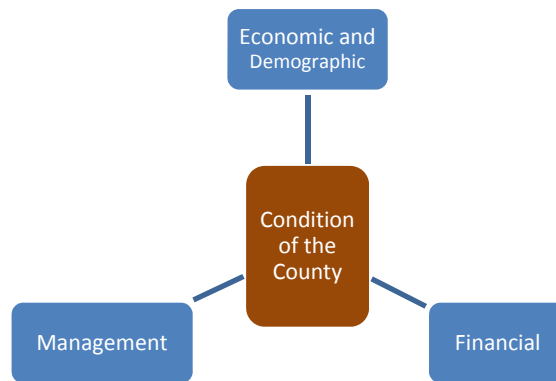
## INTRODUCTION

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Wisconsin Statutes section 59.18 governs the position of county administrator and assigns him or her the responsibility of being the chief administrative officer of the county as well as other duties including preparation, submission, and execution of the annual budget, hiring and supervision of department heads, appointment of committee members, and implementation of federal, state and county laws or policies. That same statute provides that “The county administrator shall annually... communicate to the board the condition of the county.” Through this, the statute also assigns every county administrator the responsibility of advising the board on issues of import to them from the perspective of the administrator’s duties and responsibilities. As the county board is the policy setting body, this would imply that the administrator communicate matters of relevance in policy making. This report is written in fulfillment of that requirement and constitutes this annual communication on the condition of Polk County as required by statute.

From the perspective of the county administrator, a condition of a county is measured on three dimensions: the economic and demographic condition, or the context within which the County Board must make its decisions and the administrator his or her budget recommendations; the fiscal condition, or the current finances and financial trends

affecting the County; and the management condition, or the ability of the administration to effectively implement policy as set by the County Board.



Reports are of little value without applicability. This report is therefore written in the main to provide background information on the context within which the County Board will need to operate in developing and approving the annual budget, or as the macro-fiscal framework used in determination of the resource envelope and running expenditure costs in other systems. In addition, this report is also intended to help identify some of the more significant strategic issues in management that the County Board will need to face in the coming year and beyond: succession planning and workforce turnover, changing service demand, an aging population, severely constrained resources and other external factors. Finally, as the County now may, and certainly must, focus on a longer-term horizon for financial and operational planning, this report also considers longer-term opportunities and threats, some of which will be addressed in the forthcoming budget. This report is therefore intended to complement the strategic planning activities in individual departments.



## Who and what is Polk County?

*Scattered throughout this report are text boxes like this containing facts and figures intended to shed light on the condition of Polk County – who we are as residents, as visitors, as businesses, as government – in a way that helps inform the role and challenges of county government.*



Please note that this report is not intended to be a substitute for annual reports submitted by individual departments to their governing committees, and care has been taken to not repeat information included therein. Longer term plans are to consolidate this report and these annual reports to improve their applicability and value to the County Board and make them a resource for the public. As noted last year, this report is instead intended to provide a view of the County at a more macro, 10,000 foot level; department reports are more detailed – a view from 500 feet. This report does, however, replace any department report for the department of administration.



## THE CONDITION OF THE COUNTY

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The most striking feature of the condition of Polk County is the improvement in the economy over the past year. Although still not back to pre-recessionary levels, and with unemployment/under-employment still a problem, both statistical measures and everyday observations confirm that growth has returned. The County's population appears to have declined slightly since the 2010 census through net outmigration, but that is reversing itself and forecasts are now for reasonable growth through the next two decades. The other dimensions – the County's internal fiscal condition and the County's management or operational condition – also show improvement, but nothing compared to the local economy. Financially, the County remains stable, with reasonable budget reserves at about 30% of General Fund expenditures, high but now declining debt service costs, and no major fiscal issues on the near horizon. Finally, there are no overwhelming management issues, with initiatives in succession planning and modernization of the classification systems underway as well as preparation of a General Code for the County incorporating all present ordinances and policies.

★ ★ ★ ★ ★ ★ ★ ★ ★ ★

Retail trade is back (but small retailers aren't):  
*Although sales have passed pre-recession levels, there are 15% fewer retailers, all small businesses with fewer than 5 employees.*

★ ★ ★ ★ ★ ★ ★ ★ ★ ★

There are of course still challenges: the current economic expansion is (surprisingly) over five years old, and in postwar terms longer than average; health care costs are an issue for the County both directly in employee benefits and jail costs and indirectly in their effect on health and human services programs; the recovery in residential real estate has been bumpy, although still positive; and a growing job market will put pressure on County wages. Financially, the County's revenues remain nearly frozen due to the levy cap, while costs increase. On the management side, the transition to a competitive, fair, and dynamic personnel management system continues to be a daunting task as is the incessant pressure to improve efficiencies to save resources. All of this is occurring within a context of greater demand for services due to an aging and growing population, the consequences of intractable social problems on the county budget, and the lingering effect of the recession.

## ECONOMIC CONDITIONS

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The recent dramatic improvement in the County's economy has been surprising in both timing and magnitude. A year ago, the County's unemployment rate was nearly seven percent, and about 22,000 residents were reported as employed. By May 2014 the rate had fallen to 5.7%, almost to pre-recessionary levels, and nearly 23,000 residents were employed, an increase (May over May) of 3.5%. Sales tax collections are setting all-time records, with collections in the first half of 2014 over eight percent above the first half of 2013. And every day there are reminders of economic improvement in help wanted ads, busy shops, and real estate transactions.

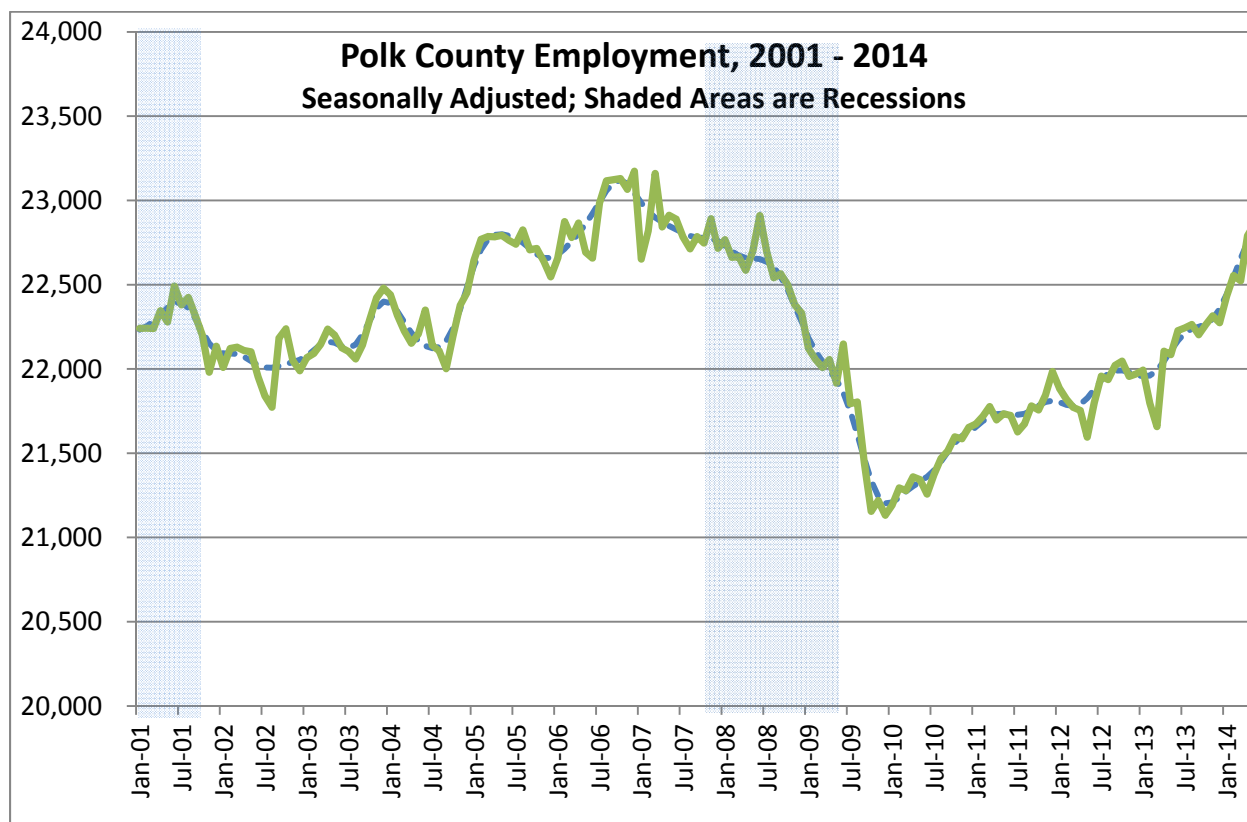
So what happened? A year ago, in this report, it was suggested that the proximity to the Minneapolis-St. Paul metropolitan area could assist in an acceleration in the local economy. At that time, this area had the lowest unemployment rate of any metropolitan area in the country, at 4.7% (May 2013; the May 2014 unemployment rate is 4.0%). Despite the worst winter in memory, a winter so harsh it contributed to a decline in national economic output of nearly three percent in the first quarter of 2014, the resilience in the national economy has been surprising, and economic

growth appears to be back near three percent for the remainder of this year and for 2015. This should be sufficient to push unemployment rates in the region to a level well below those at the start of the last recession.

## EMPLOYMENT

As noted in past reports, measuring employment and unemployment is problematic even at a national level; problems increase exponentially in attempting such measurements at a local level. Nonetheless, and all methodological issues aside, the employment picture continues to improve in Polk County and improve at an accelerating rate. A year ago, it was hypothesized that the Polk County unemployment rate fairly closely tracked the Minneapolis-St. Paul unemployment rate with a slight lag; this relationship appears to have been borne out by the results we have seen in the past year. (Note that these are employment data for County residents; other data discussed below are for County employers.)

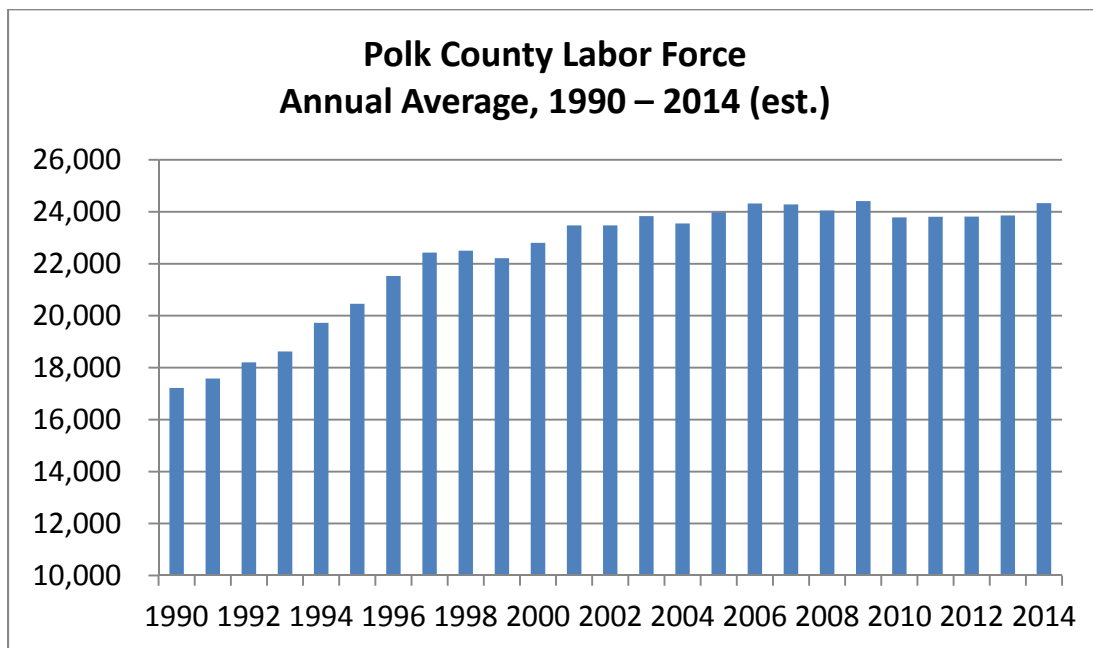
**Figure 1**



Source: Department of Administration calculations from Wisconsin Department of Workforce Development data

As noted, In May, 2014, the County's unemployment rate was 5.7%, down from 6.9% in May, 2013 (and 7.2% in June) and just above the State average of 5.5%.<sup>i</sup> This drop in the unemployment rate occurred despite an increase in the County's labor force, which had been relatively stable since falling by nearly 1,000 early in the recession (Figure 2): had the labor force not increased from May 2013 to May 2014, the County's unemployment rate would have been 3.7%.

*Figure 2*



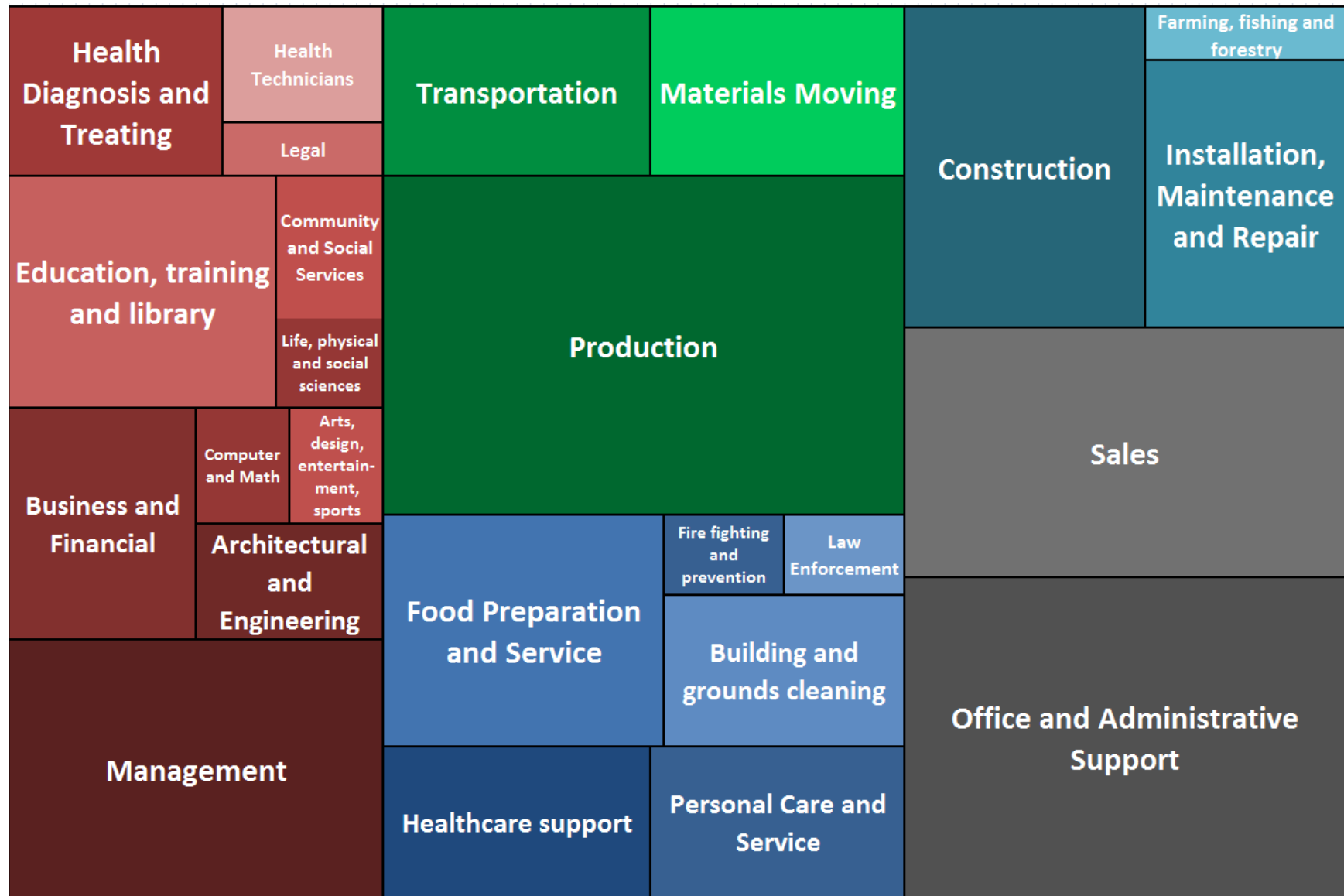
Source: Wisconsin Department of Workforce Development

All of this (generally) good news should be tempered by the effects of ongoing underemployment and lingering long-term unemployment. A number of those working are earning less than before the recession, and those who have been employed for the long term find more difficulty in gaining employment. No data are available on these specifics for Polk County, but it is likely that the same patterns seen elsewhere occur here. That helps explain why poverty, although declining (Figure 4), is still high by historical standards.

Data are also available on where people work and the categories of employees. Figure 3 is the first such look for Polk County: the importance of manufacturing becomes readily apparent, with the single largest category of employees in the County being production workers, accounting for 14.6% of the total (note that this includes public sector employees); all told, production-related occupations including transportation and materials handling account for almost 22% of total jobs in Polk County. Office workers, which would include many public employees, are the next largest group, and healthcare-related employment also shows as significant, although spread across a number of occupational categories.



**Figure 3**  
**Polk County Employment by Occupational Category**



US Department of Commerce, Bureau of the Census, County Business Patterns 2012





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## BUSINESS

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Like all but a few Wisconsin counties, Polk County imposes a one-half cent sales tax piggybacked on the State sales tax and collected by the State Department of Revenue. In addition to providing revenue to reduce reliance on the property tax, these collection data also allow the County to track local economic activity. Unfortunately, these data are a bit difficult to read for anything short of a year (and perhaps longer) as they suffer both from seasonality, like employment data, and volatility due to payment timing and processing. A delay of one day by a vendor or by the Department of Revenue in processing a large sales tax remittance can have a significant impact on that month's collections.

Figure 8 shows sales tax collections by year, and the explosive growth in these collections since the end of the recession is readily apparent. This indicates a number of areas where economic

★★★★★★★★★★

Health Care and  
Manufacturing: *in 2012,*  
*manufacturing accounted*  
*for 27.1% of all private*  
*employment and health*  
*care and social assistance*  
*another 21.6%.*

★★★★★★★★★★

improvement is occurring: vehicle sales, which are at record levels nationally, improved retail sales, and for Polk County especially, higher tourism revenues. These data are also supported by statistics on retail employment (Table 3) although this information is for 2012 only, and the expansion appears to just have begun during that time.

More current data are now available on the County's businesses as the recovery continues. Table 1 provides an overview of the County's business patterns for 2012, Table 2 a distribution by size of business, Table 3 employment levels by sector for 2007, 2011 and 2012 to show the impact of the recession and recovery

on employment, and Table 4 provides data on self-employed individuals in Polk County by sector.

As Tables 1 and 3 show, although manufacturing is a critical component of the County's economy, 2012 shows some softness compared to 2011, with employment falling slightly. However, as payrolls remained relatively strong, this may indicate nothing more than a return to more full-time employment as markets stabilize. Health care is the second-largest sector, and this area does continue to grow as it did throughout the past recession. There is no reason to not expect this growth to continue. No other major shifts are apparent and, given that the resurgence in County employment is relatively recent, it will be important to see these data for 2013 to determine how much of this growth was due to County employers expanding their payrolls and how much was due to commuting.

Table 2 shows, again, that most employers are relatively small businesses, with only five of 1,110 employing more than 250 and only 16 more than 100. Of the former, three are likely hospitals (individual data are not available due to confidentiality).

**Table 1**  
**Distribution of Polk County Businesses, 2012**

<b>Sector</b>	<b>Establishments</b>		<b>Employees</b>		<b>Annual Payroll</b>	
	<b>Number</b>	<b>Percent of Total</b>	<b>Number</b>	<b>Percent of Total</b>	<b>Amount (\$000)</b>	<b>Percent of Total</b>
<i>Agriculture, forestry, fishing and hunting</i>	4	0.4%	8	0.1%	209	0.1%
<i>Mining, quarrying, and oil and gas extraction</i>	2	0.2%	N/A	N/A	-	0.0%
<i>Utilities</i>	9	0.8%	93	0.8%	6,453	1.8%
<i>Construction</i>	133	12.0%	310	2.7%	12,015	3.3%
<i>Manufacturing</i>	105	9.5%	3,091	27.1%	132,068	36.1%
<i>Wholesale trade</i>	39	3.5%	460	4.0%	20,006	5.5%
<i>Retail trade</i>	168	15.1%	1,914	16.8%	39,914	10.9%
<i>Transportation and warehousing</i>	28	2.5%	104	0.9%	3,952	1.1%
<i>Information</i>	21	1.9%	N/A	N/A	5,171	1.4%
<i>Finance and insurance</i>	52	4.7%	N/A	N/A	12,075	3.3%
<i>Real estate and rental and leasing</i>	36	3.2%	60	0.5%	1,132	0.3%
<i>Professional, scientific, and technical services</i>	83	7.5%	358	3.1%	12,442	3.4%
<i>Management of companies and enterprises</i>	2	0.2%	N/A	N/A	-	0.0%
<i>Administrative and support and waste management and remediation services</i>	48	4.3%	240	2.1%	5,973	1.6%
<i>Educational services</i>	5	0.5%	9	0.1%	118	0.0%
<i>Health care and social assistance</i>	97	8.7%	2,458	21.6%	89,524	24.5%
<i>Arts, entertainment, and recreation</i>	25	2.3%	263	2.3%	2,208	0.6%
<i>Accommodation and food services</i>	118	10.6%	1,070	9.4%	11,173	3.1%
<i>Other services (except public administration)</i>	135	12.2%	457	4.0%	8,597	2.3%
<i>Industries not classified</i>	4	0.4%	8	0.1%	209	0.1%
<b>Total for all sectors</b>	<b>1,110</b>		<b>11,386</b>		<b>366,142</b>	

N/A means that data were not released to avoid disclosing confidential information. For those businesses for which an employment range was given, the percentage of total employees was estimated based on range midpoint(s)

Source: U.S. Department of Commerce, Bureau of the Census, County Business Patterns 2012

**Table 2**  
**Distribution of Polk County Businesses by Sector and Number of Employees, 2012**

<b>Sector</b>	<b>Total</b>	<b>1-4</b>	<b>5-9</b>	<b>10-19</b>	<b>20-49</b>	<b>50-99</b>	<b>100-249</b>	<b>250-499</b>	<b>500-999</b>	<b>1000 or more</b>
<i>Agriculture, forestry, fishing and hunting</i>	4	4	0	0	0	0	0	0	0	0
<i>Mining, quarrying, and oil and gas extraction</i>	2	1	0	0	1	0	0	0	0	0
<i>Utilities</i>	9	4	1	3	1	0	0	0	0	0
<i>Construction</i>	133	116	15	0	2	0	0	0	0	0
<i>Manufacturing</i>	105	39	14	11	19	15	6	1	0	0
<i>Wholesale trade</i>	39	21	7	6	3	1	1	0	0	0
<i>Retail trade</i>	168	74	45	33	11	3	1	1	0	0
<i>Transportation and warehousing</i>	28	18	6	4	0	0	0	0	0	0
<i>Information</i>	21	11	1	9	0	0	0	0	0	0
<i>Finance and insurance</i>	52	28	18	3	3	0	0	0	0	0
<i>Real estate and rental and leasing</i>	36	32	3	1	0	0	0	0	0	0
<i>Professional, scientific, and technical services</i>	83	61	14	5	3	0	0	0	0	0
<i>Management of companies and enterprises</i>	2	2	0	0	0	0	0	0	0	0
<i>Administrative and support and waste management and remediation services</i>	48	31	12	2	2	1	0	0	0	0
<i>Educational services</i>	5	4	1	0	0	0	0	0	0	0
<i>Health care and social assistance</i>	97	35	21	16	14	6	2	3	0	0
<i>Arts, entertainment, and recreation</i>	25	17	5	2	0	0	1	0	0	0
<i>Accommodation and food services</i>	118	48	32	27	9	2	0	0	0	0
<i>Other services (except public administration)</i>	135	102	26	6	1	0	0	0	0	0
<i>Industries not classified</i>	4	4	0	0	0	0	0	0	0	0
<b>Total for all sectors</b>	<b>1,110</b>	<b>648</b>	<b>221</b>	<b>128</b>	<b>69</b>	<b>28</b>	<b>11</b>	<b>5</b>	<b>0</b>	<b>0</b>

Source: U.S. Department of Commerce, Bureau of the Census, County Business Patterns 2012

**Table 3**  
**Number of Employees by Sector: 2007, 2011, and 2012, Polk County**

<b>Sector</b>	<b>Number of Employees</b>		
	<b>2007</b>	<b>2011</b>	<b>2012</b>
<i>Agriculture, forestry, fishing and hunting</i>	N/A	N/A	N/A
<i>Mining, quarrying, and oil and gas extraction</i>	N/A	N/A	N/A
<i>Utilities</i>	99	88	93
<i>Construction</i>	556	296	310
<i>Manufacturing</i>	4,155	3,448	3,091
<i>Wholesale trade</i>	354	423	460
<i>Retail trade</i>	2,200	1,868	1,914
<i>Transportation and warehousing</i>	159	129	104
<i>Information</i>	261	173	N/A
<i>Finance and insurance</i>	349	N/A	N/A
<i>Real estate and rental and leasing</i>	86	70	60
<i>Professional, scientific, and technical services</i>	316	331	358
<i>Management of companies and enterprises</i>	22	N/A	N/A
<i>Administrative and support and waste management and remediation services</i>	419	221	240
<i>Educational services</i>	N/A	N/A	9
<i>Health care and social assistance</i>	2,175	2,449	2,458
<i>Arts, entertainment, and recreation</i>	257	198	263
<i>Accommodation and food services</i>	1,376	1,053	1,070
<i>Other services (except public administration)</i>	527	457	457
<i>Industries not classified</i>	N/A	N/A	8
<b>Total for all sectors</b>	<b>13,369</b>	<b>11,626</b>	<b>11,386</b>

Source: U.S. Department of Commerce, Bureau of the Census, County Business Patterns 2012, 2011 and 2007

Finally, and as noted in the past, it is readily apparent that a large part of the County's economy consists of self-employed individuals. The latest data are for 2012 are contained in Table 4.

**Table 4**  
**Self-employed Individuals by Sector, 2012, Polk County**

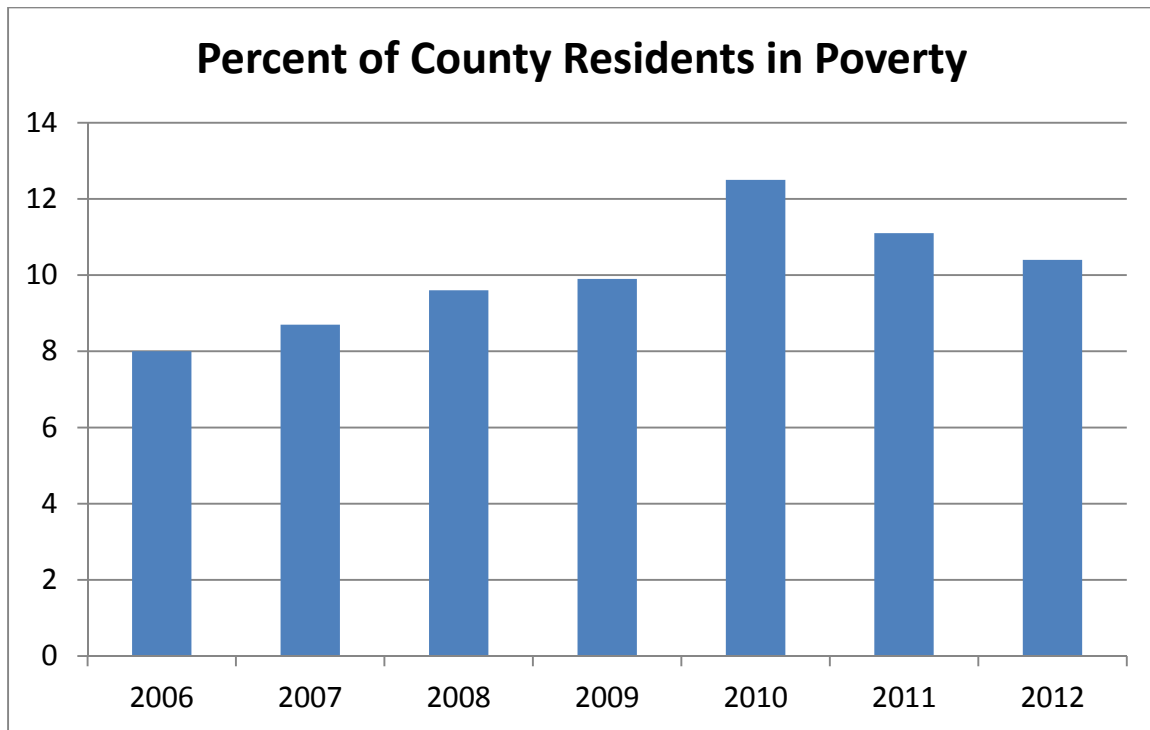
<i>Sector</i>	<i>Firms</i>		<i>Gross Receipts</i>	
	<i>Number</i>	<i>Percent of Total</i>	<i>Amount (\$1,000)</i>	<i>Percent of Total</i>
<i>Agriculture, forestry, fishing and hunting</i>	85	2.6%	2,604	2.1%
<i>Construction</i>	619	18.8%	27,209	22.4%
<i>Manufacturing</i>	97	2.9%	2,179	1.8%
<i>Wholesale trade</i>	58	1.8%	3,201	2.6%
<i>Retail trade</i>	409	12.4%	12,946	10.7%
<i>Transportation and warehousing</i>	195	5.9%	22,313	18.4%
<i>Information</i>	32	1.0%	696	0.6%
<i>Finance and insurance</i>	69	2.1%	3,487	2.9%
<i>Real estate and rental and leasing</i>	270	8.2%	14,362	11.8%
<i>Professional, scientific, and technical services</i>	280	8.5%	8,163	6.7%
<i>Administrative and support and waste management and remediation services</i>	214	6.5%	3,825	3.2%
<i>Educational services</i>	51	1.5%	453	0.4%
<i>Health care and social assistance</i>	264	8.0%	4,574	3.8%
<i>Arts, entertainment, and recreation</i>	158	4.8%	2,682	2.2%
<i>Accommodation and food services</i>	50	1.5%	1,621	1.3%
<i>Other services (except public administration)</i>	448	13.6%	11,031	9.1%
<i>Total for all sectors</i>	<b>3,299</b>		<b>121,346</b>	

Source: U.S. Department of Commerce, Bureau of the Census, Non-employer Statistics, 2012

## INCOME AND POVERTY

Given the above employment and business statistics, it is not surprising that the poverty rate within Polk County was affected by the past recession but is also showing improvement. Figure 4 shows that the percentage of individuals living in poverty jumped from about eight percent in 2006 to over 12 percent during the worst of the recession in 2010; that has since improved to just over 10 percent in 2012. The poverty level for 2012 is defined as \$11,170 for one person and \$23,050 for a family of four.

Figure 4



Source: U.S. Department of Commerce, Bureau of the Census

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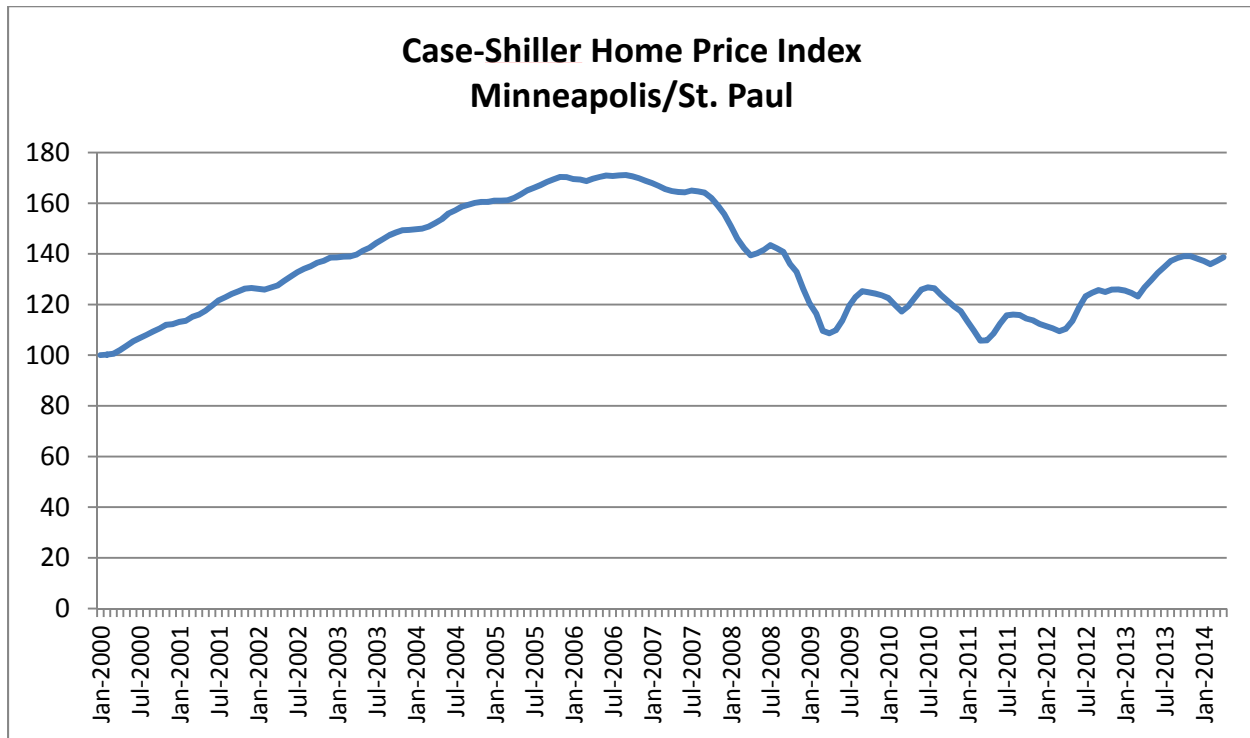
## HOUSING

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The somewhat bumpy improvement in housing prices continues and, despite several setbacks in 2012 and 2013, appears to be for real. Note that the median home price in the Minneapolis-St. Paul metropolitan area is still at a level equal to that last reached in early 2003. Further, as Figure 5 shows, this has also not been a V shaped recovery, but rather a series of improvements and setbacks since the (first) bottom was reached in early 2009. Nonetheless, this recovery has been sustained longer than the previous three upturns and most analysts do believe that the median price will continue to rise for the foreseeable future despite inevitable increases in mortgage rates.



Figure 5



Source: Standard and Poor Case-Shiller Home Price Index, seasonally adjusted<sup>ii</sup>

Finally, mortgage foreclosure rates within the County and the region are returning to historical levels, with the latest data from RealtyTrac indicating one in every 1,124 homes is in foreclosure, down from one in every 688 homes a year ago one in 404 homes in June, 2012. As noted in the past, however, the volatility of this statistic makes comparisons very difficult.

## DEMOGRAPHIC CONDITIONS

The overall positive outlook for the economy is also reflected in the projections of the County's demographic conditions. Although it is very likely that the County lost population during the past recession (the Wisconsin Department of Administration estimates that the County gained a net of only 7 people since the 2010 Census and the U. S. Census Bureau estimates that the County lost nearly 1,200 people over that same period), the most recent projections from the Department of Administration are for net in-migration to resume and for the County to continue to grow over the next two decades. Figure 7 shows change in the County's population from 1970 through 2010, projections by the Department of Administration for 2020 through 2040, and a projection using a trendline calculated from actual growth from 1970 to 2010. Note how close the projections are to that trendline, and the effect of past recessions

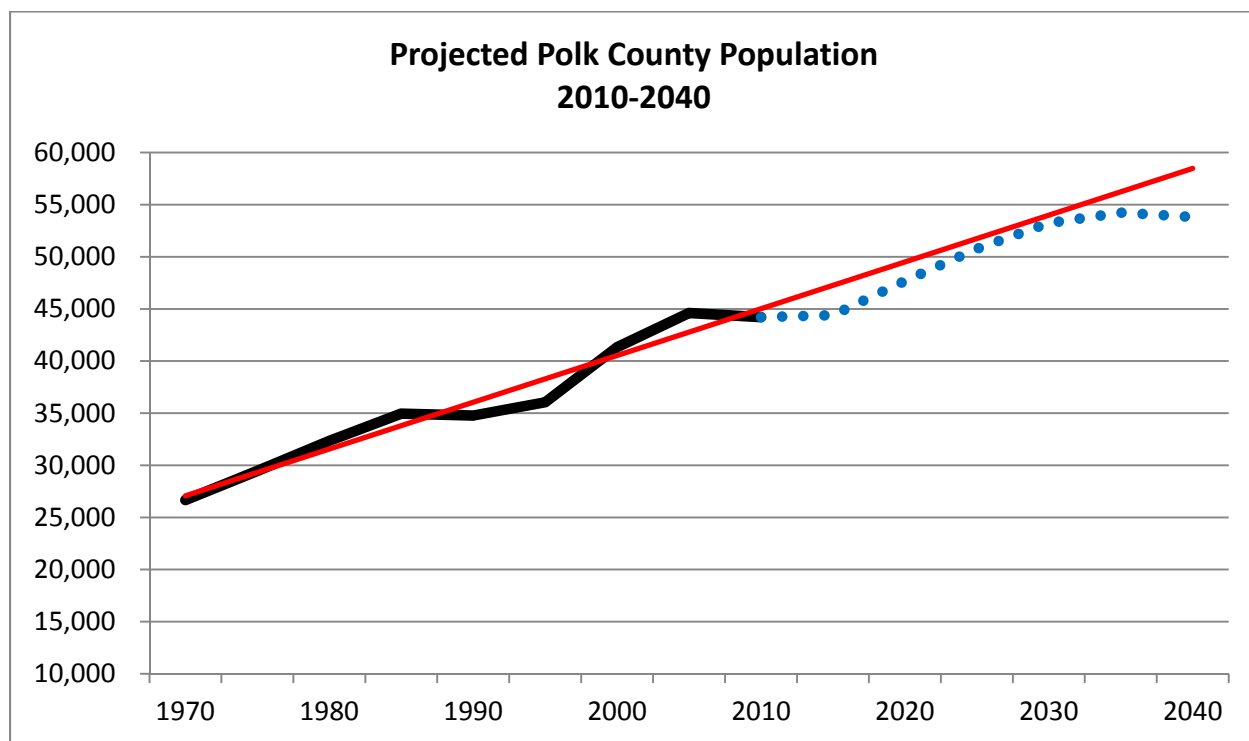
★★★★★★★★★★

*A return to growth trends: Recent estimates are that the County's population will resume its historical rate of population growth of about 1.5-2 percent per year due to an improved economy and natural population growth (births exceeding deaths).*

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on population growth. It appears that every national recession has been followed by a five year (or so) pause in population growth.

*Figure 6*

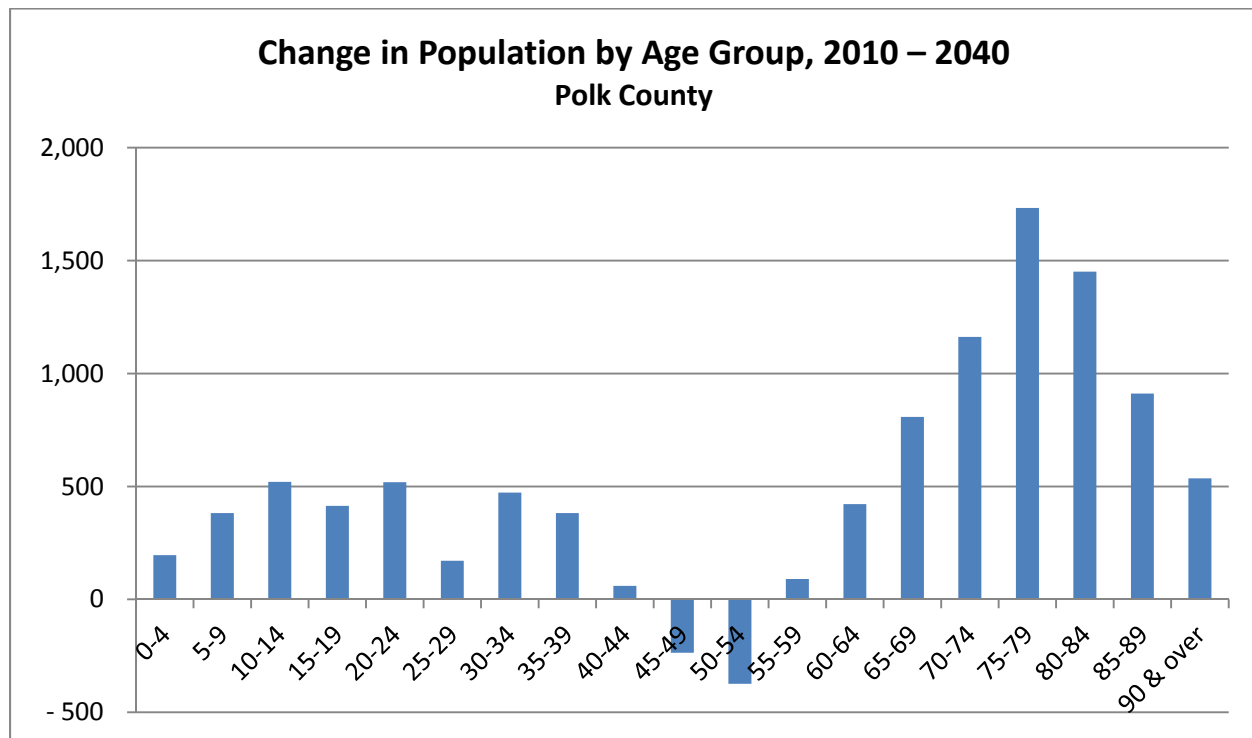


*Source: Wisconsin Department of Administration*

This projection of growth also helps shape the demographic profile of the County. Previously, the most striking features of the County's demographic profile – like that of most rural counties – was its rapidly aging population and its loss of working-age adults. The former is inevitable, and over the next 20+ years the fastest growing age group in absolute terms will be residents in their 70s, adding another 3,000 people. However, with economic growth comes growth in working age adults and families; it is now projected that the County will gain in every age group except 45-55; Figure 7 shows the change in population by age group from 2010 to 2035; note the dramatic increases in the older groupings.

As noted in past reports, this rapid shift will place strains on government services, especially in rural areas. Many of these individuals will live around the lakes or in the countryside, with vacation properties becoming permanent residence. These properties are not easily accessed, many on narrow, private, dead end gravel roads by a lake. Transportation, public safety, highway maintenance, social services, public health, aging programs – all will require increased resources due to the County's older, geographically scattered population. However, this economic resurgence will assist in increasing values and revenues, providing some assistance in coping with these increased demands (although of course only within reason). All told, this economic growth and accompanying increase in working age population puts Polk County in a far better position than most truly rural counties in coping with this growth in older population,

Figure 6



Source: Prepared from estimates developed by the Wisconsin Department of Administration

A final aspect of the County's demographic condition is also positive, and that is crime. Although recent discussions in the media have focused on Western Wisconsin and Polk County as having increasing issues with methamphetamine abuse, recent data on the crime rate in Polk County shows favorable trend. From 2011 to 2012, violent crimes fell from 106 to 94, or 15 percent, and property crimes fell from 639 to 541, also by 15 percent. Polk County now ranks well below the state average in both categories per 1,000 residents. This may be a one-year aberration, however, and further data are needed before drawing any conclusion.

## FISCAL CONDITION

The economic analysis and outlook is one part of the financial picture for purposes of policy making through the annual budget; the fiscal status or condition of the county is another. Economic data help provide guidance as to demand for services and growth in resources; fiscal conditions provide information on resource availability and internal influences on the County's budget as well as those externally imposed by other levels of government in the form of financial aid, programs or mandates.

In general, the fiscal condition of the County continues to improve. The County continues to reduce the cumulative gap between revenues and expenditures – an indicator analogous to a deficit at a higher level of government. (Counties of course must have balanced budgets; however, borrowing for capital and, especially, indirectly for current expenditures has a similar effect in that these funds that must be paid back in the future.) County finances as a whole are now sustainable, albeit challenges are coming in the form of severe revenue restrictions combined with increased costs of

operations. At the same time, the County's fund balances continue to improve and there is reason to believe that we may be near the bottom in the decline in the County's equalized value.

Last year's report incorporated a simple benchmarking exercise that compared Polk County to the other 71 Wisconsin counties using data from the Wisconsin Department of Revenue and the Wisconsin Taxpayers Alliance. These data were not updated: recent concerns about reliability of the Department of Revenue data have called into question the utility and advisability of using these data. The Polk County data for 2012, for example, contain a \$6 million error in expenditure calculations (which they are unwilling to correct); it would be irresponsible to draw conclusions using these data.

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## PROPERTY TAX CAPACITY AND TAX EFFORT

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Despite the huge drop in value due to the past recession, Polk County remains a wealthy county in property terms, with \$ 4,027,760,300 in equalized value or over \$90,000 per capita. The fall in value is equally impressive (presuming values are at or near bottom): a loss of nearly \$1 billion from 2008 to 2013. Table 6 shows change in equalized value by class of property from 2011 to 2012.

*Table 6*  
***Change in Equalized Value by Class, 2011 – 2012, Polk County***

<i>Class of Property</i>	<i>2011 Value</i>	<i>New Construction</i>	<i>2012 Value</i>	<i>Change in Value</i>	
				<i>Dollar</i>	<i>Pct.</i>
<b>Residential</b>	3,204,965,300	16,401,000	3,143,570,000	-61,395,300	-1.9%
<b>Commercial</b>	325,935,700	2,334,400	337,778,500	<b>11,842,800</b>	<b>3.6%</b>
<b>Manufacturing</b>	87,431,500	2,504,700	88,500,500	1,069,000	1.2%
<b>Agricultural</b>	35,914,100	0	34,138,900	-1,775,200	-4.9%
<b>Undeveloped</b>	39,471,600	0	39,576,800	105,200	0.3%
<b>Ag Forest</b>	52,945,400	0	54,466,400	1,521,000	2.9%
<b>Forest</b>	224,571,900	0	207,270,800	-17,301,100	-7.7%
<b>Other</b>	124,091,500	700,300	122,458,400	-1,633,100	-1.3%
<b>Total</b>	4,095,327,000	21,940,400	4,027,760,300	-67,566,700	-1.6%

*Source: Wisconsin Department of Revenue*

Despite these falling values and in large part because of fiscal constraint, Polk County's property tax rate – an *indicator* of tax effort – remains near the middle for Wisconsin counties. For 2014, the County's tax rate was \$5.42 per \$1,000 of equalized value (including Act 15 and Town Bridge Aid); this places the County almost exactly at the median, ranking 35<sup>th</sup> highest among the 72 counties, a rank unchanged from 2013. On a dollar basis, the County levy is slightly lower than the 2012 levy amount which itself was slightly lower than the 2011 levy. (Excluding the State-mandated levies for Act 150 (libraries) and Town Bridge Aid. Although included in some reports of county levies, neither of these levy amounts are controllable by a county government nor do the proceeds go to county government, meaning they are indirect city/village/town levies.)

As noted in last year's condition of the county report, much as a relatively low tax rate is not *prima facie* evidence of low tax effort or burden, as higher average values can result in higher average

taxes holding rate constant, a relatively high per capita levy is not proof of a high tax effort. Tax shifting and incidence result in a redistribution of taxes to non-residents; this is especially pronounced in those areas with a great deal of seasonal property as per capita measures do not take into account the cost of providing services to seasonal residents or tourists. In an annex to the 2011 report, we calculated that about \$60 of levy per capita can be directly ascribed to the cost of providing services to seasonal residents (of course the added tax base more than compensates for this cost).

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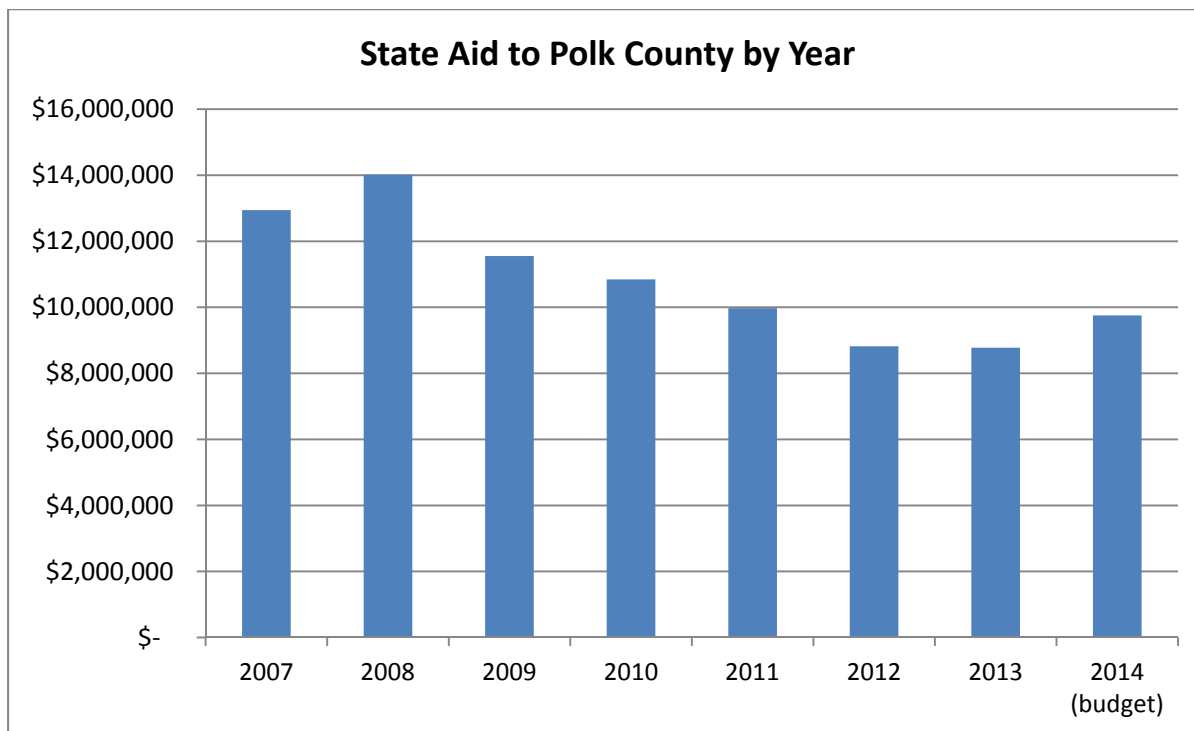
## INTERGOVERNMENTAL AID AND FINANCES

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The long-term decline in State aid does appear to have stabilized and even increased, although only in two areas and at a level far below historical averages. As recently as 2008, state aid exceeded \$14 million annually; we expect it to just over \$9 million this year (Figure 7). We do not expect any increase in state aid next year other than a small increase in highway aid; a much larger increase in highway aid is scheduled for 2015 for routine maintenance agreements.

Beyond next year, the prospects for increased state or federal aid are slight. The Affordable Care Act will absorb much of any new federal revenue and the State of Wisconsin, while improving financially, must still deal with a structural imbalance next year according to the Wisconsin Taxpayers Alliance. As Polk County is not substantially reliant on state aid, however, this should prove manageable.

*Figure 7*



*Source: Department of Administration*

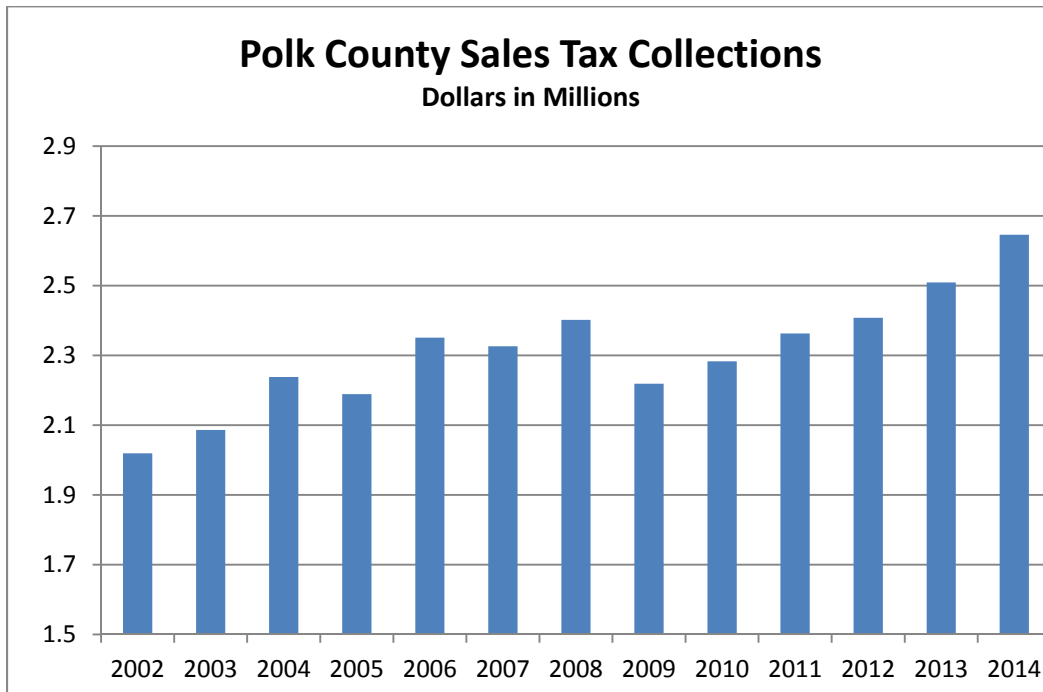
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## OTHER REVENUES

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As discussed in the section on the economy, sales tax collections continue to improve, and are now well above recession-era levels. Collections for 2013 again set a record at \$2.5 million, and 2014 is setting a trend higher still, Figure 8 shows annual sales tax collections by calendar year.<sup>1</sup>

*Figure 8*



Source: Wisconsin Department of Revenue (2014 is a forecast)

Other revenues remain generally flat, with interest income again miniscule despite the increase in the County's reserves. There may be a glimmer of hope in land-use related fees, but any program that relies on donations such as aging programs has yet to recover. The most notable exceptions are two of the County's enterprise funds, the lime quarry and Golden Age Manor, both of which ended 2012 solidly in the black. An initiative is underway to improve the County's collection of receivables which may improve collections in general.

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## EXPENDITURES

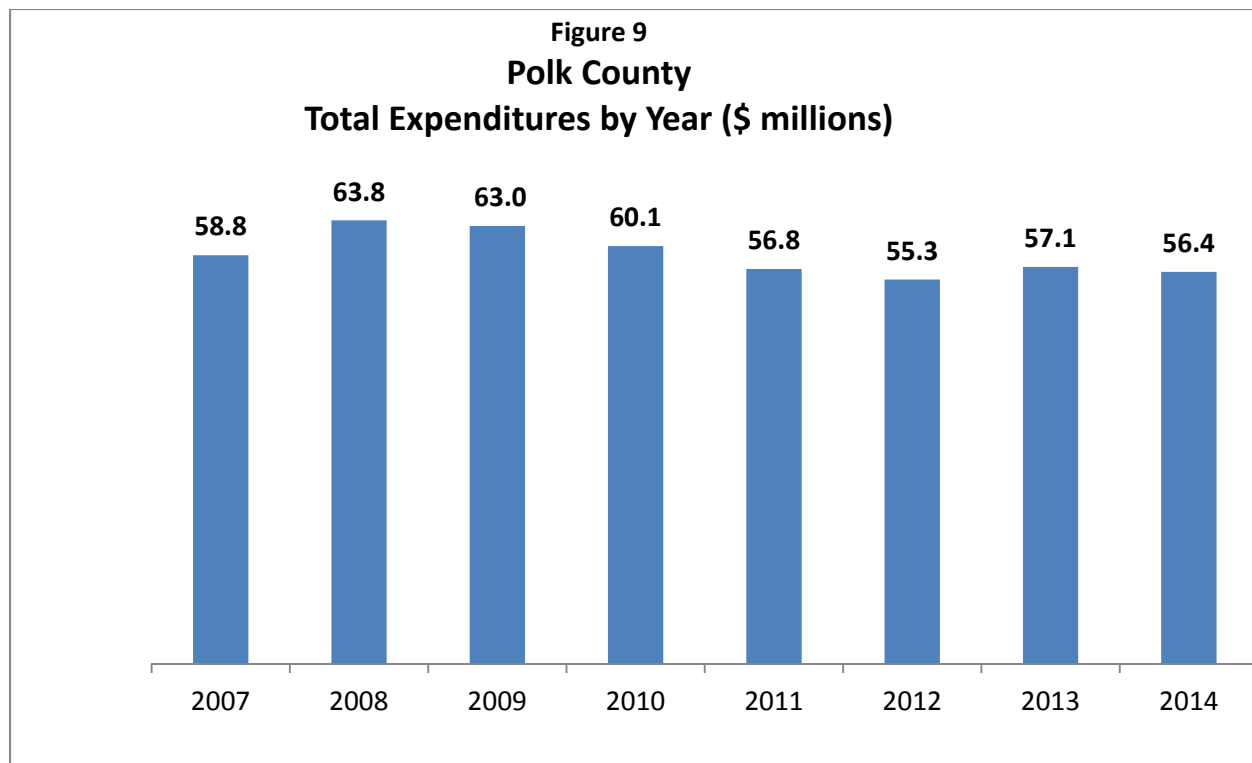
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Overall expenditures have largely flattened at just under \$60 million per year, with a slight uptick in 2013 resulting from the additional investment from the asset protection and internal investment revolving loan fund. The combination of State aid reductions (and freezes) and caps on revenues have been met with tight expenditure controls, with substantial savings through attrition and greater efficiency in operating expenditures. This year, Polk County will employ about 25 fewer FTE than in 2010 (excluding GAM). Figure 9 shows expenditures by year for the past six years and a forecast for 2014.

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<sup>1</sup> Budget year is collections through February of the following year.





*Source: 2013 financial statements and 2014 budget estimates*

In terms of last year's benchmarking exercise, with the exception of debt service, discussed below, the most striking feature of the County's expenditures is that no individual area appears to be relatively high or relatively low.

As discussed in last year's report, past use of debt and fund balance during the period 2000 – 2009 had the effect of putting increased subsequent stress on budgets. The County's high ranking on debt service shows part of that effect; for the next several years the County will need to continue to shrink that cumulative deficit which reached a significant \$33.4 million at its peak in 2009. These expenditures were largely used to fund necessary capital improvements, but still must be repaid through higher revenues, lower expenditures, or some combination. For the past four years, revenues have exceeded expenditures. Although this will be increasingly difficult, continued payback of the County's debt and financial discipline through budgeting and expenditure controls will act together to reduce this gap further.

**Table 8**  
**Changes in Fund Balances of Governmental Funds, Polk County**  
**(Modified Accrual Basis of Accounting); Dollars in Millions**

<b>Year</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Difference</b>
2000	\$25.629	\$26.211	(\$0.582)
2001	30.689	39.231	(8.550)
2002	32.179	44.841	(12.663)
2003	34.691	43.753	(9.062)
2004	38.386	38.387	(0.001)
2005	41.053	40.523	0.529
2006	41.748	43.781	(2.034)
2007	41.766	42.214	(0.448)
2008	45.479	45.925	(0.445)
2009	41.820	41.963	(0.143)
2010	42.063	40.335	1.729
2011	40.834	40.244	0.591
2012	40.243	39.632	0.611
2013	40.885	40.788	0.097

*Detail may not add to total due to rounding; 2012 adjusted for debt refinancing.  
Source: 2009 and 2013 Comprehensive Annual Financial Report, Polk County*

General Fund expenditures for 2013 were a total of \$24,102,751 as compared to a budget of \$24,742,814, a savings of \$640,073 or just under three percent. Table 9 compares actual and budgeted expenditures for 2013.

**Table 9**  
**Comparison of Budgeted and Actual General Fund Expenditures, 2012**

<b>Expenditure Category</b>	<b>Budget</b>	<b>Actual</b>	<b>Difference</b>
General Government	7,005,514	6,435,294	(570,220)
Public Safety	7,315,550	7,416,908	101,358
Highway	4,593,952	4,593,952	-
Sanitation	677,755	607,817	(69,938)
Health and Human Services (General Fund Share Only)	2,395,005	2,273,746	(121,259)
Culture, Recreation and Education	1,110,279	1,042,822	(67,457)
Conservation and Development	1,644,769	1,732,212	87,443
<b>Total Expenditures</b>	<b>24,742,824</b>	<b>24,102,751</b>	<b>(640,073)</b>

*Please note that it would be extremely risky to assume that future expenditures will always exceed budgeted amounts.* Much of these savings have come from attrition, holding positions open for a portion of the year. However, staffing levels are approaching minimum in most areas, meaning that it will be increasingly difficult to delay filling positions for any length of time. As a consequence, the need for budgetary discipline becomes even greater, as if a department exceeds its budget there may not be savings elsewhere to offset this deficit.

Outside of the General Fund, the condition of other funds has improved as well. The health insurance fund had an actual increase in fund balance in 2011, 2012 and 2013 after several years of declines. The Highway Department fund balance also increased, as did Golden Age Manor and the Lime Quarry increased its cash position by \$229,000 in 2013 and its overall position by \$110,000.

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#### FUND BALANCE

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Overall, Polk County's unassigned fund balance increased slightly, by \$565,000 and from 29.3% of total General Fund expenditures to 30.3% (Table 10). Note that the 2013 budget set a minimum fund balance of 25 percent of General Fund expenditures; the end-of-2013 unassigned balance exceeded that amount by \$1.3 million.

**Table 10**  
**Polk County Unassigned Fund Balance by Year**

	<b>2009 Audited</b>	<b>2010 Audited</b>	<b>2011 Audited</b>	<b>2012 Audited</b>	<b>2013 Audited</b>
Beginning Fund Balance	\$2,987,002	\$2,878,036	\$6,635,325	\$7,254,080	\$6,739,432
Additions (Subtractions)	(108,966)	3,757,289	618,755	(514,648)	565,421
Ending Fund Balance	2,878,036	6,635,325	7,254,080	6,739,432	7,304,853
Percent of General Fund Expenditures	12.3%	29.4%	31.1%	29.3%	30.3%

Again, a fund balance of 25 percent is considered to be a prudent amount at this time due to a high level of uncertainty in State and Federal funding as well as limited growth in revenues. Should a major funding loss or large unanticipated cost occur, a reserve provides the time needed to phase out programs and avoid disruptions and extra costs. In addition, much of this fund balance was comprised of one-time resources such as cancellation of non-lapsing accounts, project funds, and so forth as well as one-time expenditure reductions or savings. The 2014 budget is sustainable, and in fact goes further in reducing future costs; the 2015 budget will need be sustainable as well. As was written last year, for now the safest assumption is that these funds are all one-time resources.

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### DEBT SERVICE AND BORROWING

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As of today, Polk County owes \$19.46 million in principal and, under current schedules (absent refinancing) will pay \$3.3 million in interest between now and 2021, when all debt is paid. The current burden for debt service is quite high: in 2014, the County will pay a record \$4.2 million for debt service, or about one-fifth of the County's total property tax levy. That is an amount greater than that levied for every department other than Law Enforcement, Human Services, and Highway - combined. Starting in 2015, this levy will decline, but increase again in 2016. Starting in 2017, debt service will fall off very rapidly. At present there are no opportunities for refinancing debt even given the record low interest rates; most of the County's debt is financed at three and five percent. Note that these debt figures do not include capital leases which account for another \$344,000. As has been noted, due past actions Polk County is not in a position to undertake any new substantial debt without a major increase in property taxes.

Table 11 shows debt service by year from 2014 through 2021 by principal and interest payments for all County obligations. Note that all of the County's debt is retired and there are no scheduled debt service payments after 2021 at this time.

**Table 11**  
**Polk County Debt Service Payments**  
**2014 – 2021**

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Change from prior year</b>
2014	3,340,058	905,756	4,205,776	
2015	3,192,777	751,210	3,899,451	(306,325)
2016	3,461,308	599,893	4,061,201	161,751
2017	2,732,570	435,231	3,167,801	(893,400)
2018	2,043,882	329,639	2,373,521	(794,280)
2019	2,175,248	232,798	2,408,046	34,525
2020	2,236,668	129,728	2,366,396	(41,650)
2021	500,000	23,750	523,750	(1,842,646)

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### CAPITAL IMPROVEMENTS AND INFRASTRUCTURE

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With a few notable exceptions, the County’s infrastructure continues to be in excellent condition. As noted in the past, the opposite side of the debt service cost issue is that the County does enjoy the benefits of relatively new, energy efficient, low maintenance facilities. The quality of the highway system is also quite high despite recent funding challenges discussed above; please refer to the excellent reports by the Highway Department for more detail.

A longer-term concern has emerged with respect to specific facilities. The Highway Department facilities are in relatively poor condition, with issues of accessibility, efficiency, and structural and functional obsolescence. These issues must be addressed in the next several years, either through a major remodeling or construction of new facilities or perhaps both. Golden Age Manor has developed a capital improvement plan for the first time that calls for investments in facilities and equipment adequate to improve the overall facility and has recently demonstrated the ability to fund such investments. Finally, the government center itself is perhaps only a decade or so away from requiring a major upgrade.

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### MANAGEMENT CONDITIONS

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The final relevant aspect of the condition of Polk County is administrative. Specifically, this dimension considers implementation of policy as set by the County Board, the “how” Board directives are carried out. State law assigns this responsibility to the county administrator and department heads, therefore requiring that the county administrator and department heads be accountable to a county board for their implementation. A recent Wisconsin Attorney General’s opinion has reinforced this responsibility and consequent accountability, noting that “In a county with a county administrator ... [committees and boards are] purely advisory bodies to the county administrator and county board and a policy-making body for the ... department as a whole ... [and] cannot exercise supervisory or management authority”<sup>iii</sup>

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## PROPERTY INVENTORY

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Polk County owns a great deal of real property, both for county operations and property that has been forfeited for taxes. In the past year, the Buildings Director and the Treasurer have undertaken a successful initiative to return the latter property to the tax rolls; development of an inventory will also help identify that property that remains, or is not tax forfeit, for purposes of management. This inventory will be available in August.

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## POLICIES

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An administrator is responsible for implementing policies set by a county board, a significant part of his or her management assignment. To do so, these policies must be clear, comprehensive, easily referenced, current, and not contradictory or ambiguous. Over the past two years, a number of policies have been redrafted to fit the administrator form of government, to ensure comprehensive coverage or to eliminate inconsistent or obsolete provisions. This activity has been of benefit in improving the quality of policies and assisting in their implementation. Redrafted policies include budget preparation and execution, purchasing, personnel policies, financial policies, debt management, property management, accounts receivable, governing committee roles and responsibilities, investment policy, and the general rules of order.

The massive changes required by the adoption of Acts 10 and 32 in 2011 required a significant redesign of many policies to incorporate factors formerly contained in collective bargaining agreements. Interim policies have been written as part of that transition, but far more work is required in the development of final policies. Much of this is discussed below in the section on staffing and succession.

The first sections of a General Code for Polk County have been drafted, some 33 pages in all. The land use ordinances have also been redrafted and are being submitted for public hearing and eventual adoption. In addition, the outline of the Code has been drafted, as has a cross-reference to existing policies. This is a long process, with perhaps another two years until completion due to the number of individual ordinances, policies and resolutions that must be rewritten and incorporated.

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## MANAGEMENT AND SERVICE DELIVERY

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Polk County staff continue to work on developing and refining performance measures as ongoing components of the development of a system of performance management. Performance management requires the alignment and clarification of goals and then support towards their achievement and measurement of results; performance budgeting is one component of this general approach, albeit arguably the most important. The general concept is to continually evaluate progress towards objectives set by the County Board through meaningful, timely measures of effectiveness; as the old saying goes, as there is not enough money to do everything, the Board has to somehow decide what to do. The optimal approach is to shift funding from ineffective, low priority programs to more effective, high priority programs. Last year, the Board voted to close the home care program, an action which allowed funding for essential costs in law enforcement and human services.

The citizen-centered government initiative that began with the County's website is a means of improving service delivery and overall performance. This new model provides services based on

what people want and how they wish to obtain them, instead of how county government itself is organized. This model can be expanded to other means of service acquisition such as telephone, email, text, and even in-person access; these approaches will be evaluated over the coming months.

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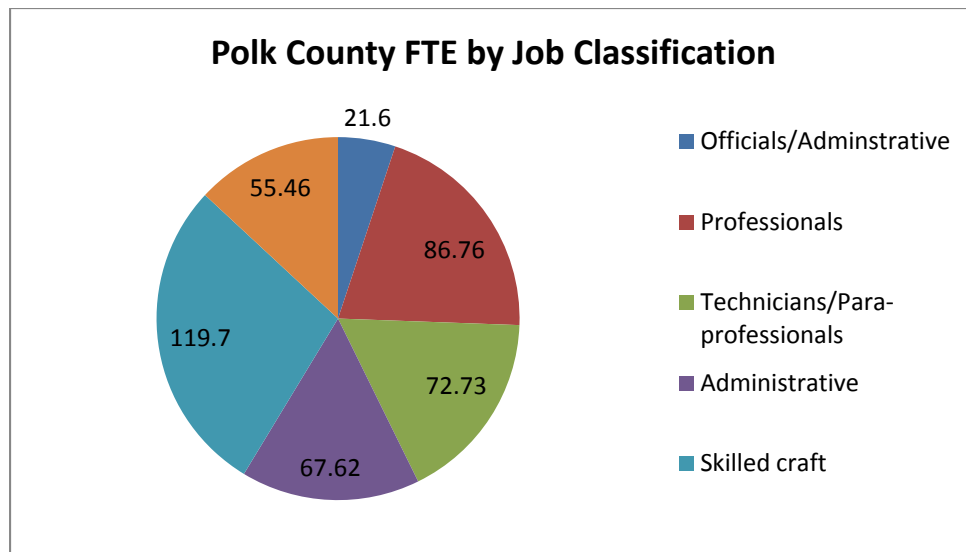
## STAFFING AND SUCCESSION PLANNING

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County government is largely a service industry, and much of what we do is therefore reliant on our employees. Most of our expenditure is for personnel costs, at an estimated \$29.4 million for 2014, or 51.5% of the total, almost the same dollar amount as was budgeted for 2012 and 2013. In total, the number of full time equivalent staff (FTE) is 423.87, down from 429.68 budgeted in 2012.

By job classification, 21.6 employees are considered officials or administrators, generally department heads. Of the remainder, most are engaged in direct service delivery: nearly 80 percent of County employees are skilled craftspeople, technicians, professionals or protective service workers. Figure 10 shows the distribution of employees by category.

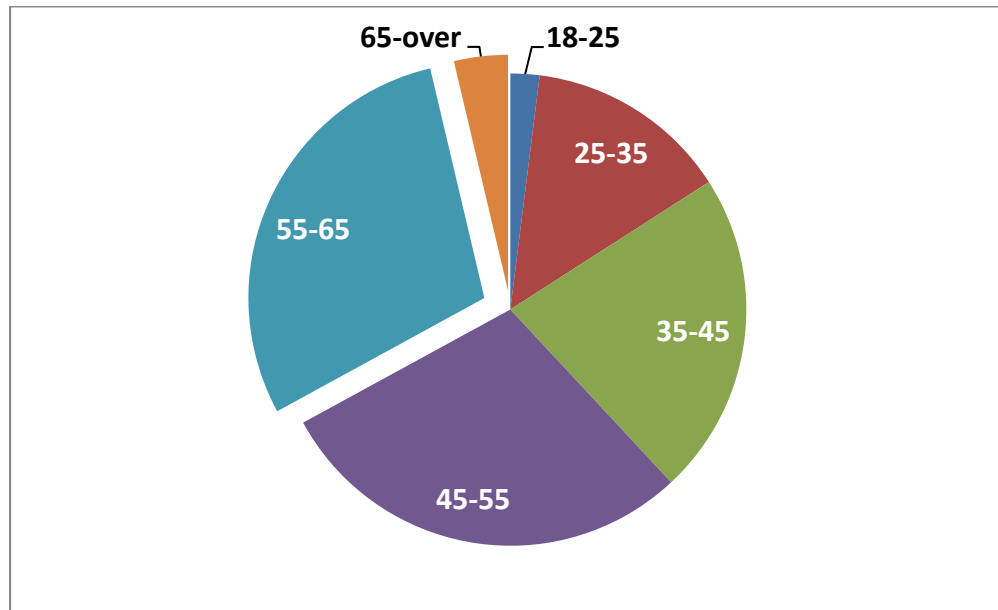
*Figure 10*



Also as noted last year, the County's work force also growing older: over one-third of County employees are currently eligible for retirement. Naturally, this includes most of the senior staff. There is also a large group of employees who will be eligible for retirement in the following five years. The average Polk County employee, excluding Golden Age Manor, is 48 years old.

Figure 11 shows the frequency distribution of staff by age. A large block is 55 and over, about one-third of the total, with a block of equal size eligible to retire within 10 years. Although unlikely, it is however possible that two-thirds of all County employees could retire within 10 years; it is almost a certainty, however, that one-third will.

**Figure 11**  
**Age of Polk County Employees**



*Excludes Golden Age Manor*

Succession planning therefore remains a priority. First, essential skills need be identified and duplicated as possible by training more than one staff person, ideally at least three. If that is not possible due to small size of a department or other considerations, other means of responding to loss of skills found. In some cases, technology can aid skill transfer, in others it may be preferable to contract for services and provide that backup externally. The County has done that with its payroll system and will explore opportunities to do so elsewhere.

An obstacle to recruitment and – especially – retention is the County’s somewhat Byzantine job classification system. Job descriptions tend to be excessively narrow, limiting the ability to move across departments, and often leading to the violation of the principle of equal pay for equal work. Further, this structure limits opportunity for advancement: there are no clear career paths (nor the ability to easily transfer into a department that may have such an opportunity). As a consequence, we have begun the process of overlaying a new structure on the old system, with more generic job descriptions to enable lateral movement and a hierarchy of positions to enable advancement. New structures have been implemented to date for clerical and maintenance workers and equipment operators.

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## STRUCTURE AND ORGANIZATION

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Polk County retains a traditional organizational structure for a Wisconsin county, with a large number of relatively small departments and several departments headed by an elected official. Polk County has 23 departments, of which nine have five or fewer employees and another five departments have between five and ten employees. As noted in past reports, this structure is not conducive to maximum efficiency in resource utilization: each department that interacts with the public must staff for full coverage, limiting the opportunities for resource sharing and for cross training.



A number of factors have come together, including changes to Polk County's system of governance through adoption of the administrator form of government, a reduction in the size of the County Board, further constraints in resources, and the application of technology to service provision that will force the reconsideration of current structure.

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## CONCLUSION

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Overall, the condition of the County continues to improve in all three dimensions. The local economy has recovered substantially from the past recession, although there are still challenges, with employment rapidly reaching pre-recession levels. Sales tax collections are at record levels, and the housing market likely has bottomed. Newer data are needed to ascertain the impact of the recovery on the County's employers, but given the general economic improvement (and unofficial indicators such as help wanted ads) it is likely that these sectors are improving as well. Finally, given this overall improvement, it is likely that the County's equalized value will resume growth this year.

The County's financial status is also improved, with final expenditures less than the original budget amount for the past four years in a row. This, combined with better than expected revenues and a cancellation of dedicated funds resulted in a substantial increase in the unassigned fund balance and a greatly improved fiscal picture. Note that much of these resources resulted from one-time savings or revenues; to avoid a structural deficit these should not be used to fund ongoing expenditures unless absolutely essential. However, these funds do provide the County the opportunity to manage its way through the coming fiscal challenges, a luxury few other local governments have. Attrition can be used instead of layoffs as needed; a layoff often represents a costly failure to plan.

Financial challenges are substantial as well. Polk County has seen a dramatic drop in equalized value, although it is likely that the bottom has been reached. Even though levies were not increased, the County's tax rate remains high by historical standards and 35<sup>th</sup> highest among the State's 72 counties. The State has effectively capped levies at zero, meaning that there is likely to be little increase in resources for the near future and therefore increased costs must be covered internally. This will become more and more difficult to do.

The County's management condition is also improving. The County is developing the first-ever inventory of real property, and progress continues in the draft of the General Code. County employment has been reduced significantly without major service disruption or loss, although most redundancies have been eliminated. To assist with this, however, increased flexibility has been provided in managing short-term staff. There are still three very large challenges, however: the coming wave of retirements, to maintain morale in difficult financial times, and to gradually replace a Byzantine position classification system with one that is more fair and linked to the labor market, supporting and reinforcing the County's excellent public employees.

As has been said in the past, all told Polk County is in a position many other local governments would envy: an improving economy, solid financial reserves and a foundation of good fiscal practices, an outstanding work force – and a great place to live.

## REFERENCES

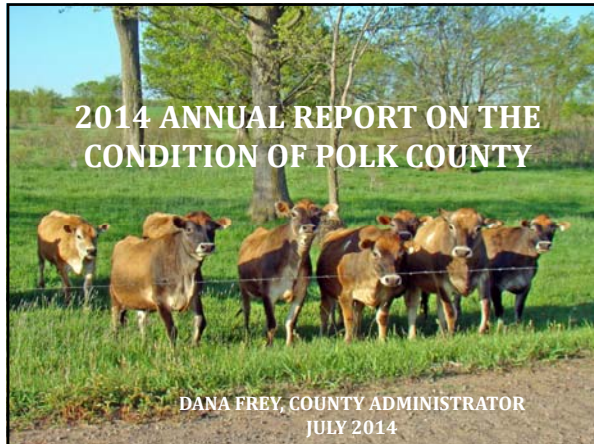
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<sup>i</sup> State of Wisconsin, Department of Workforce Development, Local Area Unemployment Statistics

<sup>ii</sup> <http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us--->

<sup>iii</sup> Letter to Scott M. Corbett, Corporation Counsel, Marathon County dated June 12, 2012



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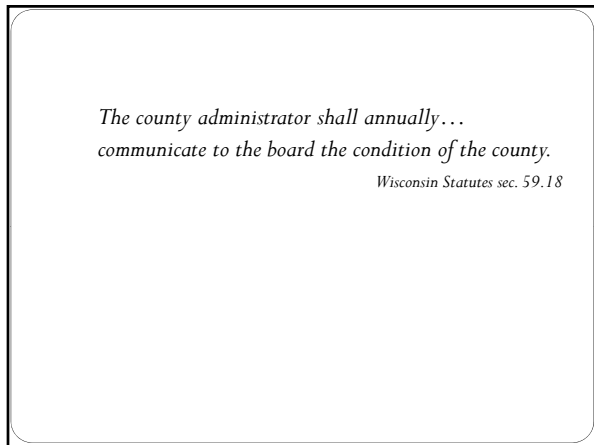
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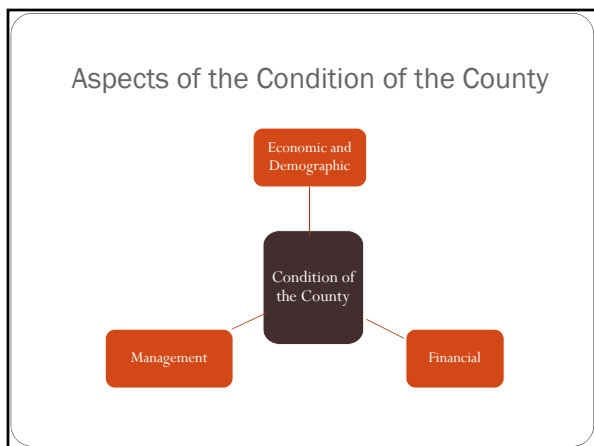
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## Our Economy and Our People



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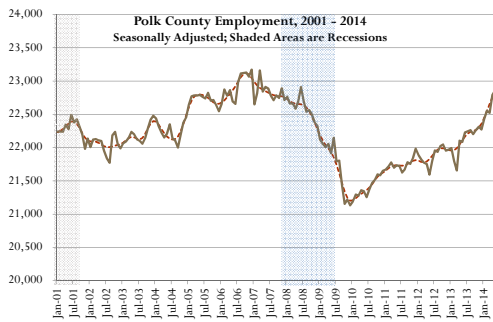
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## We're back!



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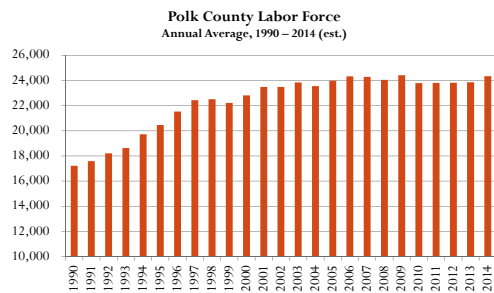
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## Labor Force Expanding Again



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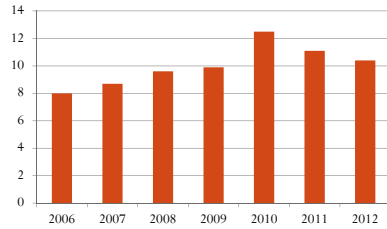
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## Slow decline in poverty rate

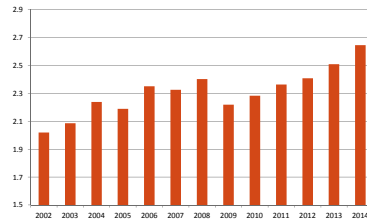
Percent of County Residents in Poverty



## Sales tax at record levels

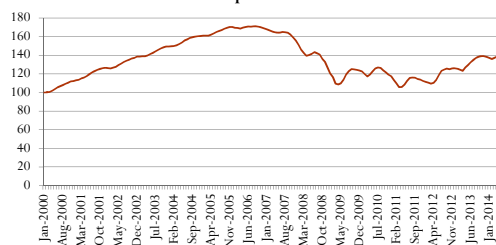
Polk County Sales Tax Collections  
Dollars in Millions

- Collections (Jan-June) are 8.4% above same period last year
- 5 of the last 12 months all-time records

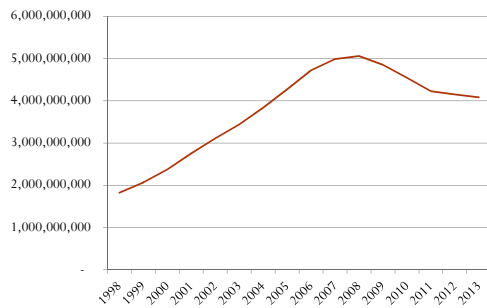


## Slow Housing Recovery Continues

Case-Shiller Home Price Index  
Minneapolis/St. Paul



Is *this* the year equalized values turn around?




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Is the new Polk County economy different?

Sector	Number of Employees		
	2007	2011	2012
Construction	556	296	310
Manufacturing	4,155	3,448	3,091
Wholesale trade	354	423	460
Retail trade	2,200	1,868	1,914
Professional, scientific, and technical services	316	331	358
Health care and social assistance	2,175	2,449	2,458
Accommodation and food services	1,376	1,053	1,070
Total for all sectors	13,369	11,626	11,386

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## People

- 44,213 on January 1, 2013 (WI DOA); 43,476 Census
  - Gain of 7 since 2010 census
  - 210 natural increase, 203 net outmigration
- 17.9% are 65 and over
- 91% have lived in the same house a year or more

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### The next 25 years

- Between now and 2040, the United States is projected to add nearly 60 million people
  - Almost all in cities
- Twin Cities metropolitan area projected to add about 700,000 people by 2040
- Twin Cities metropolitan area projected to add about 600,000 jobs
  - Where will the people come from?
    - St. Croix County projected as the fastest-growing county in Wisconsin

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### What does this mean for Polk County?

- In-migration and population growth
  - About 44,000 people now
  - 48,000 people by 2020
  - 53,000+ by 2030
  - Manageable growth rate of 1-2 percent per year
- Means:
  - Increased residential values
  - Increased new construction
  - Increased demand for County services

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### Another 700,000 people next door means:

- Tourism expansion
- Bigger market for County businesses
- Higher recreational property values
- But:
  - Traffic congestion (especially summer weekends)
  - Increased pressure on natural resources (lakes, rivers)
  - Trail use and pressures increase

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Another 600,000 jobs next door means:

- Higher employment for County residents
- Trained employees potentially for local employers
- Congestion can move jobs outward, closer to (or in) Polk County
- But:
  - Increased demands on road system for commuters
  - Increased pressure on salaries

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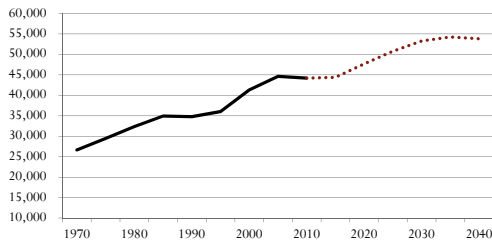
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Is growth back on track?

Projected Polk County Population  
2010-2040



Source: Wisconsin Department of Administration

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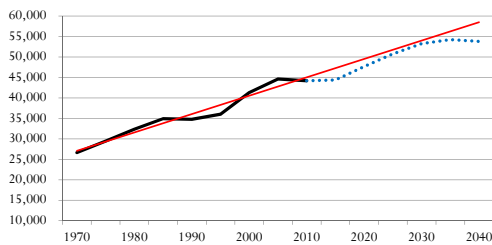
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Is growth back on track?

Projected Polk County Population  
2010-2040



Source: Wisconsin Department of Administration

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### Risks and assumptions

- Ultimate impact of St. Croix bridge still unknown
  - EIS estimated bridge to generate only 3,000 more trips by 2030
- Future economic disruptions
  - Recessions seem to stall County growth by about five years
- Changing technology and effect on work
- Wild card: ability to attract major employer(s)

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### Estimated vehicle trips, new St. Croix bridge

Alternative	US 8 – St. Croix Falls	WI 243 – Osceola	WI 64 – Houlton	New Bridge	194 – Hudson	Total
2000 actual	14,900	4,400	16,300		77,000	112,600
2030 no build	23,500	9,500	21,700		140,700	195,400
2030 preferred	22,500	6,900		48,000	121,000	198,400

SRF Consulting Group, St. Croix River Crossing Project, 2004 Supplemental Environmental Impact Statement, Travel Demand Forecast, 2004 P. 4

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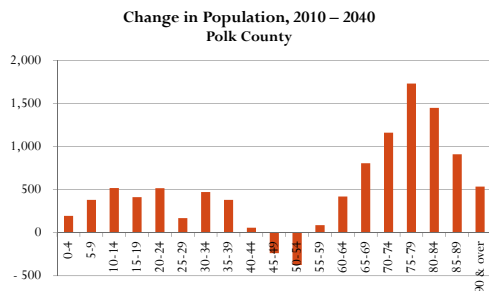
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### Growth in Young – and Old – Age Groups




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## Implications

- Growing older – and growing in population
  - Outmigration reverses
  - Aging population tempered by more people
- Demands on human services
  - Aging programs, health services
- Demands on infrastructure
  - Highways, solid waste, environment
- Opportunities
  - Recreation, tourism, new businesses
- Wage pressure

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## Polk County Finances




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## 2013 Expenditures Below Budget

Expenditure Category	Budget	Actual	Difference
General Government	7,005,514	6,435,294	(570,220)
Public Safety	7,315,550	7,416,908	101,358
Highway (General Fund Transfer)	4,593,952	4,593,952	-
Sanitation	677,755	607,817	(69,938)
Health and Human Services (General Fund Share Only)	2,395,005	2,273,746	(121,259)
Culture, Recreation and Education	1,110,279	1,042,822	(67,457)
Conservation and Development	1,644,769	1,732,212	87,443
Total Expenditures	24,742,824	24,102,751	(640,073)

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### 2013 Revenues Above Budget

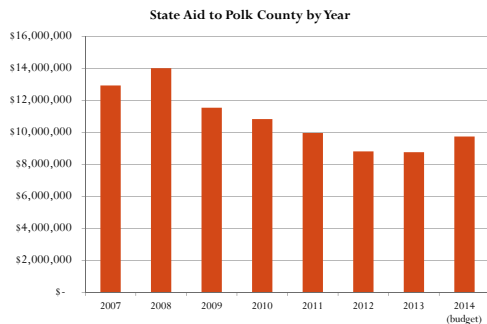
Revenue	Budget	Actual	Variance
Taxes	14,406,192	14,382,121	(24,071)
Intergovernmental	3,360,530	3,493,730	133,200
License and Permits	301,510	271,537	(29,973)
Fines and forfeits	115,850	127,699	11,849
Public charges	2,290,548	2,173,607	(116,941)
Intergovernmental charges	297,095	299,629	2,534
Miscellaneous	431,631	661,953	230,322
Total	21,203,356	21,410,278	206,920

### Fund Balance Stable at 30% of Expenditures

#### General Fund Unassigned Fund Balance by Year

	2009 Audited	2010 Audited	2011 Audited	2012 Audited	2013 Audited
Beginning Fund Balance	\$2,987,002	\$2,878,036	\$6,635,325	\$7,254,080	\$6,739,432
Additions (Subtractions)	(108,966)	3,757,289	618,755	(514,648)	565,421
Ending Fund Balance	2,878,036	6,635,325	7,254,080	6,739,432	7,304,853
Percent of General Fund Expenditures	12.3%	29.4%	31.1%	29.3%	30.3%

### Increased State Aid for Highway and Human Services

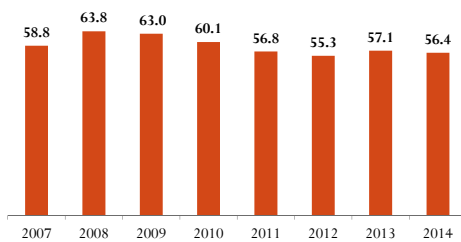


### Change in Equalized Value by Class, 2012 – 2013, Polk County

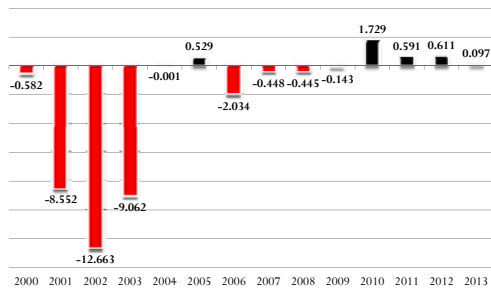
Class of Property	2011 Value	New Construction	2012 Value	Change in Value	
				Dollar	Pct.
Residential	3,204,965,300	16,401,000	3,143,570,000	-61,395,300	-1.9%
Commercial	325,935,700	2,334,400	337,778,500	11,842,800	3.6%
Manufacturing	87,431,500	2,504,700	88,500,500	1,069,000	1.2%
Agricultural	35,914,100	0	34,138,900	-1,775,200	-4.9%
Undeveloped	39,471,600	0	39,576,800	105,200	0.3%
Ag Forest	52,945,400	0	54,466,400	1,521,000	2.9%
Forest	224,571,900	0	207,270,800	-17,301,100	-7.7%
Other	124,091,500	700,300	122,458,400	-1,633,100	-1.3%
Total	4,095,327,000	21,940,400	4,027,760,300	-67,566,700	-1.6%

### Expenditures

Polk County  
Total Expenditures by Year (\$ millions)



### Gap between Revenues and Expenditures, 2000 – 2013 (\$ millions)



## Debt

- As of today, Polk County owes \$22.7 million
  - \$19.4 million in principal, \$3.3 million in interest
- 2014 is peak year for debt service at \$4.2 million
- All debt paid in the next 7 ½ years
- Condition of infrastructure generally very good

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## Implications, financial condition

- Financial discipline improved:
  - Programs with a history of overruns eliminated or controlled
    - Golden Age
    - Aging
    - Home Care
    - Courts
  - Budget structurally balanced
- But:
  - Can't count on large cancellations in the future
    - Budget ceilings more precisely set
    - No extra funds allocated

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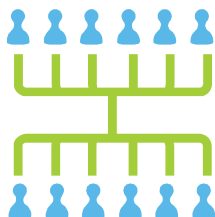
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## Management Condition




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## Management Condition

- Key issues:
  - Retirements and succession planning
  - Preparing for growth
  - Citizen focus
  - Improvements to classification structure
  - Development of a General Code

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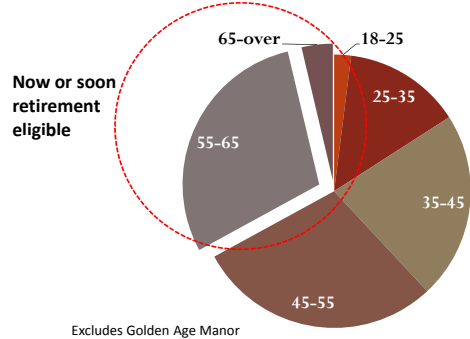
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## Age of Polk County Staff




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## Succession planning

- Retirement and turnover
- Everyone's replaceable, but...
- Strategy:
  - Contingency planning for most positions
  - Critical positions first
  - Develop broader-based leadership training
  - Cross-training where possible

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## Preparing for growth

- Polk County has eliminated nearly 44 positions in the past six years\*
  - Some through program elimination, others through efficiencies, technology
- Close to limits on staffing without overtime, service delays
- Will need to develop formal procedure for determining whether to increase staffing
  - Not necessarily just refilling old positions

\* FTE, excluding GAM

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## Citizen focus

- Began with website
- Gradual expansion to other services
  - Centralize access
  - Improve service quality
  - Simplify procedures




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## Improvements to classification structure

- Old system was complex, too detailed in job descriptions, not conducive to lateral transfers or promotions
- Gradually overlaying new, market based system on old structure
- Simplify classifications, develop career paths, open opportunity for advancement
- Constraints:
  - No significant costs
  - No major disruptions

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## Development of a General Code

- Replace scattered policies, resolutions and ordinances
- Plan to complete basic structure within two years
- Status varies from:
  - Written and can be incorporated
  - Needs rewriting
  - Not even identified
- Will start bringing sections to the Board late this year/early next

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Thank you!

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