

Management's Discussion and Analysis (Unaudited)

As management of the City of Franklin (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities as of December 31, 2008, by \$178,033,690 (**net assets**). Of this amount, \$7,218,061 (**unrestricted net assets**) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by a net amount of \$5,293,632. Investment in capital assets, net of related debt decreased by \$1,246,231, while unrestricted net assets increased by \$5,975,467 and restricted net assets increased by \$564,396. In the prior year the City used cash reserves as interfund advances to facilitate investments in infrastructure in the new TIF Districts. Then in 2008 the TIF Districts obtained some permanent financing for those investments. The impacts of that activity on the Debt Service and TIF District funds accounted for most of the change in net assets.
- The City's governmental funds reported, as of December 31, 2008, combined ending fund balances of \$25,799,211, an increase of \$4,188,211 from the prior year. There was a (**unreserved fund balance**) in total of only \$897,552 due primarily to the fund deficit in the TIF Districts Fund which represents the approximate amount of interfund advances remaining. The receipt of future tax increments will address that issue. Unreserved fund balances in other funds amounted to \$7,778,108 or approximately 30 percent of the total fund balance that is available for spending at the government's discretion.
- The unreserved fund balance as of December 31, 2008 for the general fund was \$5,545,041 or approximately 22 percent of total anticipated 2009 general fund expenditures.
- The City's Governmental activities debt increased by \$4,000,000 during 2008. Normal repayments of \$6,000,000 were offset by the issuance of \$10,000,000 in debt used by TIF District #3.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-like activities). The governmental activities of the City include general government, public safety, public works, health & human services, culture & recreation and conservation & development. The business-type activities include the Franklin Water Utility and the City Sanitary Sewer fund.

The government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate Community Development Authority for which the City is financially accountable. Financial information for this blended component unit is reported as part of the financial information presented for the primary government itself.

The government-wide financial statements can be found on Exhibits A & B of this report.

Fund financial statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General, Debt Service and

TIF Districts Funds, that are considered to be major funds. Data from the remaining thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements later in this report.

The basic governmental fund financial statements can be found on Exhibits C, D, E & F of this report. These statements include a budgetary comparison of the General Fund.

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund, Library Operating Fund, Capital Outlay Fund, Equipment Replacement Fund, Street Improvement Fund, Capital Improvement Fund, Sanitary Sewer Fund and the Franklin Water Utility. A budgetary comparison statement has been provided for all governmental funds demonstrating compliance with their budgets.

Proprietary funds

Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Franklin Water Utility, the Sanitary Sewer Fund and the Internal Service Fund.

The proprietary fund financial statements can be found on Exhibits G, H & I of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs. The fiduciary funds maintained by the City are the Property Tax Agency Fund, that records the tax roll and tax collections for the City and other taxing jurisdictions, an other agency funds to record their activity and a post employment benefits trust to hold funds until needed to pay designated health benefits for current and future retirees.

The basic fiduciary fund financial statements can be found on Exhibit J & K of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements is found on pages 38 – 73 of this report.

Other information

In addition to the basic financial statements, notes and accompanying notes, this report also presents certain **required supplementary information** concerning the City of Franklin's progress in funding its pension obligations to its public works employees and its retiree health obligations to eligible full time employees. Required supplementary information can be found on page 74 of this report.

The combining and individual fund financial statements and schedules section presents combining statements in connection with non-major governmental funds, a detailed budgetary comparison schedule for the General Fund to demonstrate compliance with the

budget complementing the statement included in the basic governmental fund financial statements, and other information related to the individual funds are presented immediately following the required supplementary information. Schedules 1 to 9 can be found on pages 75 – 89 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$178,033,690 and \$172,740,058 at the end of 2008 and 2007, respectively.

CITY OF FRANKLIN NET ASSETS December 31, 2008 and 2007

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 59,842,143	\$ 54,283,378	\$ 3,672,234	\$ 3,570,688	\$ 63,514,377	\$ 57,854,066
Capital assets	112,989,942	108,520,754	90,842,486	90,242,855	203,832,428	198,763,609
Total assets	<u>172,832,085</u>	<u>162,804,132</u>	<u>94,514,720</u>	<u>93,813,543</u>	<u>267,346,805</u>	<u>256,617,675</u>
Long-term liabilities	50,845,466	47,294,304	80,634	70,071	50,926,100	47,364,375
Current liabilities	<u>37,336,035</u>	<u>35,580,150</u>	<u>1,050,980</u>	<u>933,091</u>	<u>38,387,015</u>	<u>36,513,241</u>
Total liabilities	<u>88,181,501</u>	<u>82,874,454</u>	<u>1,131,614</u>	<u>1,003,162</u>	<u>89,313,115</u>	<u>83,877,616</u>
Net assets:						
Invested in capital assets, net of related debt	74,009,675	75,855,538	90,842,486	90,242,854	164,852,161	166,098,392
Restricted	5,732,084	5,173,895	231,384	225,177	5,963,468	5,399,072
Unrestricted	<u>4,908,825</u>	<u>(1,099,755)</u>	<u>2,309,236</u>	<u>2,342,349</u>	<u>7,218,061</u>	<u>1,242,594</u>
Total net assets	<u>\$ 84,650,584</u>	<u>\$ 79,929,678</u>	<u>\$ 93,383,106</u>	<u>\$ 92,810,380</u>	<u>\$ 178,033,690</u>	<u>\$ 172,740,058</u>

The largest portion of the City's net assets (approximately 93 and 96 percent, in 2008 and 2007, respectively) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these net assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Investment in capital assets accounted for \$164,852,161 and \$166,098,392 in 2008 and 2007, respectively of the year end net assets. The changes in capital assets were as follows:

	Net Capital Asset Additions	Depreciation	Change in Capital Related Debt	Net Increase
2008	\$ 9,180,579	\$ (4,111,758)	\$ (6,315,052)	\$ (1,246,231)
2007	\$ 12,905,808	\$ (3,914,628)	\$ 7,210,220	\$ 16,201,400

The major City projects contributing to this increase was in 2008 the reconstruction of Drexel Avenue from Highway 36 to Highway 100 and the installation of a 24" transmission main from 68th to 51st along Puetz Road. However that increase was offset by an increase in capital related debt resulting in net decrease for the year. In 2007 the increase was the reconstruction of 31st Street from Drexel north to the extension, the reconstruction 51st Street north of Drexel and the reconstruction of Oakwood Road from 34th Street east. Infrastructure contributed by developers as part of developer's agreements contributed approximately \$864,000 in 2008 and \$953,000 in 2007 to the capitalized infrastructure through capital grants and contributions of governmental activities and \$734,000 in 2008 and \$1,630,000 in 2007 to capitalized infrastructure through capital grants and contributions for business-type activities.

An additional portion of the City's net assets (3.3 percent and 3.1 percent in 2008 and 2007, respectively) represent resources that are subject to external restrictions on how they may be used. There were \$5,963,468 and \$5,399,072, respectively in those net assets that were restricted to specific purposes with the remaining balance in unrestricted net assets of \$7,218,061 and \$1,242,594, in 2008 and 2007 respectively may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year the City was able to report positive balances in the unrestricted net assets of the government as a whole as well as for its separate business-type activities. The governmental activities unrestricted net assets did show a deficit in 2007 primarily due to the City's decision to use available resources through interfund advances to the new TIF's to provide the initial funding needed by these TIF's. In this way after the TIF expenditures are substantially completed, a external borrowing can be completed for that district with the interfund advances then repaid. The benefits to this process include borrowing what is needed for actual expenses, not having excess funds in the district before expenditures and achieving lower interest costs due to a shorter loan repayment period.

There was a 2008 increase of \$558,189 in restricted net assets reported in connection with governmental activities. The increase was primarily due to the increase in available debt service funds (\$407,000), and growth in available Development funds (\$440,000) offset by the use of utility improvement funds to pay for Puetz Road 24" transmission main (\$368,000).

There was a 2007 decrease of \$2,121,141 in restricted net assets reported in connection with governmental activities. The decrease was due to the reduction in available debt service funds (\$1,296,000), the reduction in impact fees (\$841,000) and the growth in other restricted funds (\$16,000).

There was a 2008 increase of \$6,008,580 in unrestricted net assets reported in governmental activities. The major reason for the increase was the decrease in the advances to other funds that resulted in increased unrestricted net assets.

There was a 2007 decrease of \$11,975,821 in unrestricted net assets reported in connection with governmental activities. The major reasons for the decrease was the initial expenditures in the new TIF Districts (\$9,029,000) and the expenditure of funds in the Capital Improvement fund (\$3,138,768)

Governmental activities

The details of changes in net assets follow:

City of Franklin Changes in Net Assets For the Year Ending December 31, 2008 and 2007

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Program revenue:						
Charges for services	\$ 3,753,496	\$ 4,128,196	\$ 6,925,236	\$ 5,956,073	\$ 10,678,732	\$ 10,084,269
Operating grants & contributions	2,285,275	2,957,937	-	-	2,285,275	2,957,937
Capital grants & contributions	1,735,333	2,753,612	734,367	1,629,536	2,469,700	4,383,148
General revenue:						
Property taxes	24,219,961	21,641,373	-	-	24,219,961	21,641,373
Other taxes	472,575	429,674	-	-	472,575	429,674
Intergovernmental	1,320,286	1,461,840	-	-	1,320,286	1,461,840
investment earnings	1,862,688	2,547,179	67,617	113,197	1,930,305	2,660,376
Other	14,451	452,613	267,819	41,436	282,270	494,049
Total revenue	35,664,065	36,372,424	7,995,039	7,740,242	43,659,104	44,112,666
Expenses:						
General government	3,028,903	2,769,041	-	-	3,028,903	2,769,041
Public safety	15,598,643	14,387,891	-	-	15,598,643	14,387,891
Public works	6,900,407	6,800,767	-	-	6,900,407	6,800,767
Health & Human services	663,262	630,002	-	-	663,262	630,002
Culture & Recreation	1,803,155	1,766,274	-	-	1,803,155	1,766,274
Conservation & development	718,032	6,591,661	-	-	718,032	6,591,661
Interest on long-term debt	2,654,969	2,705,294	-	-	2,654,969	2,705,294
Water	-	-	3,928,578	3,620,524	3,928,578	3,620,524
Sewer	-	-	3,069,523	2,640,092	3,069,523	2,640,092
Total expenses	31,367,371	35,650,930	6,998,101	6,260,616	38,365,472	41,911,546
Increase in net assets before transfers	4,296,694	721,494	996,938	1,479,626	5,293,632	2,201,120
Transfers	424,212	(560,258)	(424,212)	560,258	-	-
Increase in net assets	4,720,906	161,236	572,726	2,039,884	5,293,632	2,201,120
Net assets - beginning	79,929,678	79,768,442	92,810,380	90,770,496	172,740,058	170,538,938
Net assets - ending	\$ 84,650,584	\$ 79,929,678	\$ 93,383,106	\$ 92,810,380	\$ 178,033,690	\$ 172,740,058

Governmental activities in 2008 increased the City's net assets by \$4,720,906 accounting for 89 percent of the total growth in the net assets of the City. Elements of this increase follow:

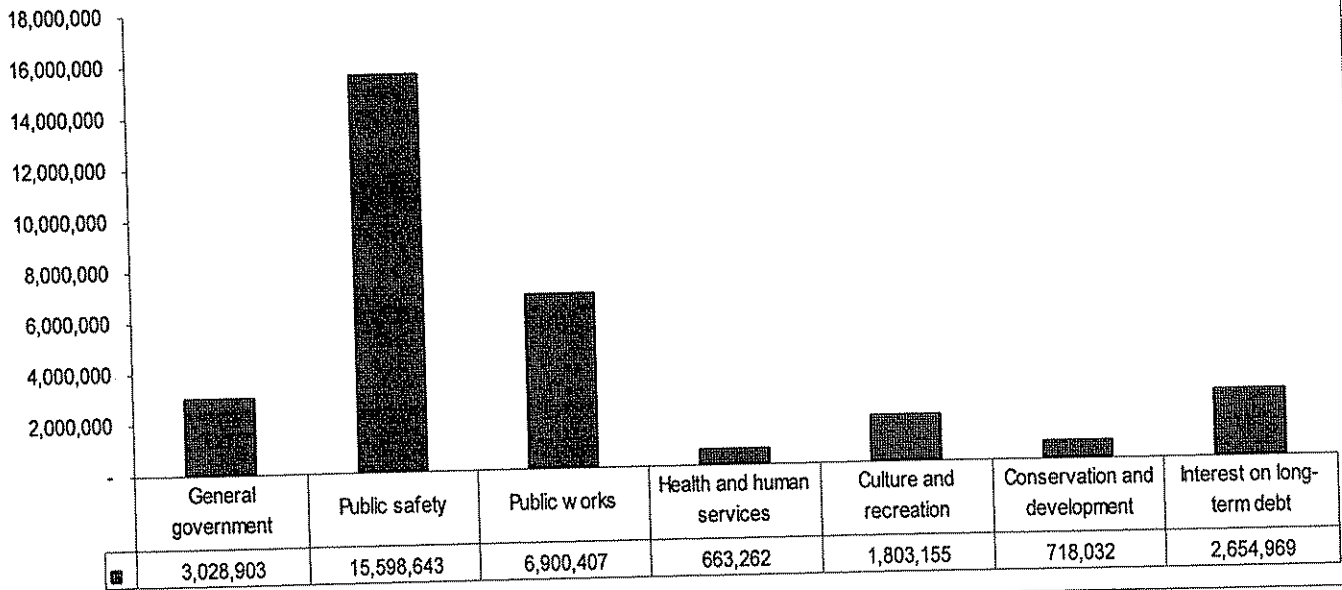
- Decrease due to General Fund activity of \$608,554
- Net decrease in Debt service activities of \$876,545
- Increase in governmental activities capital assets net of depreciation of \$4,469,188
- Net increase from internal service activities of \$910,553
- Net decrease from special assessment activities of \$628,933
- Net increase from TIF Districts activities of \$1,371,002
- Net increase from other funds activities of \$84,195

Governmental activities in 2007 increased the City's net assets by \$161,236 accounting for 7 percent of the total growth in the net assets of the City. Elements of this increase follow:

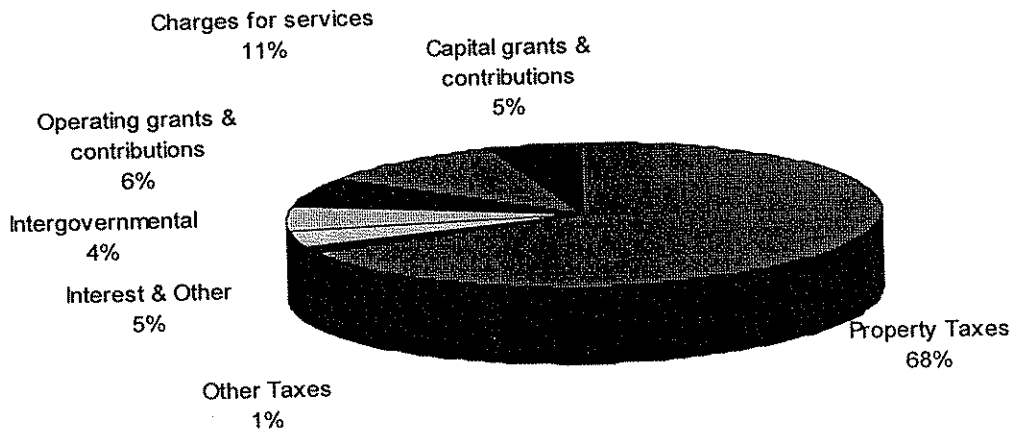
- Decrease due to General Fund activity of \$1,397,983

- Decrease due to the increase in Long term Debt of \$5,268,153
- Increase in governmental activities capital assets net of depreciation of \$7,047,978
- Net increase from internal service activities of \$528,961
- Net decrease from special assessment activities of \$309,927
- Net decrease from other funds activities of \$600,876

Expenses by Function - Governmental Activities



Revenue by Source - Governmental Activities



Business-type activities

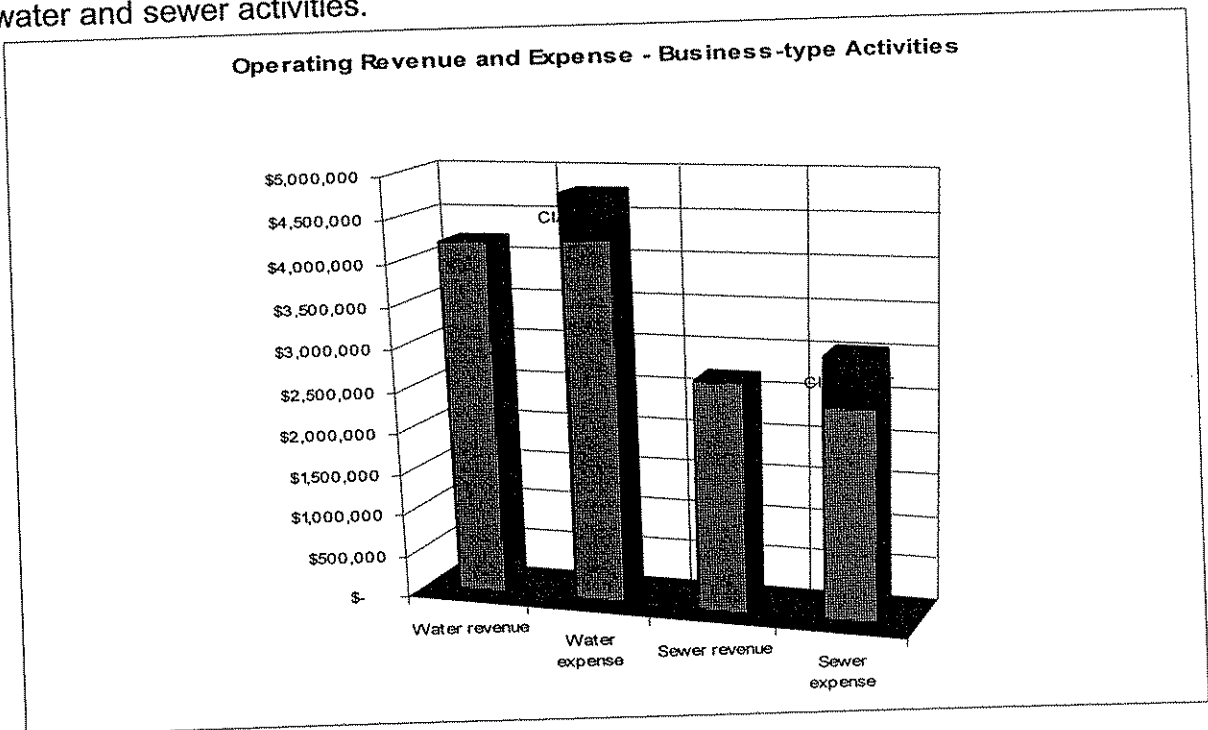
In 2008, business-type activities increased the City's net assets by \$572,726 or .6 percent from the prior year. The key elements of this increase follow:

- The increase from operating activities (the change in net assets excluding capital contributions and its related depreciation expense) was \$500,584. The goal of the business activities is to provide these services at a break even basis to minimize the cost to the users. The sewer revenue is currently below the level necessary to meet this goal.
- Contributions of water infrastructure - \$689,955 consisting of four developer projects and one City project
- Contributions of sewer infrastructure - \$477,220 consisting of three developer projects and one City project
- Depreciation expense related to contributed assets - \$1,095,033

In 2007, business-type activities increased the City's net assets by \$2,039,884 or 2.2 percent from the prior year. The key elements of this increase follow:

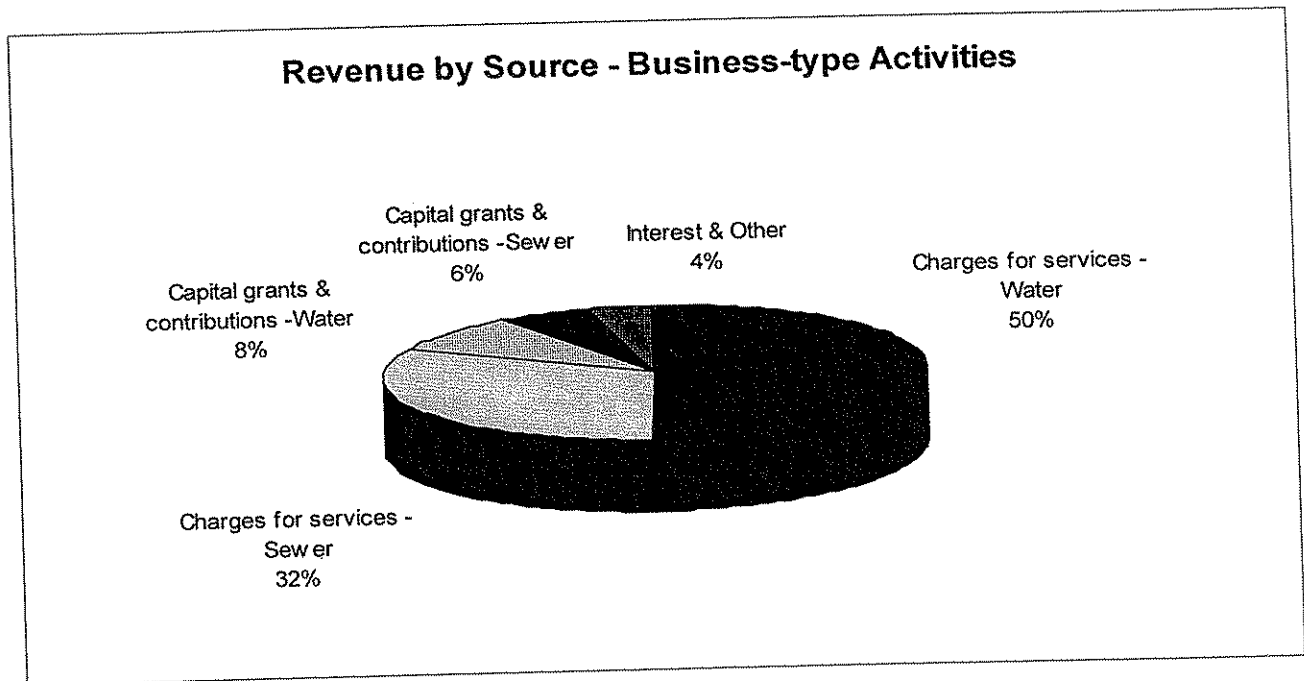
- The increase from operating activities (the change in net assets excluding capital contributions and its related depreciation expense) was \$83,112. The goal of the business activities is to provide these services at a break even basis to minimize the cost to the users. The sewer revenue remains below the level necessary to meet this goal.
- Contributions of water infrastructure - \$1,966,833 consisting of thirteen developer projects and two City projects
- Contributions of sewer infrastructure - \$1,060,306 consisting of eleven developer projects
- Depreciation expense related to contributed assets - \$1,070,367

The following graph compares the 2008 charges for services to the operating expenses for water and sewer activities.



Water and Sewer expenses can exceed revenue due to the current policy of only including depreciation from City spending on capital assets in the rate formula. The large amount of new infrastructure that is being installed each year is the reason for this policy. When maintenance and replacement costs begin to increase this policy may need to be reevaluated.

As shown on the following chart, the Business-type revenue includes capital grants and contributions, investment earnings and miscellaneous income in addition to charges for services (operating revenue).



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds.

The focus of the City's **governmental funds** is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$25,799,211, an increase of \$4,188,211 in comparison with the prior year. At year end there was unreserved fund balance in total of \$897,552. Of this total unreserved fund balance, the following amounts were committed to specific types of activities; i.e., \$5,519,932 for general fund activities, \$132,206 for special revenue fund activities, \$2,125,970 for capital project activities and offset by a \$6,880,556 deficit in the TIF Districts activities. The TIF Districts deficit is due to the favorable type of interim financing selected and will be addressed by a permanent source of financing at an appropriate time.

The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$12,091,660), 2) for advances to other funds (\$6,300,000) 3) for development purposes (\$3,083,708), 4) for library purposes (\$414,428), 5) uncompleted contracts (\$1,452,000), 6) encumbrances (\$1,236,000) and 7) for emergency medical services, prepaid expenses, inventories, utility improvement, donations and grants (\$323,863).

The **General Fund** is the chief operating fund of the City. As of December 31, 2008, the total fund balance of the general fund was \$5,545,041 of which \$5,519,932 was unreserved. This unreserved fund balance represents approximately 22 percent of 2009 total general fund expenditures.

The total fund balance of the general fund decreased by \$390,441 in fiscal year 2008. The 2008 annual program budget for the City's general fund identified an appropriation of \$697,000 in fund balance to reduce the impact of taxes levied and to balance the budget. Actual expenses were less than budgeted expenses by 3.9 percent or \$959,399 and actual revenue was less than budget revenue in the general fund by \$653,456 or 2.8 percent. This resulted in the fund balance declining by \$390,441. The total included the City's Common Council transferring \$948,646 to the fund balance of the General Fund. The underexpenditures were mainly from vacancy in authorized positions and unused contingency.

The **Debt Service Fund** has a total fund balance of \$8,339,240, \$2,639,240 of which is reserved for the payment of debt service and \$5,700,000 is reserved for advances made to the TIF Districts fund. The fund balance decrease came from payment of debt service and advances returned and transferred to the Capital Improvement Fund (\$2.5 million).

The **TIF Districts Fund** has an unreserved fund deficit of \$6,880,556 and a reserved fund balance of \$10,625,420 for a net fund balance of \$3,744,864. The fund deficit is due to receiving long term advances from the Debt Service Fund and investing those funds in infrastructure less a \$9.4 million loan to support a note receivable issued under a development agreement.

The City's **Proprietary Fund** provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Utility at the end of the year amounted to \$1,574,449, a decrease of \$135,248 from December 31, 2007. The growth in total net assets was \$437,916.

Unrestricted net assets of the Sanitary Sewer Fund at the end of the year amounted to \$734,787, an increase of \$102,135 from December 31, 2007. The growth in total net assets was \$134,810.

The enterprise funds financial statements can be found on Exhibits G, H and I of this report.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor except for the \$948,000 in transfers in from other funds and the establishment of departmental budgets for the OPEB expense both due to the adoption and funding of GASB

Statement #45 regarding retiree health charges. There were other non significant appropriations that came from other departments or from the contingency budgeted.

Actual revenue was \$653,486 below budgeted revenue. This was primarily due to development related (building permits, engineering review fees, zoning and filing fees) down \$690,000, interest revenue down \$75,000 partially offset by ambulance and FEMA revenue.

Actual expenditures were less than budgeted expenditures by \$959,399. This amount was across all functions and impacted by a hiring freeze due to economic conditions. The Information services, Police, Dispatch, Engineering, Parks and City Development departments accounted for the largest portion of the under expenditures. The unused contingency budget was \$115,000. The underexpenditures were reduced by overexpenditures in elections, legal, highway, refuse collection, street lighting and animal control budgets.

With significant economy related revenue decreases, budget under expenditures were unable to offset the revenue decline and resulted in a reduction in the general fund balance. This was the first such unplanned reduction since 2001.

Capital assets.

The City's investment in capital assets for its governmental and business type activities as of December 31, 2008, amounts to \$198,763,608 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements other than buildings and machinery and equipment.

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 24,648,453	\$ 24,286,755	\$ 426,384	\$ 426,384	\$ 25,074,837	\$ 24,713,139
Buildings and Improvements	23,069,585	22,198,446	2,322,250	2,383,341	25,391,835	24,581,787
Improvements other than buildings	81,281,205	77,748,558	105,178,334	103,178,888	186,459,539	180,927,446
Machinery and and equipment	14,223,837	13,685,806	1,975,076	1,959,801	16,198,913	15,645,607
Construction in process	<u>1,624,809</u>	<u>144,154</u>	<u>611,614</u>	<u>662,700</u>	<u>2,236,423</u>	<u>806,854</u>
Total capital assets	144,847,889	138,063,719	110,513,658	108,611,114	255,361,547	246,674,833
Less Accumulated depreciation	<u>(31,857,947)</u>	<u>(29,542,965)</u>	<u>(19,671,172)</u>	<u>(18,368,260)</u>	<u>(51,529,119)</u>	<u>(47,911,225)</u>
Capital assets net of Depreciation	<u>\$ 112,989,942</u>	<u>\$ 108,520,754</u>	<u>\$ 90,842,486</u>	<u>\$ 90,242,854</u>	<u>\$ 203,832,428</u>	<u>\$ 198,763,608</u>

The total increase in the City's net investment in capital assets for the current fiscal year was a total of \$5,068,820 net of depreciation or a 2.6 percent increase.

For further details on capital asset activity, refer to Note 1(D)5 and Note 4(D) of the Notes to Financial Statements and Schedules 8 – 8.2.

Long-term debt

At December 31, 2008, the City had general obligation note and bond issues outstanding totaling \$56,080,000. State statutes limit the amount of general obligation debt a governmental entity may issue up to 5 percent of its total equalized valuation. The current debt limitation for the City is \$194,919,365., The City's current outstanding general obligation debt is 29% of the statutory debt limit. In the last 15 years the City has not exceeded 34 percent of the statutory debt limit.

In early 2008 the City borrowed \$10,000,000 in tax exempt general obligation notes for the City's TIF District No. 3. The purpose was to fund infrastructure expenses and repay interfund advances from other City funds.

The City's present rating from Moody's for its general obligation debt is "Aa2".

The final repayment was made in 2008 on redevelopment revenue bonds that were issued by the City's Community Development Authority (CDA).

The Franklin Water Utility has no debt outstanding. The Board of Water Commissioners intention is to generally avoid debt by maintaining and building cash and investments and from time to time making improvements to its rate structure. The utility's plan is to make future infrastructure improvements including water main replacement and new water service from current reserves and from City collected impact fees.

City of Franklin's Outstanding Debt (All purposes)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
	General obligation notes	\$ 46,050,000	\$ 39,525,000	\$ -	\$ -	\$ 46,050,000
bonds	\$ 10,030,000	\$ 10,180,000			10,030,000	10,180,000
Revenue bonds	-	2,375,000	-	-	-	2,375,000
Total	\$ 56,080,000	\$ 52,080,000	\$ -	\$ -	\$ 56,080,000	\$ 52,080,000

Additional information of the City's long-term debt can be found in note 4(F), Schedule 5 and Tables 10 – 12 in the statistical section of the report.

Other Changes of Significance

Defined Benefit Pension Plan Administration

During 2008 the review of the administration contract for the Public Works Employee Pension Plan was completed and a new administration contract was implemented. The new administration contract allows for a wider range of investments that in turn allows for a higher investment return assumption in the annual actuarial report. The result of the change in assumption was the reduction in the annual required contribution for the plan from \$252,283 in 2007 to \$99,781 in 2008. Future years cost may fluctuate somewhat from the 2008 level depending upon market forces but should remain significantly below the 2007 level of contribution.

Post Employment Health Care Benefits

The City of Franklin provides retiree health care benefits to certain retiree groups from the date of retirement until age 65. Prior to 2008 the City's portion of health care cost was recognized as expenditure in the period premiums were paid. Funding for those costs was provided out of the current operating budget of the City. This was referred to as financing on a pay as you go basis.

The Government Accounting Standards Board (GASB) issued Statement #45 effective for the City of Franklin on January 1, 2008 that said that the expense of these benefits has to be recognized over the working lives of the employees. The City has studied the issues surrounding GASB Statement #45 over the last four years. The Common Council came to the conclusion that the City of Franklin should not only recognize the expense on its financial statements but should fund those amounts out of its general revenue starting in 2008. The actuarial computed annual required contribution under GASB #45 for 2008 was \$864,799. This amount was reduced to \$703,713 with the establishment of a section 115 trust but was still a significant cost increase compared to the pay as you go cost for 2008 of \$126,595.

To fund this cost the City will use a combination of fund balance from the General Fund, revenue from landfill siting fees and property tax levy that will be increased over a four year period to cover the increased cost. The new standard provided that if a trust was established to hold these funds for this purpose a higher interest assumption could be used in calculating the annual required contribution. The City of Franklin did establish a trust for this purpose in 2008. The result was the 2008 annual required contribution was reduced by \$161,086 to \$703,713. More detailed information can be found in footnote 5C.

Economic Factors, Tax Rates and Next Year's Budgets

- The unemployment rate as of December 31, 2008 for the City was 4.4%, Milwaukee County which includes the City, is 6.5 percent. This compares with an unemployment rate of 5.8 percent for the State of Wisconsin.
- The local tax rate change for operations for the current and prior two years were 3.18%, 1.93% and -1.63%, respectively.
- The tax levy increase for the current and prior two years were, \$1,054,000, \$935,000, and \$666,700, respectively.
- The 2009 budgets require a local tax rate that increases 1.52% which together with growth will result in a tax levy increase of \$587,000 or 3.0 percent.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance & Treasurer, 9229 West Loomis Road, Franklin, WI 53132.

General information or more detailed financial and budget information relating to the City of Franklin can be found at the City's website, www.franklinwi.gov - Finance Department tab.

BASIC FINANCIAL STATEMENTS