

Letter of Transmittal
December 29, 2010

Honorable Mayor, Common Council, and Finance Committee:

Pursuant to Section 13-2.A, Municipal Code of the City of Franklin, submitted here is the 2011 Annual Budget for the City of Franklin that was adopted by the Common Council on November 16, 2010.

Introduction

The budget process began with the preparation of a budget forecast. The forecast calculated 2011 costs based on a set of cost assumptions and applied those to the 2010 approved work program. The departments were then requested to provide their input on personnel needs, capital outlay needs, equipment replacement needs, street improvement needs, capital improvement needs and related debt service needs for the year 2011 and following years. That information plus the forecast was provided to the Mayor.

The Mayor and staff reviewed the forecast, discussed with departments requesting new personnel and determined what personnel, capital outlays, equipment replacement, street improvement, capital improvement and related debt service needs would be included in the 2011 Department/Requested Budget. That information was communicated to the departments. The departments then prepared their Departmental budget requests and submitted them to the Director of Finance & Treasurer for compilation. The Mayor consulted with the Director of Administration and Director of Finance & Treasurer, discussed with Department Heads and made adjustments in putting together the 2011 Mayor's Recommended budget. That document was reviewed by the Finance Committee and then the Common Council. The 2011 Budget was adopted November 16, 2010 after a public hearing was held.

The budget document consists of three sections: Summary information providing an overview of the City budgets including assessed valuation, tax levy, tax rate information and manpower positions; Budget summaries for Operating and Capital funds: Library, Sewer, Water Utility, Capital Projects Funds, Debt Service Fund and Tax Incremental Financing Districts and detail departmental budgets for the City of Franklin General Fund department are then presented.

Budget Summary

The Adopted 2011 budget continues to reflect caution in these uncertain economic times. The budget does so by restraining growth in expenditures. It does not look to the citizens of Franklin to replace lost revenue through substantial increased taxes. The City recognizes that the Citizens of Franklin are experiencing the same, if not more, economic forces and subject to similar fiscal influences as the City. As citizens are forced to conserve at home, the City, too, is trying to conserve while trying to maintain essential services. The Adopted 2011 budget responds by holding the line on current operating expenditures underfunds its capital funds and holds the change in property taxes experienced by the average taxpayer to below normal inflationary forces.

The actions incorporated into the Adopted 2011 Budget represent a continuation of the steps taken in recent budgets to hold down the costs of local government. In 2009 six full time positions were not funded as part of the measures to offset revenue reductions. Three of those positions were vacant and the other three required layoffs. In 2010 two vacant positions were not filled to partially offset the decline in other revenue. In 2011 one of those positions was restored. The signing of a landfill siting agreement has provided a temporary solution. The 2011 advance landfill siting payment was designated to three capital funds allowing 2011 tax levy in those funds totaling \$450,000 to be included in the General Fund. In this way until other revenue sources recover or another revenue source is determined the shortfall in the budget can be funded. Until the landfill addition receives all necessary approvals capital funds rather than operating funds are at risk of not having necessary funding in 2012 and future years. This could further reduce the effectiveness of those funds

The goal is to maintain services whenever possible. Shorting the funding to the Capital funds and not authorizing new positions were some of the ways the budget demands have been met. When other revenue sources increase eliminating the structural deficits in these funds and returning funding to policy levels will have to be given a priority.

Highlights of the adopted budget include the following:

- The decrease in the City portion of residential tax bills for average residential properties (\$235,000) that have assessment decreases between 5.0% and 5.9% will range from (\$2.89) to (\$18.78) or a percentage decrease of 0.20% to 1.29%. Properties that have reassessment reductions lower than this range will have tax bill results higher and properties that have reassessment reductions higher than this range will have tax bill results lower than the example above.
- A City tax rate of \$6.22 is recommended, an increase of \$.03 (1.99%) from the prior year after adjusting for the reassessment and equalization changes.

- The emerald ash borer (EAB) discovery in Franklin has led to various groups planning the City's response to this issue. The initial steps in this budget include filling an unfunded position in the Highway department and other budget EAB increases of approximately \$42,000 for removal and disposal of damaged street trees that become compromised and disposal of those trees received from residents.
- Use of the 2011 advance payment from landfill siting revenue to support capital projects funds.
- Tax levy support redirected from Capital Projects Funds to the General Fund to support the three positions added by the Council for 2010 and the 2010 revenue shortfall to avoid the reduction of those positions in 2011 and to avoid other service level reductions until other revenue sources recover.
- Not to fund 6.48 new manpower requests of the departments that would have raised the tax levy by \$368,000 or another 1.8% in tax levy.
- The present sewer and water building has been in need of improvement and enlarging for many years. Preliminary plans have been completed and have been on hold due to economic uncertainties. Additional land needed has been acquired. Indications are that 2011 or 2012 will be a good climate to seek bids on a new larger facility. The sewer and water funds would borrow the funds and recover their costs through an adjustment in rates.
- The Library tax levy was increased by 2.2% in 2011. The Library can be maintained at this level in 2011 due to reciprocal borrowing funding received through Milwaukee County. Potential revisions to this agreement may cause those amounts to be reduced in the future. In such an event, the City will need to re-examine property tax levy support to ensure that the Library has sufficient baseline revenues to support the Library's core functions and the service levels upon which the citizens of Franklin have come to rely.
- In 2010 the General Fund provided half of the cost of City services required to support the Civic Celebrations/Fourth of July activities. This support of the fair is being continued in 2011. The Commission is encouraged to continue to work toward financial independence.
- In 2010 a Special Revenue Fund was established for the activities of the St. Martin's Fair and the General Fund provided half of the cost of City services required to support the Fair. This support of the fair is being continued in 2011.

The adopted 2011 budget continues to reflect adjustment to these unprecedented economic times. It does so largely by restraining growth in expenditures. It does not hold the citizens of Franklin responsible to replace lost revenue through substantially increased taxes. The recognition is that the Citizens of Franklin are experiencing the same, if not more, economic forces and subject to similar fiscal influences as the City.

The adopted 2011 budget responds by controlling City expenditures through various measures, including not authorizing new positions, not hiring, where possible, new full-time staff to fill vacant positions, reducing or holding the line on current operating expenditures, and holding the change in property taxes experienced by the average taxpayer to below normal inflationary forces.

Tax Bill, Tax Levy and Tax Rate implications

The Adopted Budget results in an decrease in the City portion of tax bills for average residential properties (\$235,000) with assessment decreases between 5.0% and 5.9% will range from (\$2.89) to (\$18.78) or a percentage decrease of 0.20% to 1.29%. Properties that have reassessment reductions lower than this range will have tax bill results higher and properties that have reassessment reductions higher than this range will have tax bill results lower than the example above.

The following breakdown reflects the tax levy recommendations by fund.

<u>City of Franklin</u>				
<u>Tax Levy Information</u>				
City Tax Rate Components	2011	2010	2011	2010
	Budget Tax Levy	Budget Tax Levy	Budget Tax Rate	Budget * Tax Rate **
Capital Outlay	380,000	475,000	0.1128691	0.1419883
Equipment Replacement	130,000	277,000	0.0386131	0.0828016
Street Improvement	400,000	500,000	0.1188096	0.1494614
Debt Service	1,900,000	1,900,000	0.5643455	0.5679532
Subtotal	2,810,000	3,152,000	0.8346373	0.9422044
Library Program	1,175,000	1,150,000	0.3490031	0.3437611
General Fund Program	16,980,000	16,124,000	5.0434665	4.8198300
Total	20,965,000	20,426,000	6.2271069	6.1057956
Prior Year Levy	(20,426,000)	(20,142,000)	**	0.0804207
Increase in Tax Levy	539,000	284,000		6.1862163

* Reflects Reassessment
 ** Equalization Adjustment

The City tax rate is the result of the tax levy required to finance the activity in all funds divided by assessed value of the City. The prior year City tax rate after reassessment multiplied by the new construction value provides the amount of growth tax levy and that is estimated at \$130,577, and was an increase of .6% from the prior year.

The resulting City tax rate is \$6.22 per \$1,000 of assessed value compared to last year's City tax rate of \$6.19 per \$1,000 after adjusting for the average reassessment and equalization adjustment. The percentage increase in City tax rate is 1.99%.

However, due to this being a reassessment year, there will be range of increases and decreases in the percentage change in City taxes depending upon each property's assessment. Properties with an average reassessment decrease of 3.5% will have a 1.99% tax increase. Properties with assessment increases or properties with decreases less than the average assessment decrease will experience larger tax increases. Properties with assessment decreases greater than the average assessment decrease will experience lower tax increases or tax decreases.

Equalized and Assessed Valuation

The equalized (estimated assessed valuation) of all property from new development including TIF District values as computed by the Department of Revenue decreased by \$242,133,900 or 6.2% to \$3,670,508,700 which is 100.7% of total assessed value. The year 2010 was a reassessment year. The assessed value, exclusive of the TIF District values, decreased from \$3,490,551,540 to \$3,366,731,980 or a 3.5% decrease.

Reassessment

City properties are reassessed periodically so that all properties bear a fair and proportional part of property taxation. The City of Franklin last performed a reassessment four years ago. The purpose of each reassessment is to bring all properties close to their fair market value. For the current reassessment the average decrease on properties was 3.5%. Residential properties decreased 5.9%, Commercial properties increased 7.7%, Industrial properties increased 3.4%. This will result in residential taxpayers paying a smaller portion of the total tax levy with non-residential taxpayers paying a larger portion of the total tax levy.

The reassessment process for the City as a whole is neutral on taxes. Taxpayers with assessment changes close to the average decrease in assessments would see a result approximating their prior year tax obligations. This means that taxpayers with an average decrease in assessments see an increase in the property tax rate with the total amount they pay remaining about the same as the prior year.

If a property assessment decreases more than the average they would see a reduction in taxes from the prior year, and if a property assessment increases or decreases less than the average decrease they would see an increase in taxes from the prior year. Those taxpayers paying increased taxes will be offset by those paying reduced taxes, amounting to no net change in taxes due to reassessment. In this way, the reassessment process achieves a more fair distribution of total property tax burden to all taxpayers based on property value.

Landfill Siting Revenue

The recently signed landfill siting agreement provides the potential of a good long term source of revenue for the City of Franklin. The agreement calls for two advance payments of \$450,000 to be received in 2010 and 2011. The 2010 advance payment was distributed per the 2007 adopted Ordinance designating that one-third of any such revenue received through 2010 would be used in the General Fund. The 2011 advance payment is designated to Capital Projects Funds with \$100,000 to the Capital Outlay Fund, \$150,000 to the Equipment Revolving Fund and \$200,000 to the Street Improvement Fund. Future payments are dependent on new cells being opened at the landfill. The amount of new cells is dependent on regulatory approvals. In the event that additional funds are received in 2011 they will be designated to the Capital Improvement Fund to be programmed for use in the following year.

General Fund

The General Fund is one section of the City's overall budget. It is the largest segment of the City's total budget and includes the operating expenditures of City departments.

The recommended expenditure budget for 2011 of \$24,933,000 reflects a 3.0% increase from the 2010 budget. The budget includes 1.06 FTE's in new staff positions. The actual expenditures for 2009 were \$23,442,901, which under expended that budget by \$992,099 or 4.1% with \$471,000 of that amount anticipated. The under expenditures were the result of vacant positions and by contingency budgeted but not used during the year. The budget for 2010 of \$23,817,000 was a 2.6% decrease over the 2009 budget. The current estimate to be expended in 2010 is 23,888,644, 0.3% more than budgeted. The increase from budget in this year's estimate is primarily caused by an error in budgeting salaries and benefits for the Fire Department. Final spending numbers are expected to be less than the total amount budgeted due to programs and expenses planned but will not be able to be incurred by year end.

The actual General Fund tax levy revenue for 2009 was \$15,535,375. Tax levy revenue for 2010 was budgeted at \$16,624,000. The recommended General Fund tax levy revenue for 2011 is \$16,980,000. Reducing the tax levy in other funds enabled the total tax levy to remain at a 2.64% increase.

All other revenue received for 2009 was \$7,472,569 compared to a 2010 budget of \$7,683,000, an expected 2.8% increase. The projection for all other revenue for 2010 is \$7,764,644, a \$81,644 or a 1.1% increase from the 2010 budget. In 2011 all other revenue budgeted is \$7,638,000 a 0.6% decrease from the 2010 budget and a 1.6% decrease from the 2010 estimate. The major reasons for the increase in all other revenue in 2010 was the increase in landfill revenue (\$136,000), in other taxes (\$65,000), in miscellaneous revenue (\$63,000), in permit fees (\$44,400) and in other grants (\$49,444); with reductions in interest revenue (\$148,000), in planning fees (\$46,500) and various other reductions (\$81,700).

The budgeting philosophy remains that departments are to budget at an estimate of an average year's exposure with the understanding that the departments will be able to request additional appropriations from contingency or fund balance in a year in which there are unique circumstances or above average departmental needs for items such as overtime costs, salt purchases, fuel or claims against the City.

Library Fund

The Library is requesting expenditure funding of \$1,315,273, an increase of \$42,097 in support of Library activities. Their spending level is supported by tax levy of \$1,175,000 an increase of 2.2% from 2010 and plan to use of some of the Library's existing fund balance to support 2011 activities.

Sanitary Sewer Fund

The Sewer Fund receives its revenue from user fees and interest income. Its expenditures are to MMSD, salaries, benefits, capital assets and other costs of maintaining and improving the sanitary sewer system. The Retained Earnings in this fund have increased over the past three years. In 2009 MMSD had the second part of a significant sewer rate increase (about 12%). Sewer rates are proportionally increased to cover any MMSD increase and meet local operating costs of the fund. MMSD has indicated the need for an increase of about 3% in 2011 charges to cover on going costs. The Sewer Fund rates for 2011 will need to recover these annual cost increases plus any financing increases associated with the Ryan Creek Interceptor sewer project.

Water Utility

The approving body for the Water Utility is the Franklin Board of Water Commissioners. Because of that fact, the information included in the City of Franklin Annual Budget Book relative to the Water Utility is not included in the City of Franklin summary information. The Water Utility had a 4.1% increase in overall rates approved by the Public Service Commission for 2010. A 3.0% increase is anticipated in 2011.

Capital Outlay Fund

Departmental requests for capital outlays in 2011 totaled \$833,884 compared to \$984,257 in 2010. The Mayor reduced the departmental requests by \$208,484 leaving \$625,400 that compares to the \$543,129 in 2010. The recommended 2011 budget includes \$100,000 in new landfill siting revenue, but tax levy revenue was reduced by \$95,000. Additional funding will be necessary for this fund to meet the ongoing need of the departments in future years.

Equipment Revolving Fund

The Equipment Revolving Fund provides for the replacement of various types of motorized equipment. New equipment is purchased by other funds. Replacement equipment purchased is placed on a depreciation schedule in the year acquired. Replacement is made based upon the estimated useful life of the equipment. Funding from the tax levy and other sources should approximate the annual depreciation of the replacement value attributed to the city's total fleet based on estimated useful life.

The 2010 anticipated funding is expected to be 45% of the funding goal. The tax levy budgeted for 2011 is \$130,000, a reduction of \$147,000 from the 2009 tax levy. New landfill siting revenue of \$150,000 is anticipated in 2011. The anticipated revenue represents 48% of the desired 2011 revenue indicated by the fund policy. Replacement expenditures of \$276,000 have been approved for 2011 from this fund.

Street Improvement Fund

The Street Improvement Program is a separate capital projects fund to give visibility to street improvement activities. Many of the City of Franklin streets were reconstructed at the time sewer was installed in various parts of the City 25 to 30 years ago. Many streets need to be resurfaced in the coming years. Revenue consists of Tax Levy support of \$400,000 in 2011 compared to \$500,000 in the prior year. \$200,000 in new landfill siting revenue is anticipated in 2011. A proposed five year street improvement program is included in the materials. Local road resurfacing makes up the 2011 projects. Longer term, the available revenues are insufficient to fund the projects scheduled to be implemented in the time frames projected.

Capital Improvement Fund

The Capital Improvement Plan is used to project public improvement needs for the coming years. The Capital Improvement Fund uses this five year forecast for planning purposes. Items contained in the Capital Improvement Fund are financed with existing resources, resources from other funds and from the issuance of debt. The major items in the 2011 budget are the construction of a new sewer and water building with those funds responsible for the financing of the project and the reconstruction of a portion of Oakwood Road funded by TIF District #2.

A 2011 budget for the Capital Improvement Fund is prepared as the first year of a five-year forecast. Projects that have Common Council approval received specific budget itemization. For those projects that have not yet had Common Council review and approval an unallocated total appropriation was approved.

Debt Service Fund

The City's plan is to issue Debt every other year in support of its capital activities. The last debt issuance in support of capital activities was in 2008. The City forecasts future debt issuance of \$2.0 million every other year to support public improvement projects. In response to the economic slowdown, the forecast 2011 debt offering has been postponed at least until 2012. Where necessary borrowing needs arise, they will be met by internal borrowing.

Conclusion

The 2011 budget was anticipated to be the stabilization year after the reductions that were required in the 2009 and 2010 budgets. Based on the Adopted budgets that is close to being a reality. The addition of three positions recommended to remain vacant to the 2010 adopted budget has put additional pressure on the 2011 budget. The funding of those three positions was effectively delayed until the 2011 budget for consideration. The rationale for not making service cuts in 2010 was continued for 2011. Continuing revenue needed to be found for these positions and the minor revenue reductions realized in 2010. In addition resources to begin combating the emerald ash borer were included in the 2011 budget. The solution proposed was to commit additional tax levy to operations. Fortunately the new siting agreement provided an opportunity to provide revenue to the capital funds which, in turn, could get by with less tax levy revenue in 2011. That was not enough, however, and reductions in the departments were necessary to enable the 2011 adopted budget to live within available revenue.

Combined capital spending is slightly lower than the prior year. The Capital Outlay Fund, Equipment Revolving Fund and the Street Improvement Fund were funded with less tax levy compared to the prior year. The Capital Improvement budget is funded at a minimum level and Debt service tax levy has been funded with the same tax levy as the prior year. In spite of many challenges, the adopted 2011 budget restricts expenditure increases with a tax levy increase of 2.6%, a tax rate increase of 1.99% and a General Fund expenditure increase of 3.0%.

Respectfully submitted,



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