

Letter of Transmittal  
January 31, 2012

Honorable Mayor, Common Council, and Finance Committee:

Pursuant to Section 13-2.A, Municipal Code of the City of Franklin, submitted here is the 2012 Annual Budget for the City of Franklin that was adopted by the Common Council on November 29, 2011.

#### Introduction

The budget process begins with the preparation of a budget forecast. The forecast calculates 2012 costs based on a set of cost assumptions and applied those to the 2011 approved work program. The departments then are 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 2012 and following years. That information plus the forecast was provided to the Mayor.

The Mayor and staff review the forecast, discuss with departments requesting new personnel and determine what personnel, capital outlays, equipment replacement, street improvement, capital improvement and related debt service needs will be included in the 2012 Mayor's Recommended Budget. That information is then communicated to the departments. The departments then prepare their Departmental budget requests and submitted them for compilation. The Mayor consulted with the Director of Administration, Director of Finance & Treasurer, discussed with Department Heads and made adjustments in putting together the 2012 Mayor's Recommended Budget. That document was submitted to and reviewed by the Finance Committee and then the Common Council. The 2012 Budget was adopted November 15, 2011 after a public hearing. The budget adopted was vetoed and an alternative budget adopted on November 29, 2011.

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, Solid Waste, 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 departments are then presented.

### Budget Summary

The Adopted 2012 budget recognizes the state and national economic environment. The serious economic recession of 2008 to 2010, the modest attempt at recovery and governmental restraints through State levy limit legislation provided a solemn setting in which to adopt a budget. The levy limit legislation provided the greatest test for municipalities as two-thirds to three-fourths of City operational revenue is derived from the property tax. This is unlike county governments where only about 25% of their revenue is derived from the property tax. Municipal governments that have been responsible in the past and have maintained minimal staffing levels to support current service levels such as Franklin's will going forward find it extremely difficult to maintain current service levels expected by the citizens.

The Adopted 2012 budget maintains core current service levels but is unable to maintain all current services and staffing. At the same time a significant portion of the property tax benefit from the ending of TIF District #2 is returned to the citizens in keeping with an original goal of that TIF District. The property tax levy and the property tax rate have both declined in this adopted budget. The property tax levy decline is attributable to a dollar for dollar transfer of the solid waste service from a tax to a fee. Other revenue sources have not increased. The adopted budget includes funding toward existing structural deficits that must be restored to maintain the City's long term financial health. Those deficits were created in 2009 and 2010 to minimize the impact on property taxes during the recession.

The actions incorporated into the Adopted 2012 Budget represent a continuation of the steps taken in recent adopted budgets to hold down the costs of local government. The 2012 revenue forecast does not anticipate increases in other revenue sources. The lack of an increase and the property levy limits are the two components responsible for making the 2012 budget extremely challenging.

Highlights of the adopted budget include the following:

- The decrease in the City portion of residential tax bills for average residential properties (\$235,000) of \$101 or a percentage decrease of 6.92%
- A City tax rate of \$5.79, a decrease of \$.43 or 6.92% from the prior year
- The solid waste collection costs have been removed from the tax levy and a special charge of about \$104 added to the property tax bill for those eligible to receive collection services. That amount is significantly below surrounding communities charges
- Implemented changes to pension and health deductions as made available in the tools associated with the State Budget Repair bill. The City of Franklin did not receive any automatic reductions in 2011 due to the Budget Repair bill as the Franklin non public safety employees were not part of the Wisconsin Retirement System
- Repaying the balance of the 2005 debt issue using available City investable funds resulting in \$430,000 of increased interest income with \$174,000 of that in 2012

- A position eliminated in the Building Inspection Department
- A position eliminated in the Planning Department
- Funding of \$200,000 restored to the Street Improvement Fund to partially address existing structural deficits. Funding was reduced in the 2009 and 2010 period
- Funding of \$50,000 restored to the Equipment Replacement Fund due to structural deficits and increased \$100,000 in funding to prevent the decline and eventual demise of this fund
- Reduced the size and delayed the impact of a proposed wage increase to mid-year for City employees not under contract for 2012
- Reduced requested budgets of most departments

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) of \$101 or a percentage decrease of 6.92%.

The following breakdown reflects the tax levy recommendations by fund.

City of Franklin  
 Tax Levy Information

| <b>City Tax Rate Components</b> | 2012<br>Budget<br>Tax Levy | 2011<br>Budget<br>Tax Levy | 2012<br>Budget<br>Tax Rate | 2011<br>Budget *<br>Tax Rate ** |
|---------------------------------|----------------------------|----------------------------|----------------------------|---------------------------------|
| Capital Outlay                  | 384,000                    | 380,000                    | 0.1086088                  | 0.1128691                       |
| Equipment Replacement           | 281,000                    | 130,000                    | 0.0794767                  | 0.0386131                       |
| Street Improvement              | 604,000                    | 400,000                    | 0.1708325                  | 0.1188096                       |
| Debt Service                    | <u>1,750,000</u>           | <u>1,900,000</u>           | <u>0.4949618</u>           | <u>0.5643455</u>                |
| Subtotal                        | 3,019,000                  | 2,810,000                  | 0.8538798                  | 0.8346373                       |
| Library Program                 | 1,222,000                  | 1,175,000                  | 0.3456248                  | 0.3490031                       |
| General Fund Program            | <u>16,226,000</u>          | <u>16,980,000</u>          | <u>4.5892858</u>           | <u>5.0434665</u>                |
| Total                           | 20,467,000                 | 20,965,000                 | 5.7887904                  | 6.2271069                       |
| Prior Year Levy                 | <u>(20,965,000)</u>        | <u>(20,426,000)</u>        | <u>0.0027503</u> **        | <u>(0.0050009)</u> **           |
| Increase in Tax Levy            | (498,000)                  | 539,000                    | 5.7915407                  | 6.2221060                       |

\*\* 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 multiplied by the new construction value provides the amount of growth tax levy and that is estimated at \$67,935, and was an increase of .2% from the prior year.

The resulting City tax rate is \$5.79 per \$1,000 of assessed value compared to last year's City tax rate of \$6.22 per \$1,000 after adjusting for the equalization adjustment. The percentage decrease in City tax rate is 6.92%.

#### 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 increased by \$5,871,000 or 0.16% to \$3,676,379,700 which is 100.8% of total assessed value. The assessed value, exclusive of the TIF District values, increased from \$3,366,731,980 to \$3,535,626,388 or a 5.0% increase.

#### Landfill Siting Revenue

The current landfill siting agreement provided two advance payments of \$450,000 received in 2010 and 2011. Starting in the fall of 2011 the city will receive a monthly landfill siting payment based upon the landfill tonnage less a \$1 per ton until the advance payments have been recovered. The 2012 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. Additional funds received in 2012, if any, will be designated to the Capital Improvement Fund to be programmed for use in the following year. The agreement provides the potential of a good long term source of revenue for the City of Franklin.

#### 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 adopted expenditure budget for 2012 of \$24,972,000 reflects a 0.2% increase from the 2011 adopted budget. The budget includes 2.90 FTE's less in staff positions. The actual expenditures for 2010 were \$23,534,265, which under expended that budget by \$534,235 or 2.3% with \$271,000 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 2011 of \$24,697,500 was a 2.5% increase over the 2010 budget. The current estimate to be expended in 2011 is 24,583,403, 0.5% less than budgeted. The decrease from budget in this year's estimate is across most departments with the Municipal Court and Fire Department's exceeding their budgets. Final spending numbers are expected to be less than the present estimate enabling an increase to the fund balance to be achieved.

The actual General Fund tax levy revenue for 2010 was \$16,121,570. Tax levy revenue for 2011 was budgeted at \$16,980,000. The adopted General Fund tax levy revenue for 2012 is \$16,226,000. Terminating a TID District and transferring Solid Waste activities to a Special Revenue Fund enabled a 2.4% decrease in General Fund tax levy.

All other revenue received for 2010 was \$7,784,642 compared to a 2011 budget of \$7,698,000, an expected 1.1% decrease. The projection for all other revenue for 2011 is \$7,642,979, a \$55,021 or a 0.7% decrease from the 2011 budget. In 2012 all other revenue budgeted is \$7,421,000 a 3.6% decrease from the 2011 budget and a 2.9%

decrease from the 2011 estimate. The major reason for the decrease in all other revenue in 2011 was the decrease in Charges for services.

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 expenditure budget is \$1,357,945, an increase of \$42,672 in support of Library activities. Their spending level is supported by tax levy of \$1,222,000 an increase of 4.0% from 2011 and plan is to use of some of the Library's existing fund balance to support 2011 activities.

#### Solid Waste Collection Fund

In 2012 the solid waste collection effort was transferred from the General Fund to a new Special Revenue Fund to record the revenues related to solid waste including a fee for those who are eligible to receive the collection service and to record all of the expenditures related to the solid waste collection efforts. The budgeted expenditures are \$1,489,150 and are supported by \$1,591,000 in revenue from the solid waste fee, recycling grant and landfill tippage funds received.

#### 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 four years. Sewer rates are proportionally increased to cover any MMSD cost increase and meet local operating costs of the fund. MMSD has indicated the need for an increase of about 3% in 2012 charges to cover on going costs. The Sewer Fund rates for 2012 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 3.0% increase in overall rates approved by the

Public Service Commission for 2011. A 3.0% increase is anticipated in 2011. However the city's water supplier has filed for a significant rate increase which is being contested by the wholesale water customers. The PSC will make the final determination of that increase during 2012.

#### Capital Outlay Fund

Departmental requests for capital outlays in 2012 totaled \$760,900 compared to \$833,884 in 2011. The departmental requests were reduced by \$209,850 leaving \$551,050 that compares to the \$625,400 in 2011. 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 2011 anticipated funding is expected to be 45% of the funding goal. The tax levy budgeted for 2012 is \$281,000, an increase of \$151,000 from the 2010 tax levy.. The anticipated revenue represents 69.8% of the desired 2012 revenue indicated by the fund policy. Replacement expenditures of \$539,300 have been approved for 2012 from this fund. The increased funding puts this fund back on sustainable basis for the foreseeable future.

#### 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 25 to 30 years ago. Many streets need to be resurfaced in the coming years. Revenue consists of Tax Levy support of \$604,000 in 2012 compared to \$400,000 in the prior year. In addition \$200,000 in landfill siting revenue is anticipated in 2012. A proposed five year street improvement program is included in the materials. Resurfacing of 51<sup>st</sup> Street north of Rawson and local road resurfacing make up the 2012 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 2012 budget are the construction of a new sewer and water building with the funding coming from the Sewer and Water Funds, City Hall and Fire Department Roof Replacements, Police portable radio replacement and sidewalks as part of the 51<sup>st</sup> Street road project.

A 2012 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 2012 debt offering has been postponed at least until 2013. Where necessary borrowing needs arise, they will be met by internal borrowing. In addition the 2013 to 2015 maturities of the 2005 debt offering are being called and replaced with City funds until their original due dates.

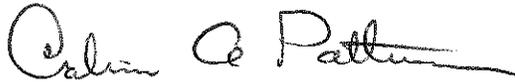
### Conclusion

The 2012 budget was a compromise between returning as much of the TIF District #2 funding as possible while at the same time restoring funding to capital funds that had been reduced in the last three years and attempting to maintain services at their current level. The use of the tools provided in the State Budget Repair Bill assisted achieving these results. Even with that assistance funding for two existing positions was unable to be continued. The movement of the solid waste collection effort to a separate fund allowed the general tax levy to be reduced by an equivalent amount to the new solid waste fee to be paid by all eligible residents. The 7% reduction in the tax rate is the result of the above efforts.

Budget Transmittal Letter  
January 31, 2012  
Page 8

Combined capital spending is slightly higher than the prior year. The Capital funds revenue was strengthened compared to the prior year. The Capital Improvement budget is funded at a minimum level and Debt service tax levy has been funded with a lower tax levy as the prior year. In spite of many challenges, the adopted 2012 budget restricts expenditure increases with a tax levy decrease of 2.4%, a tax rate decrease of 6.92% and a General Fund expenditure increase of 0.2%.

Respectfully submitted,

A handwritten signature in cursive script that reads "Calvin A. Patterson". The signature is written in black ink and is positioned above the printed name and title.

Calvin A. Patterson, CPA  
Director of Finance & Treasurer