



2013 Adopted Budget
Letter of Transmittal – Summary Information
September 18, 2012 – Updated November 30, 2012

Honorable Mayor and Common Council:

The 2013 Adopted City of Franklin Annual Budget is enclosed.

The 2013 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 provide a solemn setting in which to recommend a budget. The levy limit legislation continues to provide 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, may find it extremely difficult to continue to maintain current service levels expected by the citizens.

Nonetheless, the maintenance of services without an increase in the property tax rate was a central effort of the budget process. It is also a primary success of the budget process, as the 2013 Budget maintains core current service levels and provides for a -0.3% change in the property tax rate.

Therefore, the 2013 Budget represents a continuation of the steps taken in recent budgets to hold down the costs of local government. The 2013 revenue forecast does not anticipate a significant net increase in the other revenue sources. The lack of such a net increase and the property tax levy limits are the two components responsible for the gap between the Departmental expenditure requests and the funding available with no increase in the tax rate. This gap amounted to a shortfall of approximately \$800,000 to \$1,000,000 which needed to be resolved prior to submission to and approval by the Common Council.

The budgets as submitted by Department Heads, which largely intended to simply maintain services, required significant cuts in order to achieve a -0.3% decline in the tax rate. The Mayor and Common Council primarily addressed these shortfalls through the following:

- Not approving any new positions.
- Limiting wage increases in the forecast.

- Anticipating changes to the structure of the employee health plan that are intended to increase consumerism in the participant's use of health care services and to continue the migration of the City's health plan toward current private sector plans.
- Increasing defined contribution pension plan contributions for non-represented employees to 5.0% (from 4.2%), converting Public Works employees participation in the City's Defined Benefit Pension Plan to a cost structure similar to that of the Defined Contribution Plan, and anticipating contributions from public safety employees as current labor contracts expire.

The Mayor and Common Council recognize that the people of Franklin continue to expect their government to be as fiscally prudent as possible while at the same time maintaining core City services. The Mayor and Common Council continue to believe that taxpayers should not be expected to simply make up any shortfalls. At the same time, 77.8% of General Fund expenditures are for personnel and personnel related costs. General Fund expenditures, therefore, cannot be controlled without restricting personnel related costs. The 2013 Budget has aggressively addressed spending while reasonably addressing wages and benefits of remaining employees.

It is also worth noting that the budget provides for completion of a revaluation. The revaluation will help to reconcile the property assessments with the current changes in the real estate market place. In part due to cost saving and in part due to its appropriateness, however, a full revaluation would not be required. The State of Wisconsin provides for a "Market Update" revaluation, if the community has had a full revaluation within the past 5 years. In such a circumstance, it can be appropriate to perform a Market Update based primarily upon recent sales, but not doing a full field review. This will also enable citizens to become more confident with the assessment process as the resulting valuations will more accurately reflect the market place.

The 2013 Budget is based on conservative revenue projections.

Budget Summary

Additional highlights of the budget include the following:

- No increase in the City portion of residential tax bills.
- A City tax rate of \$5.78 is recommended.
- Increases of \$10,000 in overtime for both the Police and Fire Departments.
- Reclassification of a Municipal Court position.
- Completion of the bi-annual Actuarial Study for OPEBs.
- An addition of \$30,000 for outside legal services to provide added support to the City Attorney, as may be needed, relative to current work load issues and the recent influx of large, complex projects of significant importance.
- Implementing changes to pension and health deductions as made available in the tools associated with the State Budget Repair bill and as discussed above.
- Restoration of \$6,000 in funding to the Street Improvement Fund to partially address existing structural deficits. (Funding had been reduced in the 2009 and 2010 period.)

- Increase of \$18,000 in levy to the Library Fund, which will also require the use of some fund balance.
- No rate increase will be required within the Solid Waste Fund, despite the added costs associated with the revised recycling collection method.
- Establish a contingency of \$123,000 in the General Fund to address unexpected or unresolved issues such as County elections charges and funding economic development efforts, with additional contingency funding, in part, to preserve expenditure restraint limit flexibility in the future.

Tax Bill, Tax Levy and Tax Rate implications

The following breakdown reflects the tax levy by fund.

<u>City of Franklin</u>				
Tax Levy Information				
City Tax Rate Components	2013	2012	2013	2012
	Budget Tax Levy	Budget Tax Levy	Budget Tax Rate	Budget Tax Rate
Capital Outlay	394,000	384,000	0.1110956	0.1086088
Equipment Replacement	285,000	281,000	0.0803610	0.0794767
Street Improvement	610,000	604,000	0.1720008	0.1708325
Debt Service	<u>1,650,000</u>	<u>1,750,000</u>	<u>0.4652480</u>	<u>0.4949618</u>
Subtotal	2,939,000	3,019,000	0.8287053	0.8538798
Library Program	1,240,000	1,222,000	0.3496409	0.3456248
General Fund Program	<u>16,330,000</u>	<u>16,226,000</u>	<u>4.6045449</u>	<u>4.5892858</u>
Total	20,509,000	20,467,000	5.7828911	5.7887904
Prior Year Levy	<u>(20,467,000)</u>	<u>(20,965,000)</u>		
Increase in Tax Levy	42,000	(498,000)		

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 allowable amount of growth in tax levy and that is estimated at \$111,141, (at .54% growth) an increase of \$43,206 from the prior year. **[Note: The State subsequently provided an update, late, indicating our growth increase is at .63%, resulting in \$128,942 in the allowable increase in the levy limit due to growth.]**

The resulting City tax rate is \$5.78 per \$1,000 of assessed value, which essentially matches last year's City tax rate of \$5.79 per \$1,000. The City tax rate remained approximately the same and the tax levy increased by 0.2%, reflective of additional payments being made by those who had new construction during the year.

Assessed Valuation

The year 2012 is not a reassessment year. The assessed value of \$3,546,495,988, [based on the initial reported growth rate of .54%] exclusive of continuing TIF District values, increased from the prior year by about .54%, principally the result of new construction, but had other, offsetting valuation decreases of approximately .24%.

[Again, note that this number will adjust to reflect an increase to 0.63% as now reported by the State.]

Landfill Siting Revenue

The landfill siting agreement provides the potential of a long term source of revenue for the City of Franklin. The agreement calls for per-ton siting payments which started in late 2011. \$19,500 of 2013 siting payments are recommended to be designated to the General Fund to offset Landfill taxes that now need to be paid for materials the City takes to the landfill and then proportionally to Capital Projects Funds [\$100,000 to the Capital Outlay Fund, \$150,000 to the Equipment Revolving Fund and \$200,000 to the Street Improvement Fund]. The additional funds received in 2013, estimated to be \$215,500, are designated to the Capital Improvement Fund.

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 expenditure budget for 2013 is \$24,495,100 and reflects a 3.6% increase from the 2012 budget. Adjusted, however for a \$950,000 provision to protect the State's Expenditure Restraint Program Revenue, actual 2013 expenditures are expected to decrease 0.4%. The budget includes no new FTE staff positions. The expenditures are the requests of the departments as adjusted by the Mayor. The projected expenditures for 2012 are \$23,593,227 (excluding the fund transfer), which under expended that budget by \$54,398 or 0.2%. The under expenditures were the result of vacant positions and contingency budgeted but not used during the year. The final spending numbers are expected to be less than the total amount estimated due to programs that at this time are planned but will not be able to be completed by year end.

The actual General Fund tax levy revenue for 2011 was \$16,973,282. Tax levy revenue for 2012 was budgeted at \$16,226,000. The General Fund tax levy for 2013 is \$16,330,000.

All other revenue received for 2011 was \$8,233,381 compared to a 2011 budget of \$7,698,000, a 7.0% increase. The projection for all other revenue for 2012 is \$7,472,900, a \$51,900 or 0.7% increase from the 2012 budget. In 2013 all other revenue budgeted is \$7,215,100, a 2.8% decrease from the 2012 budget. The major reason for the decrease is the reduction in interest revenue on investments and delinquent taxes.

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 funding is \$1,352,356, a decrease of \$5,589 in support of Library activities. \$29,350 was included in 2012 for a one time building improvement. Their spending level is supported by a tax levy of \$1,240,000 an increase of 1.5% from 2012. The plan is to use some of the Library's existing fund balance to support 2013 activities.

Solid Waste Collection Fund

The Solid Waste Collection Fund receives revenue from user fees, landfill tipping fees, and recycling grants. Its expenditures include contract services for hauling solid waste and weekend staffing from Public Works.

The Solid Waste Collection fund has revenues of \$1,615,000. **This includes no user fee rate increase.** Total expenditures of \$1,547,934 are 2.4% greater than the 2012 budget. The number of participating households is greater than in the 2012 budget, resulting in higher contract costs. No rate increase has been included in the 2013 program due to the initial (2012) establishment of a user fee rate sufficient to establish a fund balance, which rate was sufficient to absorb the added 2013 costs. A \$67,066 surplus for 2013 is projected, creating a fund balance of \$232,170 or 15.0% of 2013 expenditures, approximately two months expenditures.

Sanitary Sewer Fund

The Sewer Fund receives its revenue primarily from user fees. Its expenditures are to MMSD, salaries, benefits, capital assets and other costs of maintaining and improving the local sanitary sewer system. The Retained Earnings in this fund has increased over the past four years. 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 4% in 2013 charges to cover ongoing costs. The Sewer Fund rates for 2013 will need to recover these annual cost increases.

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.

A contested rate increase by the water supplier was decided by the Public Service Commission in July 2012. That rate increase amounted to 17-24% depending upon water consumption. The rate case decision is being appealed by the supplier, so may change yet again. The Water Utility has adopted a budget with a \$70,600 surplus compared to a \$96,685 surplus in 2011 and a \$69,600 deficit in 2012.

Capital Outlay Fund

Capital assets are purchases of assets that are reasonably expected to last more than 12 months and benefit multiple years. Included in this category are all new capital assets and replacement capital assets that do not meet the criteria for inclusion in the equipment replacement program. Those capital assets that exceed the capitalization

policy limits will be capitalized and depreciated over the estimated useful life of the asset.

Departmental requests for capital outlays in 2013 totaled \$838,525 compared to \$760,900 in 2012. The Adopted Budget of \$683,074 compares to the \$551,050 budgeted in 2012. The 2013 budget continues to include \$100,000 in landfill siting revenue. The Capital Outlay Fund balance will decline to 25.8% of 2013 expenditures.

Equipment Replacement Fund

The Equipment Replacement 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 tax levy budgeted for 2013 is \$285,000, an increase of \$4,000. \$150,000 of landfill siting revenue is anticipated in 2013. The anticipated revenue represents 70% of the desired 2013 revenue indicated by the fund policy. Replacement expenditures of \$403,000 have been requested for 2013 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 \$610,000 in 2013, an increase of \$6,000 from the prior year. \$200,000 of landfill siting revenue is anticipated again in 2013. A proposed five-year street improvement program is included in the materials. 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 2013 budget are Marquette Street extension, roof replacements for the northeast part of Fire Station #1, the Pleasant View/Victory Creek trail, land purchase for access to Pleasant View Park, Police Video System, and Financial Software. Revenue consists of Landfill Siting Fees, Grants, Impact Fees and \$200,000 in new borrowing is anticipated.

A 2013 budget for the Capital Improvement Fund is prepared as the first year of a five-year forecast. \$6,510,390 in projects was requested for 2013. Projects that have Common Council approval will receive specific budget itemization. For those projects

that have not yet had Common Council review and approval an unallocated total appropriation is requested.

As referenced above, the fund lists projects that could be anticipated in the coming 5 years. For example, partial funding is listed for consideration in 2014 for matching support for a historic barn to be added as part of the historic buildings complex. This is a project on which the Historic Society is working. The potential project is listed as a 2014 expenditure, but items in future years are not financial commitments until included in a current year's budget and authorized by the Common Council.

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 million every other year to support public improvement projects. In response to the lower activity levels, the 2013 debt offering has been reduced to \$200,000. Where necessary borrowing needs arise, they will be met by internal borrowing until replaced with a debt offering.

The 2013 payments are required to fund expenditures in years past. Currently the Library and Police building projects have remaining amounts due of \$11,917,000. These programs will be fully paid in 2021.

Development Fund

The Development Fund is designed to provide the financing for improvements for portions of the City not yet developed. Improvements include roads, sanitary sewerage and water systems, parks, and public safety. The current Impact fee is \$4,994 plus a fee dependent upon the water lateral size.

For Park and Recreation facilities, a Comprehensive Outdoor Recreation Plan [CORP] defines the anticipated needs. 2013 envisions expenditures for a trail in Pleasant View Park as well as a land purchase to improve access to Pleasant View Park. The eligible amounts are expected to be identified in an updated Impact Fee needs assessment.

Budget Process

Staff works with the Mayor for months in developing a recommended budget for presentation to the Common Council. The recent ordinance change now has the Common Council's Committee of the Whole review and make recommendations on the budget, instead of the Finance Committee. The Common Council Adopted the 2013 Budget on November 13, 2012, following a public hearing on the matter.

The initial budget submittal consisted of two packets including summary information, detailed operating budgets for all funds and additional supporting materials and descriptions. The final approved budget presented herein continues to provide summary information for each fund and department, but eliminates detailed departmental supporting documentation and descriptions.

Conclusion

The budget is a response to the challenges at the State level. **A central effort in the process was to present a budget that maintained services while holding the tax rate at its current level. The budget succeeded on both accounts.** In spite of many challenges, the adopted 2013 budget restricts expenditure increases with no property tax rate increase. In fact, total General Fund expenditures anticipate a decrease of 0.4% (excluding the \$950,000 appropriation as an Expenditure Restraint Program provision, in part).

Respectfully submitted,



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