



Mayor's Recommended 2014 Budget
Letter of Transmittal – Summary Information

September 17, 2013

Honorable Mayor and Common Council:

The Mayor's Recommended 2014 City of Franklin Annual Budget is enclosed.

The Mayor's Recommended 2014 Budget continues to recognize the state and national economic environment but also recognizes the progress and recovery that is starting to be seen. Although the 2013 revaluation shows that property values are down from their peak, development and development related contacts are starting to increase. Houses that sat vacant are having new permits pulled, and new housing starts are continuing to rebound. The economic drought of 2008 to 2010 is still too fresh to ignore, but the latent potential that appears to be stirring must also be anticipated. The Mayor's Recommended 2014 Budget straddles these two environments. It emphasizes restraint while positioning ourselves for and making strides toward the future.

The restraint is summed up very simply: the Mayor's Recommended 2014 Budget does not increase municipal property taxes. **The total property tax levy remains frozen at the 2013 level.** The levy remains frozen despite State reported new construction growth of .98 percent. Under the State's strict property tax levy controls, the budget could have increased the property tax levy by .98 percent, but no increase was included. At the same time, the property revaluation recently completed reveals an overall shift in the total property tax distribution by 1.5 percent from residential to non-residential classifications. The combined effect of these two impacts is that the average residential property owner could see nearly a 2.5 percent decrease in the municipal portion of their property tax bill. A home assessed last year at \$250,000 with a reassessment this year to \$227,500 would see a reduction in their property tax bill of approximately \$36.11 for municipal purposes.

While emphasizing restraint, the budget also positions the City for the future in a number of ways. First, recognizing the City is a service organization dedicated to providing core services effectively and efficiently to our citizens, the budget provides for some additional personnel to ensure that overall service levels can be maintained or enhanced. Last year it was reported as part of the budget that Franklin had the 20th lowest Police Department spending per capital of the 23 Wisconsin municipalities with populations between 30,000 and 150,000. The Police Chief annually requests additional personnel to help ensure the Department can meet the City's service demands. This year, the Mayor's 2014 Recommended Budget reinstates funding for an additional Police Officer. While freezing total property taxes, public safety is being enhanced.

Some of the services the City provides receive a significant portion of their support from program revenues. As those services see fluctuations in revenues over time, they often experience fluctuations in workload which must be addressed with personnel if service levels are to be maintained. Since 2006, Building Inspection experienced a reduction in staff of 40%, or 5 employees; but now permits are up, service demand is up, and revenue is up. As such, the 2014 budget anticipates reinstatement of an Assistant Building Inspector position so that the City can continue to meet the inspection demands of new development. The position is fully funded by program revenues, and no additional property tax dollars were needed to reinstate this position.

A second way in which the 2014 Recommended Budget positions Franklin for the future is that it takes an important step forward in addressing the organizational demands that the City is experiencing as a result of Acts 10 and 32. Acts 10 and 32 changed the municipal landscape relative to the core operations of municipalities in Wisconsin. There is still the potential for Wisconsin Supreme Court action, but much of the dust has settled and communities are moving forward. For Franklin, the last of the City's non-public safety labor unions recently ceased to exist, effectively. The Police and Fire Departments' non-supervisory positions remain represented by unions, but all other employees are non-represented employees.

It is common knowledge that municipal government is a labor intensive endeavor: wages and benefits constitute nearly 80 percent of Franklin's General Fund expenditures. After Acts 10 and 32, however, almost half (48%) of those costs are now dedicated to the wages and benefits of *non-represented* personnel. This amounts to nearly 38 percent of the entire General Fund operating cost. The changing landscape and magnitude of these non-represented employee costs warrant an enhanced effort to ensure these crucial resources are efficiently and effectively managed and that organizational resources are in place to help control future cost increases for these personnel. As such, an entry-level Human Resources Analyst position is recommended within the budget. The position is fully funded by repurposing existing appropriations from the Finance Department that had been anticipated to be used for retaining a Deputy Finance Director position after the Finance Director's retirement. In this way, the human resources position is added with no increase in the property tax levy.

Managing and controlling these future non-represented employee costs must, of course, be done in a fair and equitable manner, ensuring that the City can continue to hire and retain qualified employees while not paying more than is necessary. To that end, the budget provides funding for a classification and compensation study that can ensure that the City is internally paying people in a fair and consistent manner while remaining competitive with the market place. The Common Council had previously requested the Personnel Committee examine the need for such a review, and the Personnel Committee recently received a report on this topic. The budget provides the necessary appropriation to enable such a project to move forward.

In conjunction with these efforts and with an eye on better positioning the City for the future, the Mayor recommends and the budget incorporates an organizational change intended to provide the Director of Administration with more responsibility to more broadly serve the Mayor and the Common Council and to oversee and coordinate the day-to-day operations of the City consistent with the organizational structure in place in many communities, such as Oak Creek. Two referendums have clearly indicated that the citizens of Franklin do not prefer a mayoral position paid a full salary as if a full-time employee. As such and with his experience as to the demands of the office, the Mayor recommends a reclassification of the position of the Director of Administration. The size, level of activity, complexity, and cross coordination of day-to-day operations of the City, suggests efficiency and effectiveness could be enhanced if the Mayor and Common Council had a single individual responsible to coordinate the directives of the Mayor and Common Council and responsible for the day-to-day operations of the City government based on those directives. The management of the City would remain vested in the Common Council and Mayor, and the Mayor remains the Chief Executive Officer. Reclassifying the Director of Administration's position would simply provide for full-time support for the broader, day-to-day operations of the City. It would provide the support needed by the Mayor of a City with the size and complexity of Franklin. The position does not supplant the executive role of the Mayor or the policy making authority of the Common Council; it supports both of them. **[Note: At the time of adoption, the reclassification of the position of Director of Administration was removed from the budget and tabled for future consideration.]**

In conjunction with a limited reclassification of the Human Resources Coordinator, the administrative organizational structure for the City of Franklin would be positioned to aggressively address the post Act 10 environment and ensure enhanced management of over one-third of the City's General Fund operating budget. The new municipal environment post Acts 10 and 32 warrants a re-evaluation of the management of non-represented personnel, and the Mayor's 2014 Recommended Budget provides the staffing and structure to position the City for this new future. Note also that these actions are done concurrent with the elimination of funding for the Deputy Finance Director and, as such, no additional property tax dollars are required. Further discussion of this proposal is included in the Department of Administration budget section.

As we move forward into 2014, the City should also consider other aspects of its administrative and organizational structure. For example, the Capital Improvement Program does identify funding for a new sewer and water building; however, prior to final approval the City should consider whether in-house management remains the most efficient operation. MMSD, for example, is contracting for management of their operations which has proven successful. Such a consideration would also address the current sharing of resources between the Water Utility and the City, which are technically separate entities. Similarly, succession planning for management of the Engineering/DPW/Sewer/Water department, evaluating both employee and contractor options, should be taken into consideration. Succession planning, as has proven very successful in the Finance Department, is an appropriate human resources strategy employed in the private sector for anticipating vacancies so that an organization can transition smoothly through significant pending vacancies.

Lastly, preparing for the future includes making the necessary capital purchases in a timely manner. Whether it is the acquisition of park land, road reconstruction, or maintenance of existing facilities (such as roofs), regular, planned capital expenditures are an important part of long-term financial management. For example, it is planning ahead which will enable nearly 4 million dollars of projects along S. 27th Street to be accomplished within an expanded TIF District and without increasing the property tax burden. In recent history, the City's fiscal strategic plan had anticipated \$2,000,000 of borrowing every other year to support the overall Capital Improvement Plan. Since the economic crash, this strategy had been put on hold, but the 2014 budget anticipates reinstating this policy so that the essential capital items set forth in the Capital Improvement Plan can be pursued. Borrowing simply becomes a funding mechanism that allows acquisition to occur in a timely manner and allows the payments to be allocated to each year's users of the capital items. Importantly, a limited, borrowing program of this nature will not require an increase in the property tax levy necessary to support the Debt Service Fund. In other words, the borrowing program can be reinstated without an increase in the Debt Service Fund property tax levy, either in 2014 or future years.

It is also worth noting that the distribution of landfill siting fee revenues has been restructured. The historic level of funding that serves the various capital funds has been left in place, but increases in the revenue associated with the last landfill siting agreement have been consolidated into the Capital Improvement Fund for the purpose of park acquisition and development. In conjunction with existing impact fee revenues, the Mayor's 2014 Recommended Budget positions the City to pursue facilities identified in the adopted Comprehensive Outdoor Recreation Plan.

These actions, set forth in and anticipated by the Mayor's Recommended 2014 Budget and exemplified by freezing the property tax levy, exhibit the financial restraint called for as the economy continues to aspire to a full recovery. At the same time, the budget looks to the future and addresses staffing, organizational issues, and capital financing that focuses on the City proactively engaging its future.

Tax Bill, Tax Levy and Tax Rate implications

The following breakdown reflects the tax levy recommendations by fund.

<u>City of Franklin</u>				
<u>Tax Levy Information</u>				
<u>City Tax Rate Components</u>	2014	2013	2014	2013
	Budget Tax Levy	Budget Tax Levy	Budget Tax Rate	Budget Tax Rate
Capital Outlay	430,000	394,000	0.1317309	0.1110956
Equipment Replacement	337,000	285,000	0.1032403	0.0803610
Street Improvement	681,600	610,000	0.2088089	0.1720008
Total Capital Tax Levy	1,448,600	1,289,000	0.4437801	0.3634573
Library Program	1,240,000	1,240,000	0.3798753	0.3496409
General Fund Program	16,220,400	16,330,000	4.9691364	4.6045449
Subtotal	18,909,000	18,859,000	5.7927918	5.3176431
Debt Service	1,600,000	1,650,000	0.4901617	0.4652480
Total Tax Levy	20,509,000	20,509,000	6.2829534	5.7828911
Prior Year Levy	(20,509,000)	(20,467,000)		
Increase in Tax Levy	0	42,000		

The total tax levy is remaining unchanged from the prior year. The City tax rate is the result of the total property tax levy (for all funds) divided by the assessed value of the City. The prior year City tax rate before the Debt Service levy multiplied by the new construction value provides the amount of permitted growth in tax levy and that is estimated at \$200,988 (at 0.98% growth). Additionally, recent changes to the Wisconsin Statutes would enable the City to levy an additional \$87,578 in property taxes, beyond the growth based on the City holding back on the levy for the current year. The Mayor's 2014 Recommended Budget does not include any of the additional levy from either of these provisions allowed by the State of Wisconsin.

With the total property tax levy unchanged and overall growth in the assessed value, the effect is to lower the property tax for existing property owners. In effect, the new growth is paying for some of the existing level of property taxes. The result, therefore, has existing property owners benefiting in a reduced tax by the amount of new construction during the year. The reduction is approximately 1 percent, before the impact of the revaluation.

Assessed Valuation

The year 2013 is a reassessment year. The preliminary assessed value of \$3,264,229,200, exclusive of continuing TIF District values, reflects an increase from new growth from the prior year by about 0.98% and reflects an offsetting valuation decrease of approximately 9.8% as a result of the revaluation process itself. The Board

of Review is not complete at this time. When information is available, the final assessment information may slightly change the percentages and resulting estimated tax rates.

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. For the 10 years prior to this agreement, the General Fund had received approximately \$300,000 of landfill siting revenues.

For 2014, therefore, \$300,000 of siting revenues are recommended to be designated to the Capital Funds. The balance, however, is designated for park acquisition and development in the Capital Improvement Fund. This reduces the amount of landfill siting revenues previously designated to the Capital Funds by \$150,000. To maintain the resources in the Capital Funds, tax levy was transferred from the General Fund to the Capital Funds. In this way, the Capital Funds maintain a stable level of resources and the growth from the landfill siting agreement will be available to support park acquisition and development in a manner consistent with the adopted Comprehensive Outdoor Recreation Plan. During 2013, the Capital Improvement Fund was budgeted to have \$215,500 in landfill siting revenues. However, that is now estimated to be \$114,000. For 2014, landfill siting revenue in the Capital Improvement Fund is expected to be \$296,000, (an \$80,500 increase from that budgeted in 2013) designated for park acquisition and development.

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 2014 is \$23,979,450, a 1.84 percent change and a \$434,350 increase as compared to the adopted 2013 budget (when excluding the \$950,000 Expenditure Restraint Program preservation contingency). It is worth noting, however, that \$400,000 of this increase is a "paper" or "accounting" increase as a result of implementing a new accounting standard relative to recording DPW's effort on capital projects as a capital expense. As such, the net increase in total expenditures is just \$34,350, or a .15% increase in expenditures. The budget includes improved Public Safety with one new police officer, an additional building inspector (funded completely with Inspection fees) and a .6 FTE Sanitarian (replacing contracted services). The recommended expenditures are the requests of the departments as adjusted by the Mayor. **[Note: In the adopted budget, the building inspector was funded, but not yet authorized, pending further consideration.]** The projected expenditures for 2013 are \$23,395,283, which under expended that amended budget by \$149,817 or .64% (excluding expenditure restraint appropriations). 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 are planned but will not be able to be completed by year end.

The actual General Fund tax levy revenue for 2012 was \$16,204,900. Tax levy revenue for 2013 was budgeted at \$16,330,000. The recommended General Fund tax levy for 2014 is \$16,220,400. This is a \$109,600 reduction in the tax levy within the General Fund.

All other revenue received for 2012 was \$7,962,519 compared to a 2012 budget of \$7,421,000, a 7.3% increase. The projection for all other revenue for 2013 is \$7,113,500, a \$101,600 (1.4%) decrease from the 2013 budget. In 2014, all other revenue is budgeted at \$7,759,050, a 7.5% increase from the 2013 budget. Similarly, \$400,000 of the revenue increase is associated with internal transfers relative to the accounting procedure discussed above for the General Fund expenditure increase, without which revenues increased 2.0 percent. The major reason for this increase is an increase in permit revenues and ambulance fees.

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, unusual or unanticipated events, or claims against the City.

Library Fund

The Library is requesting expenditure funding of \$1,367,506, an increase of \$15,150. Their spending level is supported by tax levy of \$1,240,000, no change from 2013. The plan is to use \$72,506 of the Library's existing fund balance to support 2014 activities.

Solid Waste Collection Fund

The Solid Waste Collection Fund receives revenue from user fees, landfill tippage 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 budgeted revenues of \$1,562,800, a reduction of \$52,200 or 3.2%. The number of users has decreased since the service was converted to a user fee in 2012. The advent of the larger recycling bins has reduced the volume of waste and, thus, the landfill fees for the service. A 78 cent increase in the user fee to \$104.78 is planned to deal with the service contract increase. Total expenditures of \$1,523,754 are 1.6% less than the 2013 budget. A \$39,046 surplus for 2014 is projected, creating a fund balance of \$224,426 or 14.7% of 2014 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 in anticipation of the need for a new building. Sewer rates are proportionally increased to cover any MMSD increase and to meet local operating costs of the fund. In 2014, charges by MMSD are expected to increase about 3%, so the Sewer Fund rates for 2014 will need to recover these annual cost increases.

Water Utility

Information is not available on the budget for the Water Utility at this time. The approving body for the Water Utility is the Franklin Board of Water Commissioners. Information will be included in the 2014 City of Franklin Annual Budget Book.

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 2014 totaled \$743,343 compared to \$838,525 in 2013. The Mayor reduced the departmental requests by \$101,698 leaving \$641,645 which compares to the \$683,074 budgeted in 2013. The recommended 2014 budget has total revenue of \$527,000, a \$36,000 increase in the tax levy, but a \$33,000 reduction in landfill siting revenue. Fund balance will decline by \$114,645 to \$89,573, 13.9% of 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 proposed tax levy budgeted for 2014 is \$337,000, an increase of \$52,000. At the same time, landfill siting revenue is declining \$50,000 to \$100,000. The anticipated revenue represents 63% of the desired 2014 revenue indicated by the fund policy. Replacement expenditures of \$231,500 have been requested for 2014 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. These streets will need to be resurfaced in the coming years.

Revenue totals \$1,089,600, a \$256,600 increase from 2013. \$78,000 of the increase relates to the bi-annual State Local Road Improvement Aids. The property tax levy increased \$71,600 while landfill siting revenues decreased \$67,000.

A list of requested projects is included totaling \$1,231,490. The Mayor's Recommended Budget funds \$960,000 of those. 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 2014 budget are the 76th Street sidewalks, construction of Evergreen Street as access to Pleasant View Park, the Pleasant View Trail, City Hall roof repairs, City Hall security enhancements, a new roof on the Salt Storage Building, Park land acquisition, Lion's Legend Park and Ernie Lake Park equipment, North Cape Road trail, a Police Department 911 phone system, and a Complete Streets project. Funding for these projects will come from Grants, landfill siting revenues, Park Impact fees and a \$2 million borrowing. **[Note: the Pleasant View Trail was completed in 2013; therefore, duplicate funding was removed from the 2014 budget as adopted.]**

The 2014 budget for the Capital Improvement Fund is prepared as the first year of a five-year forecast. \$7,538,449 in projects were requested for 2014. The 2014 projects recommended by the Mayor will be the amount presented for Common Council budget approval. 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. If all requested projects for 2014 had been approved, the City would have had to borrow \$2.15 million to fund them.

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 2015 for the 27th Street corridor improvements, a new roof at City Hall, Park land acquisition, and a Police Communications Center. The potential projects are listed as a 2015 expenditure, but items in future years are not financial commitments until included in a current year's budget and authorized by the Common Council.

Development Fund

The Development Fund is the fund established for maintenance of impact fee revenues, and, as such, provides for financing of public facilities such as roads, water and sanitary sewerage systems, public safety, and parks and recreation. In accordance with the provisions of Wisconsin Statutes, the fees can help fund the portion of certain public facilities associated with the new growth in the community. City Officials recognized the need to recover the costs of providing public facilities and infrastructure needed to serve

new development through Impact Fees collected at the time of development. The current total, combined impact fee for a single-family residence is \$7,814, although a reduction in the Park and Recreation Impact Fee of \$983 is currently under consideration. In 2013, a new \$2,928 Sewer Impact Fee was created for the Southwest Sanitary Sewer Service Area.

For 2014, \$645,000 in Impact Fees are projected. \$455,176 is requested to support Debt service on previously completed improvements, although not all the funds are anticipated to be available when the debt service is due. In addition, \$1,373,949 of Park Impact Fees are requested to support various projects in the Capital Improvement Fund. Approximately \$395,000 of Park Impact Fees collected in 2004 are required by state law to be rebated to current property owners if not expended by the middle of 2014.

Debt Service Fund

As noted above, the City's fiscal strategic plan has anticipated issuing debt every other year in support of its capital activities. The last debt issuance in support of capital activities, however, was in 2008. The City forecasts future debt issuance of \$2 million every other year to support public improvement projects. The 2014 Mayor's recommended budget anticipates a \$2 million borrowing during 2014 to support the Capital Improvement projects. Where necessary borrowing needs arise, they will be met by internal borrowing until replaced with a debt offering.

The 2014 debt service payments are required to fund expenditures for payments due on fund borrowed during prior years. Currently the Library, Police, and Fire building projects have remaining amounts due. These programs will be fully paid in 2021. However, currently, insufficient Impact Fees have been available to support all the required Debt Service payments.

Conclusion

The Mayor's Recommended 2014 Budget exemplifies significant fiscal restraint by freezing the total property tax levy at 2013 levels. This will result in a reduction in the property taxes for the average residential property. At the same time, the budget looks to the City's future and addresses public safety staffing demands with the addition of a Police Officer, addresses organizational issues largely stemming from the State's adoption of Acts 10 and 32, and addresses capital financing issues to ensure planned and managed maintenance of infrastructure and facilities.

Budget Process

Staff works with the Mayor for months in developing a recommended budget for presentation to the Common Council. The 2012 ordinance change has the Common Council's Committee of the Whole review and make recommendations on the budget.

Staff will work with the Aldermen directly or through the Committee of the Whole review process to ensure the Aldermen have the information necessary to review and consider the Recommended Budget. Aldermen will be able to alter the budget that is submitted to the public hearing by making a motion to recommend an amendment to the Mayor's 2014 Recommended Budget. Such a motion would require approval by a majority of members of the Common Council. Absent any such action, the Recommended Budget as submitted by the Mayor would be published for presentation at the public hearing.

Budget Organization

The budget submittal consists of two packets incorporated into one binder. The first packet is summary information on the 2014 Mayor's Recommended Budget for all funds. The detailed operating budgets of the Library, the Solid Waste Collection, and the Sanitary Sewer Fund with their supporting materials are in the Summary section. The Capital Project Funds, Development Fund, and the Debt Service Fund information are also in the summary section. The second packet contains the detail operating budgets of the departments in the General Fund. **[Note: The final, 2014 adopted budget was set forth on budget pages entitled "Official Budget Appropriation Units" which are set forth on pages 12 through 15 of this document. The remaining pages of the document generally constitute support documentation.]**

The 2014 Budget information packets are designed to be inserted in a three-ring binder so that when additional or revised information is distributed it can be inserted into that binder and the recipient will always have up-to-date 2014 budget information.

The Mayor's Recommended Budget will be available for inspection at the City Clerk's office and at the Library and will be posted on the City website on September 18, 2013.

Respectfully submitted,



Mark W. Luberda
Director of Administration

[Note: Notations added to this letter were added after adoption to provide added clarification. Additionally, the dollar amounts, percentages, and tax rates referenced in this letter remain as initially presented in the Mayor's Recommended 2014 Budget and have not been updated to reflect the 2014 budget as adopted by the Common Council. Therefore, please refer to the budget pages and detailed supporting pages for final budget details.]