Request for City Council Committee Action from the Department of Finance

Date: November 22, 2006

To: Council Member Paul Ostrow
Chair, Ways and Means/Budget

Referral to: None

Subject: City-wide Financial Options – report back from strategic planning

Recommendation: Receive and file report; forward specific options as needed to policy committees

Previous Directives:

- ❑ Adopted City Goals and Strategic directions
- ❑ Council Members and Mayor identified options for further study as part of the strategic planning process in the spring

Prepared or Submitted by: Tara Barenok, Director, Budget Information and Coordination, 673-3221; Maren Anderson, Financial Analyst; June Mathiowetz, Senior Financial Analyst; Jodi Molenaar-Hanson, Senior Financial Analyst; Based on research by Michael Anderson, Mandy Bai, and J.D. Burton

Approved by (names, title, signature)

________________	________________
Patrick P. Born	Steven Bosacker
Finance Officer	City Coordinator

Permanent Review Committee (PRC) Approval _____ Not Applicable _x____

Policy Review Group (PRG) Approval ____ Date of Approval ____ Not Applicable ___x_

Presenters in Committee (name, title) Heather Johnston, City Director of Management and Budget

Financial Impact (Check those that apply)

___ No financial impact (If checked, go directly to Background/Supporting Information).

___ Action requires an appropriation increase to the ____ Capital Budget or ____ Operating Budget.

___ Action provides increased revenue for appropriation increase.

___ Action requires use of contingency or reserves.

___ Business Plan: ____ Action is within the plan. ____ Action requires a change to plan.

__x_ Other financial impact (Explain): Potential ideas for the Legislative Agenda or for department research/action

__n/a_ Request provided to department's finance contact when provided to the Committee Coordinator.

Community Impact (use any categories that apply)
Neighborhood Notification
City Goals
Comprehensive Plan
Zoning Code
Other

Background/Supporting Information Attached

As part of the City's strategic planning process in March and April, the following strategies were identified for further research:

Options to Increase City Revenue

1. Sales and Use Tax Increase
2. Higher Fines for Repeat Offenders in Problem Properties
3. Transportation Utility Fee
4. Light System Funding Options
5. Commuter Tax
6. Wheelage Tax
7. Strategy and Justification of Increasing LGA
8. Selling Our Water
9. Federal Funding

Options to Reduce City Expenditures

1. Merger between Park Police and City Police
2. Merger between City Libraries and County Libraries
3. Crime Lab Merger
4. 9-1-1 Merger
5. Public Works Service Provision

Finance has completed research in the past few months and has reviewed the research with departments. The presentation will summarize this research and related efforts.

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Executive Summary

After the financial parameters strategic planning session in late March 2006, the Finance Department was directed to research specific topics related to increasing City revenue or reducing expense that were discussed during the session's brainstorming activities. These options were researched during the summer, and findings from that research were discussed with relevant departments this fall.

Many of the topics under discussion have been examined in the past. The project was intended to document and assess some of the earlier actions, achieve a common definition of the options, and provide comparative information from other cities, where available. This report identifies additional factors that should be explored if the Council decides to pursue some of the options through the relevant policy committees, but does not make recommendations.

The amount of revenue generated or expense avoided varies significantly depending on what is being discussed. The options explored in this report include:

Option Examined:	***Estimates:***
Sales and Use Tax Increase	Regional sales tax revenue: $75.7-$151.3M between '07 and '11 Local option sales tax: $14-28 M
Higher Fines for Repeat Offenders in Problem Properties	$600k revenue in '06
Transportation Utility Fee	$4M budget in '06 – based on need
Lighting System Funding Option	Varies with increase in fees or assessments, $5.8-15 million
Commuter Tax	Varies with type of tax, capital and administration costs
Wheelage Tax	$3.7M minus state administration fees
Strategy and Justification of Increasing LGA	$34.9M to return to '02 level
Selling Our Water	$50,000 profit from bottled water sales, after several years with no profit $9 million in water sales to other cities $50 million in water sales within Minneapolis
Federal Funding	Current revenue - $46M
Merger between Park Police and City Police	$.5 – $1M annually
Merger between City Libraries and County Libraries	$21.3M City spending, $38.9M County spending
Crime Lab Merger	$13M capital, $100k annual increase in operating
9-1-1 Merger	$2.5M Capital, '06 911/311 budget: $15M, revenue $3.2M; '06 911 costs: $8.3M - $6.6M personnel costs
Public Works Service Provision	Varies with level of services outsourced

This document is not intended to reflect policy statements that indicate commitment from the City to pursue the option or identify specific legislative agenda proposals. However, some of these options are being pursued since the research began. Those options will be noted in the body of this report.

Topic: Sales and Use Tax

Summary:

Based on the demographic and economic changes in Minneapolis and surrounding areas, as well as the City's current revenue raising capability, this information examines the impacts of an increase to the local sales and use tax rate within Minneapolis by an amount of 0.25% - 0.5%. Legislative authorization would be required to dedicate the additional sales and use tax revenue (estimated to be $28.8 million in 2007 and $29.5 million in 2008) on General Fund without expiration date. Proposals have been discussed that would designate additional revenue to public safety activities.

The current 0.5% local sales and use tax rate in Minneapolis was enacted in 1986 and all proceeds are dedicated to convention center construction and maintenance. This tax is in addition to the State's 6.5% for a total sales and use tax on purchases in Minneapolis of 7%. As of February 2006, general local sales taxes are imposed in 14 of Minnesota's 853 cities, and in one of the 87 counties.

The latest city-level comparison on the economic impact of local sales taxes was prepared by a consulting firm for Minneapolis in 1986, when a total of 120 surveys were administered in 13 cities and 11 states where tax disparities existed (major cities with sales tax rates higher than surrounding communities). The conclusion was that individual consumers typically do not notice a difference in sales tax between communities until it exceeds 1%.

Current Revenue: The 2007 forecast for local sales tax collected is $57.2 M, of which $28.4 is from the Citywide (0.5%) sales tax.

Potential Revenue: $14.4-28.8M for .25-.5% sales tax increase for 2007, $75.7-151.3M for 2007-11 (based upon 2.5% annual increase in revenue). Estimates for a 0.5% regional (seven county metro area) sales and use tax are $219-260M for 2007-2012 (May 2006 Brief from the Office of Senate Counsel & Research, and Financial Analysis).

Previous Actions Related to Sales Taxes in the City:

- 1986: Original ½ percent sales tax enacted for convention related purposes.
- 1992: One-time revenue use for Neighborhood Early Learning Centers (NELC's) – special legislation required.
- 2001: Increase in maximum tax from 12 to 13 percent – allowed lodging tax to rise to 3%.
- 2005: Proposal before the Council to add an additional ½ percent sales tax (Ostrow Public Safety Amendment).
- 2006: Enactment of 0.15% Hennepin County sales tax.
- 2009-10: Entertainment Tax to ballpark and stadium (effective when the team occupies and the games start; Gophers in 2009, Twins in 2010).

Benchmarks:

Major Cities with Higher Sales Tax Rates than Surrounding Areas*

City	Denver	Seattle	Salt Lake City	Kansas City	St. Louis City	Houston	Dallas	Chicago
Total Sales Tax Rate	6.40%	8.80%	6.60%	7.48%-8.35%	7.62%	8.25%	8.25%	7.75%-9%
Higher than surrounding areas	1.00%	0.90%	0.85%	2.58%	1.60%	1.50%	1.50%	1%

***** Note: each of these states has a different state-city fiscal relationship than Minnesota (*i.e.* no local government aid)

Factors for Future Decision Making:

- Legislative process required for approval (defined in state law, unless special law provides an exemption):
  - Council must adopt a resolution to support the tax.
  - Legislature authorizes the Council to impose tax.
  - General election approval by the voters.
- State Department of Revenue principles and criteria for sales tax approval may be applied: simple and understandable, fair, competitive, stable and adequate, and efficient.
- Concerns about regressivity: sales taxes tend to effect low income groups more than high income groups.
- Competitiveness and the effect on business purchases may be an issue.
- The State of Minnesota relies more on income taxes and less on property and sales taxes in comparison with other states. Meanwhile, the general sales tax rate is identical among all local tax jurisdictions (except 1% local sales tax for Duluth).

2005 State Tax Collection by Source

State	Property	Sales	Selective Sales*	Individual Income	Corporate Income	Other
MN	3.9	26.5	15.3	39.9	5.9	8.5
IA	--	29.9	15.7	39.2	3.2	11.9
ND	0.1	29.2	21.3	17.2	5.4	26.7
SD	--	56.0	25.4	--	4.4	14.1
WI	0.8	30.0	15.2	40.6	5.8	7.4

*Selective sales taxes are state excise taxes (*i.e.* motor fuel, alcoholic beverages, etc…) -- Tax not levied at the state level

- The State of Minnesota has been approving local sales tax for capital projects, with sunset dates, but not for operations.
- Potential revenue offsets may negate impact (*i.e.* lose Entertainment Tax, which will apply to new Twins ballpark and Gopher stadium or other revenue sources, such as Local Government Aid).
- Local and regional sales tax may compete, if initiatives aren't balanced through the legislative agenda.

Topic: Regulatory Services – Higher Fines for Repeat Offenders/Problem Properties

Summary: Problem properties, whether occupied or abandoned, owner-occupied, rental or commercial, create costly problems for cities, generating police calls, housing and other inspection violations. This option proposed setting higher fines for repeat offenders in problem properties, in order to control the deterioration of problem properties in the City. Currently, the City charges higher fines for repeat offenders when violations are within a two year time frame.

Current Revenue: 2006 revenue collected, ~$200,000 in fines and ~$400,000 in assessments.

Potential Revenue: Fines could continue to increase as this process is expanded to other divisions within Regulatory Services or they could decrease as a result of future compliance. While some fines can be placed onto the property taxes if not paid, others do not have a tie to the property and therefore cannot be assessed (*i.e.* animal licensing fines).

Previous Actions:
- Vacant and Boarded Building Registration Fee was increased from $400 to $2,000 effective October 1, 2006.
- Administrative Fines (standard or "unspecified") was raised from $100 to $200. The maximum remains $2,000.
- Dangerous Dog Registration Fees have been increased to $75 for an annual license fee and $200 for an annual registration fee.
- Business Licensing, Housing, Environmental Health (Lead and Food), and Animal Licensing all using the administrative fines process to collect fines.

Benchmarks:
- Saint Paul: Similar process to Minneapolis.
- Burlington, VT: Escalating fines built into code enforcement ($300-500 fine plus three hours in restorative justice program).
- Phoenix, AZ: Higher maximum fine of $2,500.
- Chicago, IL: Fines between $300-500 for second offense, misdemeanor charges resulting in imprisonment of not more than six months if greater than three violations.
- Seattle, WA: $500 for second and subsequent violations within a five year period after the first violation.

Factors for Future Decision Making:
- Revenue from fines not predictable.
- In 2001, Regulatory Services shifted away from using court citations in preference for administrative adjudication process.
    - The City is able to collect fines directly or through special assessments when applicable.
    - Court not enthusiastic about administrative fines as they do not receive a percentage of the fine for the administrative processes.
    - The state has showed some interest in making sure we are using this process properly, and not to balance the local budget.
- Purpose of the higher fines is to gain compliance, not to raise revenue.
    - Seems to be effective as compliance has increased under the administrative fine process.
    - Deals with the problem more effectively and more quickly.
    - Need to use judiciously.
- Collection of fines and fees.
    - Some more easily collected than others.

- Potential for lawsuits could interrupt the process for imposing and collecting administrative fines.
    - Class action lawsuit in the early 1990's pertaining to the Regulatory Services assessment process for housing violations.
    - City prevailed in the lawsuit and a new notification and hearing process was developed as a result of the findings.

Topic: Transportation Utility

Summary: Charges residents and businesses within a jurisdiction for the maintenance, repair, and development of the road infrastructure based on an estimate number of motor vehicle trips a property generates; periodically charged and collected. The estimated number of trips is based upon a mathematical formula developed in 1959 by Alan Voorhees that predicts traffic patterns based on land use.

Potential Revenue: Based upon need (similar to Storm Water Utility).

PW Transportation General Fund Budget in 2006: $10.9M Expense, $4.0M Revenue.

How it is calculated

- Revenue need is defined.
- Estimate the total number of trips.
- Allocate the fee per trip to users.

Previous Actions:

- Working in concert with other municipalities and League of Minnesota Cities , the City included this topic on its legislative agenda, 2004-06.
- Since 2002, topic has come up at the legislature and interest has been shown in the topic.

Benchmarks:

- Most prevalent in Oregon and Colorado.
- Fort Collins, CO: first used in the 1980's – no longer uses the transportation utility.
- Ashland, OR: flat fee for single and multi unit dwellings, based on number of parking spaces required in ordinance.
- Hubbard, OR: flat fee for residential classifications based upon number of vehicle trips generated.
- Lake Oswego, OR: based on estimates of number of trips made by the Institute of Traffic Engineers (ITE).
- Madison, WI. Is considering the option, though no formal proposals have moved forward.

Note: The cities listed are much smaller than Minneapolis.

Factors for Future Decision Making:

- Efforts currently are underway with LMC and other municipalities.
- Street maintenance costs are currently raised through property taxes.
    - Could be treated not so much a revenue increase as a shifting of revenue from property taxes to utility.
- Dedicated funding source for transportation infrastructure may lead to improved road condition.
- Emphasis on road maintenance rather than road projects.
- Aligns users of the service with the cost of providing the service.
- Need to create set up and appeal process similar to storm water utility.
- Enabling authority only – Cities have a choice to use it.

Topic: Street Light System Funding Options

Summary: Currently, the City pays $5.8 million annually in street lighting operations and maintenance expenses through the General Fund and sending capital requests through the Capital Improvement Process. A street light utility could come in various forms. It is a specific type of transportation utility fee.

Current Revenue: The City does not receive revenue related to street lighting other than what is charged to property owners to cover increased lighting requests and expenses related to capital replacement and upgrades.

Potential Revenue: Varies depending on the determined level of increase in fees or assessments on residential and commercial property owner ($5.8-15 million).

Options under consideration:
1) The City continues paying street lighting operations and maintenance expenses through the General Fund. Commercial and residential properties are charged for capital expenses related to a City-wide replacement schedule.

If a 25-year capital program is implemented, a new City-wide streetlight system would result in an estimated $11-15 million in costs per year. A 30-year capital program would result in an estimated $10-13 million in costs per year.

If it is determined that $10 million a year is needed for capital improvements, it is estimated that an additional $30 per year or 8 cents per day would need to be charged out to residential properties (assuming 30% commercial/70% residential contributions).

2) The City charges commercial and residential properties for operations and maintenance expenses and leaves the capital funding process as it currently is. Operations and maintenance expenses are no longer paid from the General Fund.

If commercial properties assume 30% and residential properties 70% of the $5.8 million of operation and maintenance costs of street lighting, a residential dwelling unit would pay an additional $40.60 annually or $3.38 monthly for operations and maintenance.

3) The City charges commercial and residential properties for operations and maintenance expenses. Operations and maintenance expenses are no longer paid from the General Fund. Commercial and residential properties are charged for capital expenses associated with a City-wide replacement schedule.

Under this option all street lighting operations, maintenance and capital expenses are directly paid by commercial and residential properties. This would not only remove $5.8 million in expense from the General Fund, it would also remove requests for capital replacements from the Capital Improvement Process.

Assuming the division of expenses was negotiated to be 30% commercial and 70% residential and assuming $10 million is determined to be the desired capital level investment, residents will pay an additional $70 per year or 0.19 cents per day. If $15 million is the desired capital investment level, residential properties would need to be charged $105 per year or $0.29 cents per day. These fees could be set to automatically inflate with electricity and material costs.

4) The City could choose to decrease the initial impact of these costs on residential and commercial properties by charging out only a percentage of the operations and maintenance or capital costs, or by phasing them in over time to the full cost.

Previous Actions: The City's capital replacement expenses for street lighting have varied over the years and typically gone through the Capital Improvement Process. In 2006, $170,000 was funded through this process. In 2005, $1 million was spent in an effort to replace 1000 lights that were identified as needing replacement; the funding, however, was insufficient to cover all 1000 lights. Other capital and residential enhancement costs associated with new street lights are paid by residents, although some areas receive grants.

Benchmarks:

- St. Paul uses an assessment on property taxes to cover the costs associated with street lighting.

Factors for Future Decision Making:

- Financial impact on commercial and residential property owners may lead to resistance.
- Support from property owners for a better system of funding a street light system that equitably and adequately covers all neighborhoods and commercial areas.
- Potential positive impact on crime reduction efforts.
- Potential changes in future technology may alter the cost estimates.

Topic: Commuter Taxes

Summary:
Downtown Minneapolis has 30,000 residents and 160,000 workers. The workers consume City services such as roads, sidewalks, traffic signals, street cleaning, etc. Proponents of commuter taxes argue the commuters who enter the City every workday do not pay their fair share for the City goods and services they consume.

Potential Revenue:
Estimates vary depending on the type of commuter tax implemented and the capital and administrative costs associated with the commuter tax.

Commuter Tax Examples:	Description:
• Electronic Road Pricing	Transponders in all vehicles; charge for road use
• Road User Fees	GPS in all vehicles; charge for road use
• Charging Areas	All vehicles charged a per day flat fee in a given area
• Tollways	Charge all vehicles for entering area
• Occupational Privilege Tax	Targeted form of a payroll tax
• Parking Rate Increase	Increase parking rates for City owned ramps/lots
• Auto Rental Tax	Receive % of MN Rental Motor Vehicle Tax collected
• PAYD Insurance	Insurance rates based upon how much person drives

Options requiring electronic toll collection
Electronic Road Pricing: in-car transponders charge commuters as vehicles pass through "gantries".
Road User Fees: GPS units are installed in cars to track trips within certain borders.

Options that don't require electronic toll collection

- Occupational Privilege Tax: a form of payroll tax for employers and/or employees in the City (a.k.a. business privilege tax, employee or employer privilege tax).
- Parking Rate increases (For example, CLIC recommended .05 cent dedicated to bike path maintenance. Public Works generally changes rates in .25 cent increments.)
- Auto Rental Tax: State could dedicate a portion of the tax for the City.
- Tollways: Stations set up throughout the City.

Previous Actions:

- None

Benchmarks:

What have other cities done: Payroll taxes

- Aurora, CO: $2 per employee per month ($3.8M in 2004).
- Chicago, IL: $4 per employee per month ($24.2M in 2004).
- Cincinnati, OH: 2.1% income tax (~$216M in 2006).
- Denver, CO: $5.75 per month per employee.
- Kansas City, MO: 1% income tax.
- New York City, NY; Philadelphia, PA: abolished commuter taxes in the 1990's.
- Philadelphia, PA: still has a business privilege tax ($316M, collected by the City).
- Pittsburg, PA: eliminated its occupational privilege tax; still has business privilege tax.
- Seattle, WA: business privilege tax - % of gross receipts ($124M in 2002).

Note: Each of these states has different state-city fiscal relationships than Minnesota (i.e. no local government aid).

What have other cities done: Other taxes

- Chicago, IL: parking taxes ($81M in 2006), five cent per gallon fuel tax ($59M in 2006).
- New York City, NY: toll system (e.g. $6 to enter the City from Jersey, non-state residents).
- Boston, MA: vehicle registration fees ($40M budgeted for 2007).
- Boulder, CO: excise tax against new developments (~$1.1M for 2006); also 0.006% of local city sales tax dedicated for transportation (~$13.3M for 2006).

Note: Austin, TX, Durham, NC, Portland, OR and Saint Paul, MN have no commuter taxes or anything similar.

Factors for Future Decision Making:

- Legislative approval needed.
- Amount of revenue generated vs. capital and administrative costs.
- Non-resident workers contribute substantially to the City and its economy through other taxes; *i.e*. local sales tax, restaurant tax.
- Relationships and competition with surrounding municipalities may be disrupted.
- Potential ability to alleviate congestion by making driving more expensive and transit more attractive
- Opponents argue such a tax may increase vacancy rates in downtown.
- Geographic considerations – setting up tollbooths and other means of setting the City boundary for charging the fees would be expensive and difficult
- Potential revenue offsets (*i.e.* lose Entertainment Tax, which will apply to new Twins ballpark and Gopher stadium or other revenue sources, such as Local Government Aid).

Topic: Wheelage Tax

Summary:

Minnesota Statues, section 426.05, subdivision 1 authorizes cities of the first class to impose an annual wheelage tax upon motor vehicles using the public streets or highways. Minnesota Statues, section 163.051, subdivision 1 requires counties imposing the wheelage tax to reduce the amount of taxes levied by the amount of wheelage tax collected by the county in the 12 months immediately preceding such levy. A wheelage tax is a specific type of commuter tax.

Potential Revenue:
There were roughly 370,000 registered vehicles in Minneapolis in 2006, of which 44,000 are classified as trucks. Based upon the $10 fee for motor vehicles only, the potential revenue is $3.7M (less State admin. fees), or $3.92M ($3.26M for motor vehicles, $660K for trucks, less State admin. fees).

Previous Actions:
Memorandum from City Attorney to Public Works dated 11/17/2003 regarding opinion on statute requirements presented legal analysis of different revenue options in Public Works, including the wheelage tax.

Benchmarks:
Three counties have implemented it:
- Dakota - ~ $1.5M/year for construction uses
- Anoka - ~ $1.4M/year for maintenance uses
- Washington - ~ $927K/year for construction and maintenance

Factors for Future Decision Making:
- Effort currently is underway by LMC.
- Tax is limited to 20% of the state's vehicle registration tax or may have to limit wheelage tax to $15 for trucks, $10 for other motor vehicles.
- Fee collected through vehicle registration process, with an administration fee paid to the state.
- Per statute, Board of Estimate and Taxation has the authority to set the rate of tax.
- Per statute, Board of Estimate and Taxation has the authority to allocate and distribute the moneys collected.
- Voter approval is required for cities of the first class over 450,000. (Due to the current population of Minneapolis, the City may not be required to seek approval by voters. The statute could be changed which would then require voter approval every five years.)
- Perception this tax further erodes state responsibilities.
- Potential revenue offsets (*i.e.* lose Entertainment Tax, which will apply to new Twins ballpark and Gopher stadium or other revenue sources, such as Local Government Aid).
- Hennepin County could impose a wheelage tax on top of Minneapolis wheelage tax.
- Statute should be reviewed by City Attorney regarding interpretation of statute language.
- This is considered to be a regressive tax.
- Treats all trucks and "other motor vehicles" the same – even though weight of a vehicle affects road wear differently.

Topic: Strategy and Justification of Increasing LGA

Summary: Increase Minneapolis' revenue from LGA to the pre-2003 level ($118.9 million in 2002, $84 million in 2007 Mayor's recommended budget). Clarification of City data may be needed to effectively lobby the State Legislature for increased resources and formula changes.

Potential Revenue:
Potential changes at State level:
- Restore statewide LGA to pre-2003 levels: $150 million statewide.
- Remove state administrative costs from allocation: $494,000 for Minneapolis.
- Modify formula to address large city pre-existing needs and special factors.

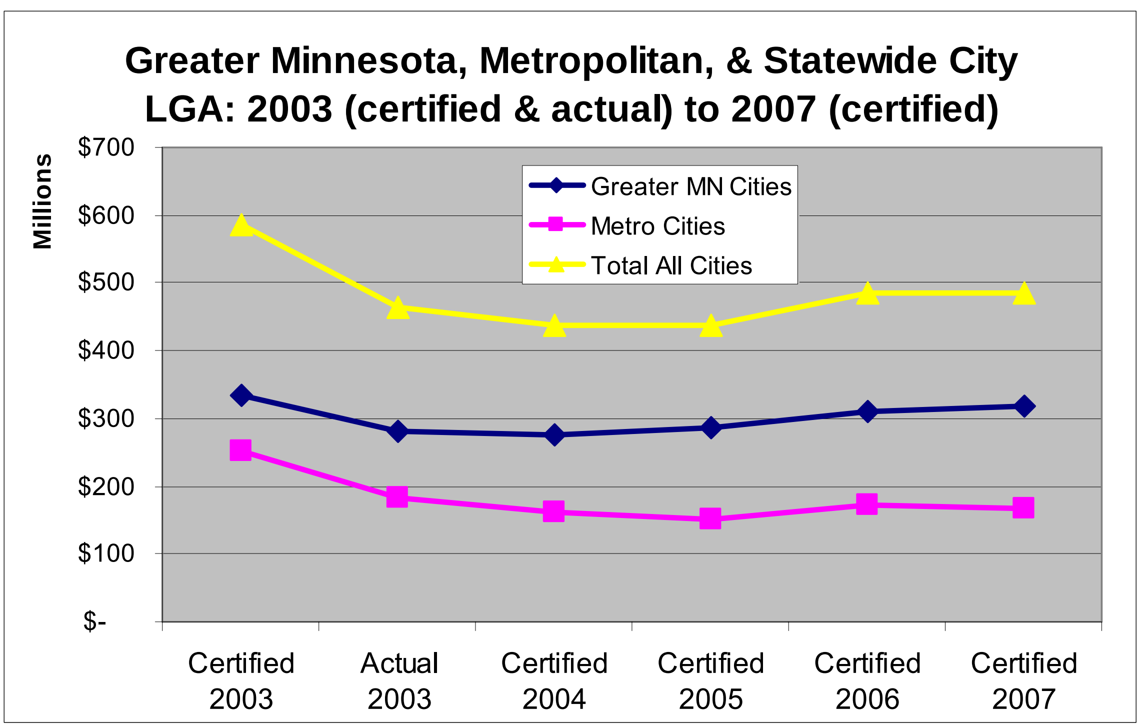
Previous Actions:

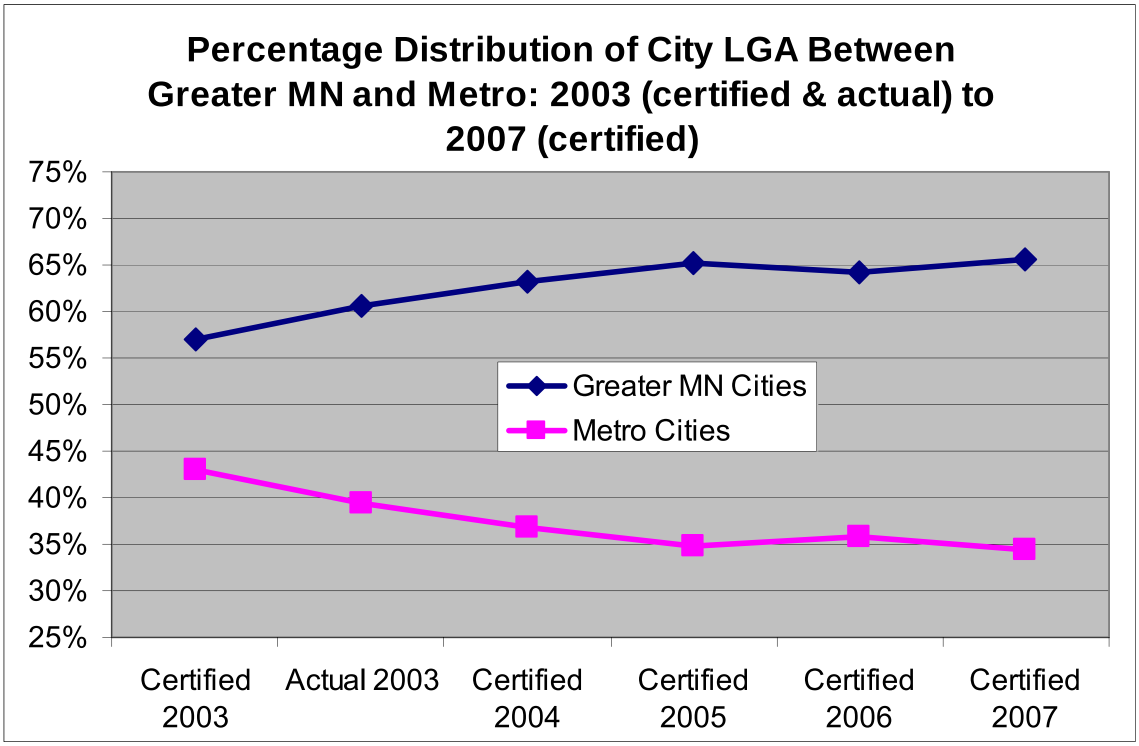
- 1971 - LGA created to provide property tax relief and ensure cities were able to meet revenue needs.
- 2003 - LGA to Minneapolis was reduced 19%, (increased ratio of property tax to 15.5% of the City's budget in 2005, up from 12.2% in 2002).
- 2003 - new LGA funding formula based on Governor's recommendations.
- Total LGA available for statewide distribution reduced $150 million between 2002 and 2005.

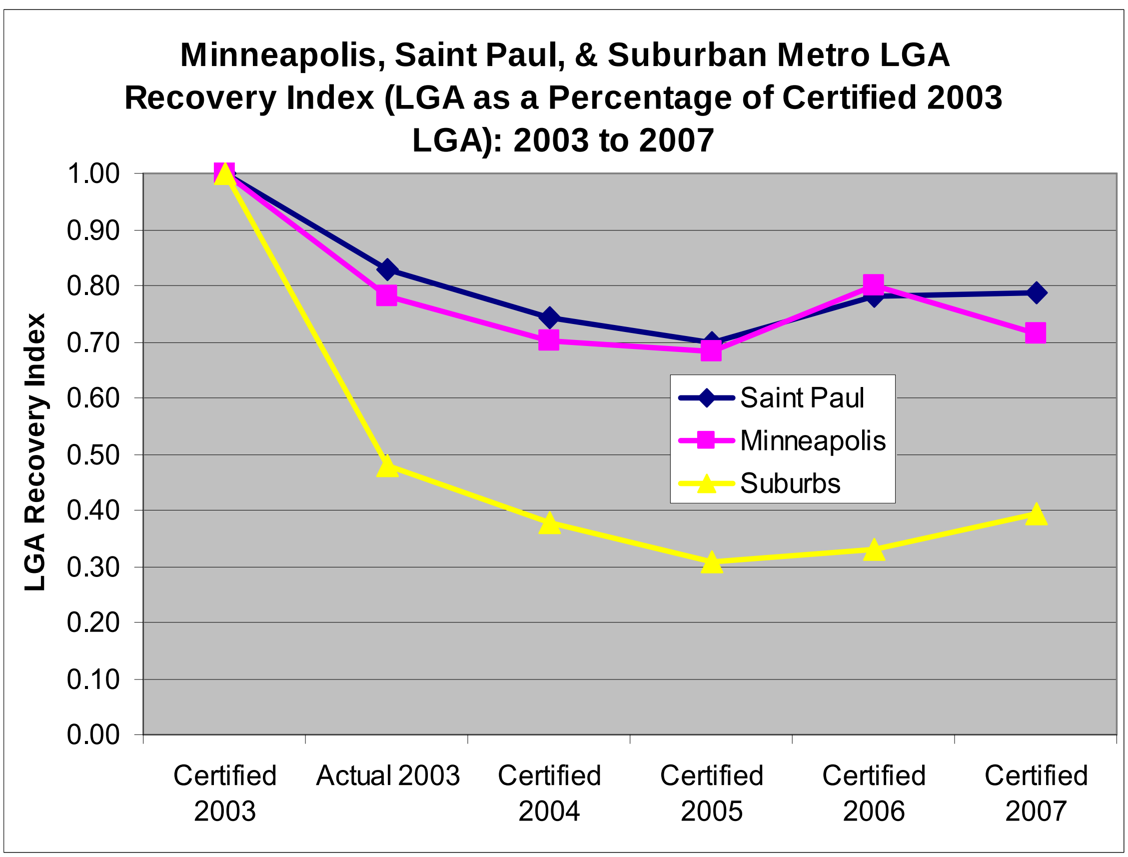
Factors for Future Decision Making:

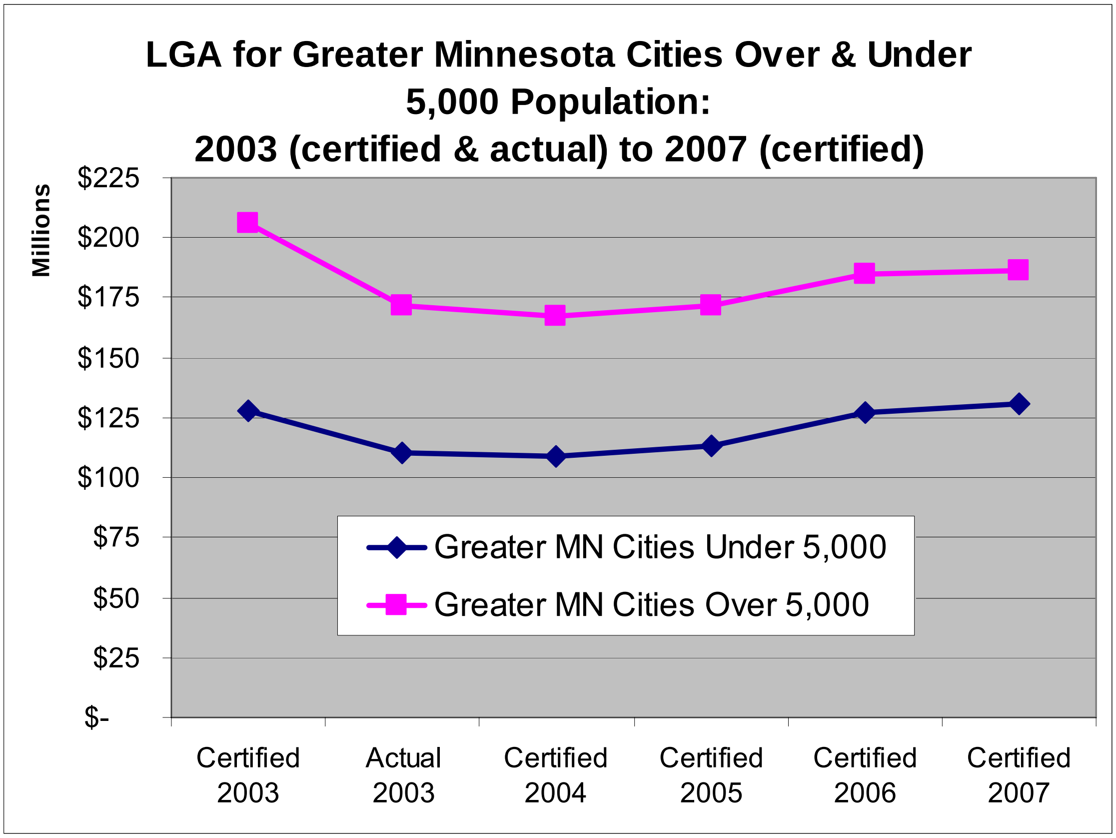
- New funding formula underestimates large cities' expenditures
  - New distribution ignores pre-existing need of larger cities.
  - Large cities make contribution to statewide economic and cultural development.
  - Reality of LGA cuts for large cities means service cuts or increased property taxes.
- Formula of LGA distribution does not consider issues affecting large cities: crime rate, poverty, population change, etc.
- Data requirements for LGA formula require better collaboration between City Assessor, Police Department, Intergovernmental Relations and Finance Department.
- $494,000 state administrative costs are deducted from Minneapolis appropriation in 2006.
- LGA is a flexible revenue source.
- Reliance on LGA as revenue is problematic; incentives are not aligned with other policies (*e.g.* motor vehicle accidents).

The following graphs show the impact of LGA cuts to metro cities versus greater Minnesota cities since 2003.




Percentage Distribution of City LGA Between Greater MN and Metro: 2003 (certified & actual) to 2007 (certified)
75%
70%
65%
60%
55%
50%
45%
40%
35%
30%
25%
Greater MN Cities
Metro Cities
Certified 2003
Actual 2003
Certified 2004
Certified 2005
Certified 2006
Certified 2007


Minneapolis, Saint Paul, & Suburban Metro LGA Recovery Index (LGA as a Percentage of Certified 2003 LGA): 2003 to 2007
LGA Recovery Index
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Saint Paul
Minneapolis
Suburbs
Certified 2003
Actual 2003
Certified 2004
Certified 2005
Certified 2006
Certified 2007



Topic: Enterprise Funds – Selling Our Water

Summary:

What are the options?

- Small bottles for events (to market the City).
- 5-gallon recyclable bottles (to replace current office use for water coolers).
- Marketing campaign to promote tap water for drinking.
- Sell water to more municipalities (Minneapolis currently sells to seven municipalities.)

Current Revenue: For 2006, the projected revenue for selling water is ~$9.5 M ($50M from Minneapolis).

Potential Revenue:

- Potential revenue for bottling water is roughly estimated at around $50,000 a year – with the City making a profit only after several years.
- Potential revenue for selling the City's water varies based upon need and use. Hilltop is estimated to spend $104,000 this year, while the Joint Water Commission is estimated to spend $5.4 million this year for City water.

Previous Actions:

- Joint Water Commission and other suburban cities (Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal, Edina) – purchase their water from the City ($9 million in total)

Benchmarks:

- Most municipalities have not bottled water – legislative restrictions or liability concerns, those that do bottle it mostly use local private bottling companies.
- Private companies have bottled municipal water – Coca-Cola Co., PepsiCo, and Buhl Water Company.
- New York City public campaign for drinking tap water: I ♥ NYC Tap Water.

Factors for Future Decision Making:

- Revenue from water charges can only be used for Enterprise Funds

Bottling Water-

- Outstanding tap water quality.
- Significant capital investment in water treatment.
- Higher price of bottled water than tap water.
- Increase the City's revenue Growing bottled water market.
- Tap water often a source of bottled water (Aquafina, Dasani, City of Buhl).
- More stringent regulations for tap water than for bottled water.
- Costs of setting up, operating, maintaining, and marketing bottled water may exceed any revenue generated from selling the bottled water.
- Environmental concerns regarding plastic bottles – more water is used in making plastic bottles than is actually put into them, 1.5M barrels of oil used annually to package the water for American consumption.
- Liability concerns and legislative restrictions.

Selling Water-

- There is capacity to sell more water.
- Policy choice between water conservation and increased revenue.
- Potential contamination issues.
- Can only be used for Enterprise Funds.
- Need for increased cash reserves (more customers, more risk).
- Increased reserves could reduce need to bond.
- Coordinating water rights an intergovernmental challenge – if demand for water increases, which cities have first rights to water?
- Water supply planning for Twin Cities project currently underway.

Topic: Federal Funding

Summary: This option was requested to analyze where Minneapolis lies in terms of federal funding received in comparison with similar cities. Further analysis would be required to definitively illustrate how Minneapolis compares to other cities in terms of maximizing Federal Government revenue.

Current Revenue: $46 million

Benchmarks:

City	St.	Federal $$$	Pop.	Per Capita
Fresno	CA	81,998,100	427,652	$192
Virginia Beach	VA	55,306,915	425,257	$130
Pittsburgh	PA	29,748,302 (CDBG Only)	334,563	$89
Omaha	NE	38,874,372	390,007	$100
Wichita	KS	41,442,594	344,284	$120
Minneapolis	MN	46,389,252	382,618	$121
Atlanta	GA	53,204,091	416,474	$128
St. Louis	MO	55,400,000	348,189	$159
Sacramento	CA	66,831,627	407,018	$164
Santa Ana	CA	55,743,000	337,977	$165

County	St.	Population	Fed $$$	Per Capita
Sacramento	CA	1,223,499	8,450,765,004	$6,907
Franklin	OH	1,068,978	3,613,880,015	$3,380
Allegheny	PA	1,281,666	2,588,823,861	$2,020
Erie	NY	950,265	1,688,789,573	$1,777
Hennepin	MN	1,116,200	1,845,112,016	$1,653
Hillsborough	FL	998,948	1,295,937,266	$1,297
St. Louis	MO	1,016,315	965,274,676	$950
Oakland	MI	1,194,156	760,883,609	$637
Palm Beach	FL	1,131,184	710,684,988	$628
Fairfax	VA	969,749	450,697,943	$465
* Source: 2000 Census, other cities' budgets, financial reports and staff				
** Grants (Block, Formula, Project, and Cooperative Agreements)				

Challenges to data gathering:

- Each city calculates total federal funding differently.
- Amount of federal grants awarded a city may depend on unrelated factors: seniority of city's congressional delegation.
- Most federal categorical grants must be matched by city funds.

Factors for Future Decision Making:

- Cities have 3 routes to obtain federal aid:
  1. Annual Legislative Agenda of City
  2. City agencies apply for select federal grants
  3. Federal agencies administered funding to cities on formulaic analysis
- Cities provide different services (transportation, mental health, education) so quantifying federal aid is difficult.

Topic: Merger between Park Police and City Police

Summary: This option proposes to merge the Park Police and Minneapolis Police Department to provide better response to crimes, less administration overhead and more unified organization.

Potential Revenue: Cost savings is estimated at $0.5 – $1.0 million annually.

Previous Actions:

- 1983 –Proposal to create civilian Park Patrol was opposed by Park Police and Park Board.
- 1994-1995 – Mayor Sayles Belton proposed merger for some level of combined services.
- 2000 – MPD and Park Police jointly reviewed service and park law enforcement in other jurisdictions. Recommendations listed below were made but not acted upon due to change in key players:
    - MPD be responsible for criminal investigations and investigative workload.
    - Collaboration for enforcement in parks and adjacent neighborhoods.
    - Interagency work team to understand how existing services are provided.
- 2003 – Park Police signs school liaison officers contract, ending 38-year relationship between MPD and schools.
- 2003 - MPD budget proposal provided options for consolidation saving $0.5 – $1.0 million annually. Mayor Rybak supported merging park and city police and allocating cost-savings to Park Board. Merger proposals have generally been opposed by the Park Board - concern about lack of attention to park livability crimes.

Benchmarks:

- Merge Park Police function completely into MPD (Boston, Cincinnati, Denver, Portland, Seattle, Atlanta, Dallas, Phoenix).
- Merge Park Police into MPD, which would provide policing services through contract with Park Board (Houston).

Factors for Future Decision Making:

- Potential financial savings from deployment efficiencies and reduced personnel.
- Transition costs should be identified.
- Which areas of responsibility will be combined? For example: 911 response, programmed preventive patrol, case investigations, special events, training, property and evidence, administrative services, computer systems.
- Can MPD provide equivalent services?
    - CODEFOR prevention strategy effectiveness.
    - Decreasing FTE's in MPD since 2003 LGA cuts mean less FTE available for park areas.
    - Diminished public confidence in MPD.
    - School liaison contract.
- Agreements and legal provisions requiring amendment if merger occurred: Municipal Code of City of Minneapolis, Minnesota Statutes, Law Enforcement Jurisdiction-Multi-Jurisdiction Property, Law Enforcement Jurisdiction over Federal Lands.
- Some Park Police jobs could be eliminated, morale of Park Police might be decreased and increase departures.
- Minneapolis park system is rated one of top 3 by Trust for Public Land – safety is one of seven factors in rating.
- School liaison contract is most pressing issue for MPD, who believes that youth and gang info is not being shared sufficiently.

Topic: Minneapolis Public Library Merger with Hennepin County

Summary: The Minneapolis Public Library system provides services in **15** locations (Central Library and 14 community libraries). The suburban Hennepin County Library system has **26** libraries, a Hennepin eLibrary, and Children's Readmobile. The percentage of the Hennepin County population located in Minneapolis has been declining while the suburbs are containing a larger portion of the population. Minneapolis is one of the 46 municipalities within Hennepin County. One-third of the county's 1.1 million population lives in Minneapolis and two-thirds reside in suburban Hennepin County. Improved access to technology, increased access to documents online and online book request systems have the potential to decrease the trips a patron must make to a physical library.

Current Expenditures (2006): $21.3 City, $38.9M County

Previous options that have been explored:

Option I. Co-govern the Minneapolis Central Library with Hennepin County and downsize MPLS by consolidating some of Minneapolis community libraries with neighboring Hennepin County libraries.

- The newly-opened Minneapolis Central Library is drawing a broader base of urban and suburban patrons making co-governance a logical possibility.

Option II. Merge the MPL system into the Hennepin County library system, eliminating the current Minneapolis Library Board.

Option III. Merging the Central Library into the HC system.

Previous Actions:

- One Library Board managed both systems 1922-1965.
- MELSA (Metropolitan Library Service Agency) relationship began in 1974.
- Strategic planning discussions on structural changes in 1980s and 1990s.
- 2002 McKinsey report mentions coordinating planning and economic development work with other City agencies like the library board to achieve integrated planning.
- State House and Senate legislation introduced to study feasibility of merger in 2004.
- Exploration of a potential merger between the Minneapolis Public Library System (MPLS) and Hennepin County Library systems is currently underway.
- Citizen's League report in 1991 – discussed regional approaches to library services in response to the New Central Library proposal. The report recommended four regional initiatives: regional reference center, regional materials depository, regional plan for computer systems, and strengthened regional coordination. The report also recommended deferring plans for a central library. The cost implications of options were not explored.
- A Report - "Survey of Organizational, Personnel, and Fiscal Areas" from 1962: "critical examination of the activities and accomplishments of the Minneapolis Public Library system, with the assistance of independent consultants; major objectives being improved staff morale and a more favorable image in the minds of the public.".


Minneapolis Public Library
City & Nearby Libraries
Brookdale
Columbia Heights
Webber Park
4310 Webber Pkwy
St. Anthony
2941 Pentagon Drive
Rockford Rd.
6401 - 42nd Av N
North Regional
1315 Lowry Av N
Northeast
2200 Central Av NE
Roseville
Pierre Bottineau
55 NE Broadway
Golden Valley
830 Winnetka Av N
Saint Anthony Park
2245 Como Av
Sumner
611 Van White Blvd
612-630-6390
Central
250 Marquette
Southeast
1222 SE 4th St
Franklin
1300 E Franklin (Interim)
St. Louis Park
3240 Library Ln.
Walker
2880 Hennepin
East Lake
2727 E Lake St
Merriam Park
1831 Marshall Av
Hosmer
347 E 36th St
Roosevelt
4026 28th Av S
Edina
5280 Grandview Sq
Linden Hills
2900 W 43rd St
Nokomis
5100 34th Av S
Highland Park
1974 Ford Parkway
Washburn
5244 Lyndale Av S
Southdale
7001 York Av S
Augsburg Park
7100 Nicollet Av
Minneapolis Public Library
Anoka County Library
Ramsey County Library
Saint Paul Public Library
Hennepin County Library
You may borrow and return books at any of the 101 public libraries in the Twin Cities metro area. (Rules of lending library apply.)
For more information and updates, check www.mplib.org or call 612-630-6000
Library Board of Trustees

Benchmarks: There are several instances of a cooperative city/county library system:

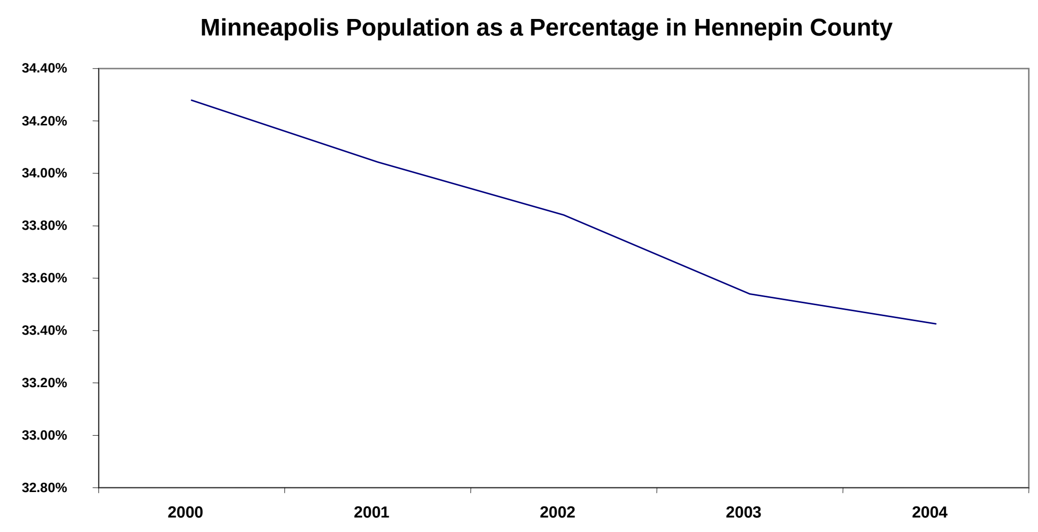
Library System	Population	# of Libraries	# People per Library
Orange County/Orlando	990,000	14	71,000
Salt Lake County/City	948,000	18	53,000
Sacramento County/City	1,363,000	27	50,000
Hennepin County/Mpls	1,116,000	41	27,000
Ramsey County/St.Paul	511,000	20	26,000

Compared with other cities and counties of similar political, demographic and geographical conditions, Hennepin County and Minneapolis provide relatively more libraries per capita.

- Our research has not yet found any city of similar size operating separate city and county library systems.

Factors for Future Decision Making:

- The major forces driving the discussion include current constraints on operating budgets caused by state Local Government Aid (LGA) cuts since 2002 and potential efficiencies that could emerge by eliminating duplicative administrative services.
- Projections indicate that between now and 2020, 135,000 new residents will be added to the county, many in the 2nd and 3rd ring suburbs which are not currently well served with library facilities.
- Consolidation efforts will require analysis and consideration of the numbers and residency of current cardholders, new customer registrations, programs/classes presented for the public and total program attendees, library materials circulated, and website hits.
- Some City and County libraries are serving the same patrons due to the closeness of their physical locations.
- Operating and capital savings would be achieved through consolidation of activities.



Topic: Crime Lab Merger

Summary: Merge or consolidate Minneapolis and Hennepin County's crime labs to provide greater efficiency and maximize tools and equipment available to law enforcement personnel to meet current needs of MPD, while increasing public safety.

Estimated Cost of new Crime Lab:
$13 million capital, $100,000 annual increase in operating.

Previous Actions:

- 1979 - Municipal Financing Commission recommended that the MPD eliminate its crime lab because it provided duplicative services as Hennepin County.
- 2002-2006 – MPD has requested Capital Funding for new City forensics lab and evidence unit.
- 2005 – MPD released a Capital Improvement Plan to acquire a site and provide suitable facilities for a City forensic lab. Proposal included reference to a long term partnership with Hennepin County Sheriff's Office including co-location of facilities, sharing of lab spaces, transfer of lab functions between agencies and case load balancing.
- 2005 – Assistant Chief of Police and Crime Lab Commander discuss merger/consolidation before Minneapolis Public Safety and Regulatory Services Committee and asked how to proceed.
- 2005 – CLIC did not recommend funding for MPD forensics lab and noted only that consultation with Planning Department should occur as to appropriate locations.

Benchmarks:

- LA City Sheriff's Crime Lab located numerous agency lab services under one roof. Each agency, maintained control over their individual services. It took LA ten years from concept to the move into a combined facility.

Factors for future decision-making:

- MPD existing lab spaces are under recommended ratio of square feet per staff member.
- New facility necessary to acquire national accreditation through American Society of Crime Laboratory Directors.
- MPD volume is greater than Hennepin County or Minnesota Bureau of Criminal Apprehension (BCA) lab.
- MPD turnaround time much shorter than BCA and Hennepin County labs.
- Would a merge involve facilities and services?
- Potential Partners: Hennepin County, Bureau of Criminal Apprehension, Minneapolis Public Health Laboratory, Target Corporation.
- Need additional research on the quantifiable impacts in crime performance measures (*e.g.,* closure rate, arrest rate).

Topic: 9-1-1 Merger

Summary: A merger or takeover between Minneapolis Emergency Communications Center and Hennepin County's 911 dispatch centers.

Expenditures and Revenue:

- One time start-up and capital fees created by a merger or consolidation are estimated at approximately $2.5 million.
- The 2006 911/311 budget is $15 million, with revenue of $3.2 million.
- 911 costs are estimated at $8.3 million annually, with $6.6 million in mainly personnel costs (December 2004 expenses). Remaining funds were spent on amortized capital assets.
- Long term savings include shared technology acquisition and support, management and supervisory streamlining and potential long-term operational personnel reduction.
- Cost savings in other jurisdictions have been negligible.

Previous Actions:

- 2004 analysis of City and County dispatch centers in response to Hennepin County offer of free conversion from independent Public Safety Answering Points (PSAP) to the Hennepin County Sheriff's Office PSAP.
- City interested in offer but requested further study on requisite impacts, costs and prospective savings of merger or consolidation.

Benchmarks: Santa Fe, New Mexico, Syracuse, New York, and Savannah, Georgia, have all merged City and County 911 services.

Factors for Future Decision Making:

- What happens to existing labor contracts? Considerations should include job retention, retraining and alteration of pay and benefits, shift picking and seniority issues. All benchmark cities reported personnel difficulty as a result of the merger. Employees lost fringe benefits in some cases, or left because of their inability to accept the change. There were turf issues in other cases.
- What, if any, long-term benefits and cost-savings will result from the merger? A third party studying the feasibility of consolidation ranked Minneapolis costs lower than all other 911 centers in the County.
- Will the County retain the City's high quality of service after a merger?
- What are the possibilities for virtual consolidation?
- One alternative to merger or consolidation is that Minneapolis consider providing 911 services to other regional cities for a fee.
- Refusal of Hennepin County offer closed the door for 8 more years.

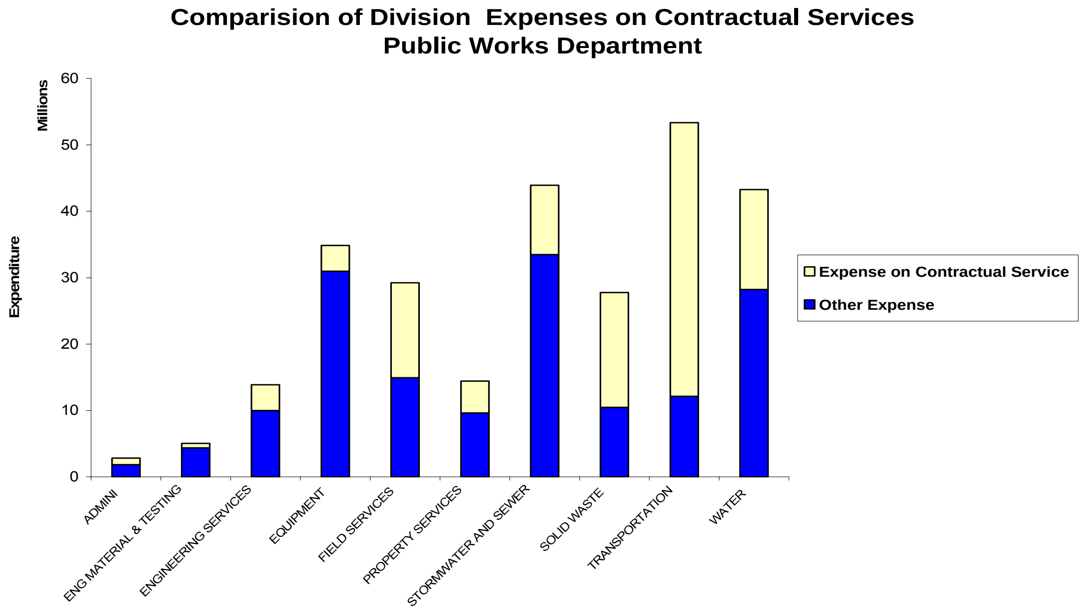
Topic: Public Works Service Provision

Summary: Are there more efficient way to provide Public Works service, including contracting with outside vendors? Information was gathered on: Equipment Services Division, Solid Waste, Storm Water and Transportation.

Current Expenditures:
2006 Public Works operating budget is $268.6 million, 44.2% of which was for contracted service. The 2006 Capital Budget for Public Works is $115 million.

Previous Actions:
Minneapolis currently contracts with private vendors to provide many public works services. An example of the level of contracted services in public works departments between 2003 and 2006 follows:

- Equipment Services Division contracted 11-30% annually.
- Solid Waste contracted 62% annually.
- Stormwater and Sewer Maintenance contracted 16-25% annually.
- Transportation contracted 77-83% annually.



Because of the variety of public works services, each service must be evaluated independently.

Factors for Future Decision Making:

1) City Ordinances and State Laws with requirements regarding level of service or use of competitive contracts.
2) The use of contracted services in some divisions is high already.
3) Can contract maintenance and monitoring be simple and easily measure performance?
4) Resident satisfaction is high for many public works service areas: solid waste, water, snowplowing.

Equipment Services Division: A Fleet Study update suggested this division work to increase contracted services. The Fleet Study suggested outsourcing fleet repair to a limited number of carefully selected vendors resulting in high quality, responsive services delivered at a competitive cost for City, and steady workflow for vendors.

Solid Waste and Recycling: A major example of current contracted services is Solid Waste and Recycling. City ordinance requires that at least 50% of municipal solid waste and recycling be provided by City employees. 62% of total division expense used for contractual services in 2006. Currently contract is shared with City and Minneapolis Refuse Incorporated (MRI). State law exempts cities from using competitive process for garbage hauling. In Feb 2006, City Council called for competitive bid on garbage contract and was sued by MRI.

Other solid waste options:

Pay as you throw: Sole public model where residents pay based on amount of garbage; recycling and yard trimmings are included for no charge.
Managed Competition: City operation bids against private contractors.
Single vendor contract: City uses one vendor which allows convenient coordination.
Total outsourcing: City bids out long-term contract to private company.

Storm water and sewer maintenance: Hennepin County and MNDOT have jurisdiction over streets in Minneapolis. Minneapolis Public Works has a contract with Hennepin County to maintain these roads and storm sewers. MNDOT and the City work cooperatively to build drains in new projects.

Benchmarks:

Solid Waste: Austin, Texas – Pay as You Throw
Phoenix, Arizona – Managed Competition
St. Paul, Minnesota – Single recycling vendor contract
Pontiac, Michigan – Total outsourcing

Storm Water: Other jurisdictions have outsourced storm water and sewer maintenance. Indianapolis, Atlanta, Milwaukee used joint venture firm between French firm, US engineering company and local private water company. Private firms usually operate wastewater facilities with about ½ the employees a city would employ. The number of workers was reduced through attrition only.

Conclusion

This report contains summary research on options generated during strategic planning by the City's elected officials. The report is intended as a starting point for further action. The ultimate decision about whether each of these options is implemented is yet to be made. Some potential next steps for Council consideration are:

- Refer items for further development to relevant policy committees for further discussion and/or department follow-up.
- Direct department staff to report back to Ways and Means and/or Intergovernmental relations on less policy-related options.
- Action steps for items that will be developed:
  - Secondary research – create specific options or recommendation for Council consideration.
  - Bring options or recommendations forward for Council action.
  - Create implementation plan.
  - Report back to Council on status of implementation.
- Propose a resolution to table indefinitely any options which do not merit further research. This action would greatly assist staff in concentrating on the items that *are* desired for further development.