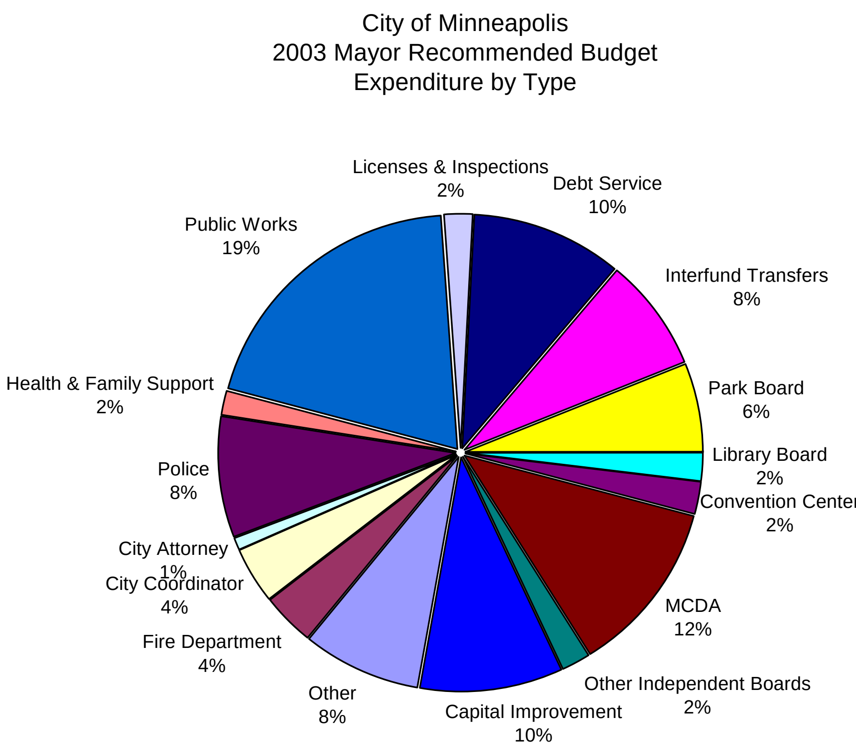
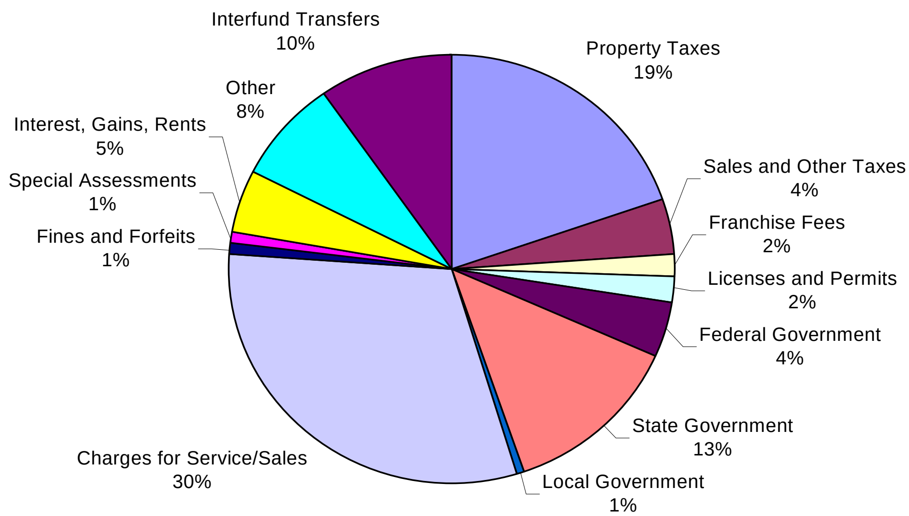
City Revenues and Expenditures
The 2003 City Council adopted budget called for City operating expenditures of approximately $1.2 billion against revenues of $1.2 billion. Within the operating budget recommendations, the City of Minneapolis 2003 budget called for $263 million of general fund expenditures, balanced by a like amount in revenue. In comparison, the 2002 approved budget called for general fund expenditures of $246 million. This represented a 7% increase in the City's general fund expenditures from 2002 to 2003.

The general fund was the largest of the City's operating funds. It financed the majority of "general" government activities, such as public safety and street construction and maintenance. It received support from a number of sources, such as the general property tax levy (see the "Property Tax" section), government aid, licenses and permits, franchise fees, service charges, and fines and forfeitures.

The following table shows the 2003 General Fund operating expenditures for several departments whose activities are discussed, in part, within this *State of the City* report. The 2002 approved amounts for these departments are also included for comparison.



City of Minneapolis
2003 Council Adopted Budget
Revenues by Major Category



GENERAL FUND OPERATING EXPENDITURES
SELECTED DEPARTMENTS AND BOARDS
2002 & 2003 BUDGETS (IN MILLIONS)

Department	**2002**	**2003**
Fire	$41.6	$44.2
Police	$92.9	$98.0
Inspections & Licenses	$19.0	$18.8
Health & Family Support	$4.0	$3.9
Public Works	$36.3	$38.3

City of Minneapolis Revenue by Major Category (in millions of dollars)

	2002 Adopted Budget	**2003 Adopted Budget**
Property Tax	$151.3	$166.5
Tax Increment Property Tax	$58.7	$64.6
Sales and Other Taxes	$49.1	$49.5
State Government	$151.0	$154.3
Local Government	$8.5	$8.3
Federal Government	$39.2	$50.0
Franchise Fees	$21.6	$20.4
Charges for Service	$311.1	$348.5
Charges for Sales	$15.1	$14.1
Licenses and Permits	$19.6	$21.7
Fines and Forfeitures	$8.2	$9.3
Special Assessments	$10.0	$10.2
Interest Income	$6.4	$3.6
Rents	$46.2	$49.9
Other	$102.9	$89.7
Subtotal	$1,002.9	$1,063.0
Transfers from Other Funds	$280.9	$116.0
Total Revenues	$1,283.7	$1,179.0

City of Minneapolis Expenditures by Service (in millions of dollars)

	2002 Adopted Budget	2003 Adopted Budget
City Coordinator (excluding Inspections and Licenses)	$47.2	$48.5
City Attorney	$9.2	$9.9
Convention Center and Greater Minneapolis Convention and Visitor's Association	$26.3	$27.5
Fire Department	$42.3	$44.3
Health and Family Support	$22.1	$21.32
Inspections and Licenses	$24.1	$23.1
Police	$97.1	$100.8
Public Works - Field Services	$27.6	$29.9
Public Works - Sewer, Storm Water, Flood Mitigation	$38.9	$39.9
Public Works - Solid Waste and Recycling	$25.2	$25.8
Public Works - Transportation	$45.2	$47.4
Public Works - Water Treatment and Distribution	$31.5	$34.8
Public Works - Other	$55.6	$61.3
Other City Services	$15.2	$16.4
Other	$61.1	$82.4
Debt Service	$136.5	$132.4
Capital Improvement	$122.5	$98.1
Subtotal	$827.9	$843.8
Independent Boards		
Community Development Agency (MCDA)	$162.1	$149.1
Library Board	$22.0	$22.0
Park Board	$78.5	$77.5
Youth Coordinating Board	$6.8	$6.1
Other Boards	$9.0	$9.2
Subtotal	$278.5	$264.1
Total Expenditures (without Transfers)	$1,106.3	$1,107.8
Transfers to other funds	$138.4	$89.6
Total Expenditures with Transfers	$1,244.8	$1,197.4

Property Tax

The calculation of a parcel's property tax began with the Assessor's determination of its estimated market value. The estimated market value was defined as the usual selling price of the property that would be obtained at private sale. Property taxes were not based upon the estimated market value of a property. Rather, property taxes were based upon the taxable value of a property. Many times, the estimated market value and taxable value of a property were not the same.

This was because of a program called *limited market value (LMV).* Limited market value was first implemented by the state in 1993 and limited the growth in a property's taxable value from year to year. This program is currently being phased out by the State and, barring any changes by the State, will be completely eliminated by 2008. As a result, estimated market value and taxable market value will be the same for all properties for taxes payable in 2008; this phase-out will be a contributing factor to property tax increases in coming years.

The taxable value of a property was known as *net tax capacity*. Net tax capacity was determined by taking the property's taxable market value and multiplying that amount by a class rate. The class rates applied to a particular property depended upon the property type and its value. Class rates were determined by the State statute and were uniform throughout the State.

The tax rates that were applied to the net tax capacity were determined each year by the various taxing jurisdictions. Each jurisdiction estimated the amount of the tax revenue necessary for the following year and divided that amount by the total value of taxable property (total net tax capacity) within the jurisdiction; the result was a local tax rate. Each taxing jurisdiction held a Truth in Taxation hearing each Fall, which was a public hearing on the amount of the proposed tax levy for the following year. Final tax rates were available in mid-February of the following year. For Minneapolis property owners, the tax rates payable for 2003 were as follows:

Jurisdiction	Tax Rate	Total Certified Tax Levy (in millions)	% of Total Tax Rate
City of Minneapolis	63.65%	$158.4	6.6%
Minneapolis Public Schools	33.44%	$84.4	41.8%
Hennepin County	45.07%	$113.1	22.0%
Other Special Taxing Jurisdictions	10.04%	$21.8	29.6%
Total	152.20%	$ 377.7	100.00%

Special levies includes levies for Metro Mosquito Control, Met Council, Metro Transit, Hennepin Parks, Park Museum, Hennepin County Regional Railroad Authority, Minneapolis Public Housing, Minneapolis HRA/MCDA, Minneapolis Teachers Retirement Fund and various watershed districts. Does not factor in the effects of any property tax credits.

The local tax rates were then applied to a property's tax capacity, property tax credits were subtracted out and a final property tax amount was determined.

Step 1: Start with the 2003 taxable market value, as determined by the Assessor.
Example: $155,500
Step 2: Calculate the property's tax capacity by multiplying the estimated market value by the applicable class rate.
Example: $155,500 x 1.00% = $1,555 in tax capacity
Step 3: Multiply the property's tax capacity with the applicable tax rate/s:
Example: $1,800 x 152.2% (tax rate) = $1,792

Total estimated property taxes = $1,792

The homeowner's property tax refund program, sometimes referred to as the "circuit breaker," provided property tax relief to homeowners. In most cases the total amount of property tax credits received by a homeowner depended upon the relationship between the property owner's income and the amount of their property tax.

Tax Increment Financing

A Tax Increment Financing (TIF) district is created by City Council adoption of a plan for redevelopment and tax increment financing. The tax capacity of the property within the district is then determined according to the last equalized tax roll (with that year becoming the base year) and represents the original tax capacity of the TIF district. Each of the taxing jurisdictions (City, County, School District, and special taxing jurisdictions) continues to receive the share of taxes collected on the tax capacity representing the original tax capacity. This continues as if the district had never been created and there had been no change in the valuation of the area.

The City may sell bonds, issue notes, or use other available resources to clean up pollution, acquire property, relocate businesses and residents, preserve historic structures, demolish buildings, and prepare sites for redevelopment in tax increment districts. The assembled parcels of cleared land are sold to a private developer. When construction is complete and the new buildings are on the tax rolls, the TIF district has a new, higher tax capacity since it will have a higher market value, and tax capacity is based on a percentage of market value.

Property tax reforms enacted during the 2001 legislative session directly impacted the amount of TIF revenue to be collected in future years. Additionally, reductions in market values of various commercial properties in the downtown area also impacted the amount of revenue collected each year. The City closely monitored the impact of property tax reform as well as the fluctuation of market values on tax increment revenues. It is anticipated TIF revenues will be sufficient to pay outstanding tax increment debt.

In Minneapolis, the tax increment districts were administered by the Minneapolis Community Development Agency through 2003. As of January 1, 2004, the tax increment districts were administered by the Development Finance Division of the City's Department of Finance. The captured tax capacity was calculated for districts that were active. The net tax capacity captured for all active projects totaled $44.4 million for taxes payable in 2002, down from $53.8 million in 2001. The net tax capacity captured for all 2003 active projects totaled $47.9 million.

The following is a list of active Minneapolis TIF districts; modifications were not included in the listing.

Active Districts	**Base Year**	**Active Districts**	**Base Year**
1. St. Anthony West	1971	42. Housing Replacement District	1996
2. Cedar-Riverside	1971	43. Impact Mailing	1997
3. Grant	1971	44. Southeast Minneapolis Industrial Area (SEMI) Phase III	1997
4. Seward South	1971	45. Southeast Minneapolis Industrial Area (SEMI) Phase IV	
5. Holmes	1972	46. Lowry Ridge	
6. Loring Park	1972	47. Camden Medical Facility	
7. Nicollet-Lake	1972	48. Rosacker Nursery Site	1998
8. North Loop	1973	49. Creamette	1998
9. West Broadway	1973	50. Phillips Park	1998
10. North Washington Industrial Park	1973	51. West Side Milling District	1998
11. Industry Square	1973	52. Portland Place	1999
12. Nicollet Island-East Bank	1979	53. Heritage Landing Housing District	1999

13. Broadway I-35	1977	54. Southeast Minneapolis Industrial Area (SEMI) Phase V (Kasota Phase II)	1999
14. City Center	1977	55. 50th & France	1999
15. Hennepin-Lake	1979	56. Historic Milwaukee Depot Reuse	1999
16. Elliot Park #1	1980	57. 2ND Street North Hotel/Apts	
17. Elliot Park #2	1981	58. 10th & Washington	2000
18. Franklin Avenue	1980	59. East Village	2000
19. Nokomis Homes	1981	60. Nicollet-Franklin	2000
20. 20th & Central	1982	61. Humboldt Greenway	
21. One Ten Grant	1982	62. Former Federal Reserve	2000
22. Convention Hotel & Retail	1985	63. Stinson Technology Campus	2000
23. Chicago-Lake (knocked down)	1985	64. Graco Campus Expansion	2000
24. 28th & Chicago	1985	64. East Hennepin & University	2000
25. Conservatory	1985	65. Hennepin & 7th Entertainment	2000
26. Laurel Village	1985	66. 2700East Lake	2000
27. LaSalle Plaza	1985	67. Towers at Elliot Park	2000
28. NBA Arena	1986	68. Grain Belt Brew House	2000
29. IDS Data Service Center	1986	70. Magnum Loft Apartments	2001
30. Block 33 – Franklin Avenue	1986	71. 13Th and Harmon	2001
31. Neiman Marcus	1988	72. Shingle Creek Commons	2001
32. Block E	1989	73. Urban Village	2001
33. MILES I	1991	74. 1900 Central Ave.	2002
34. Housing for Chronic Alcoholics	1994	75. East Phillips Commons, Phase I	2002
35. 36th & Marshall NE	1994	76. Lake Street Center (Sears)	2002
36. 9th & Hennepin	1995	77. Many Rivers East	2002
37. Southeast Minneapolis Industrial Area (SEMI) Phase I	1995	78. Minneapolis Stone Arch Apartments	2002
38. United Van/Bus	1996	79. East River/Unocal Site	2002
39. Southeast Minneapolis Industrial Area (SEMI) Phase II	1996	80. West River Commons	2002
40. Deep Rock Economic Development	1996	81. Grain Belt	2003
41. Spring and Central	1996	82. Village in Phillips	2003

City Debt

Minneapolis' total general obligation debt increased from $1.119 billion at December 31, 2002 to $1.250 billion at December 31, 2003. In 2003, the City of Minneapolis issued bonds totaling $252,705,000. Of this amount, $42,335,000 was issued to refund existing debt. The following information provides details of Year 2003 Bond Sales:

January

In January, the City issued $26,350,000 of General Obligation Tax Increment Refunding Bonds, Series 2003 (Laurel Village). These bonds refunded $26,165,000 of General Obligation Laurel Village Refunding Bonds, Series 1992 dated September 1, 1992 on the optional call date of March 1, 2003. Final maturities of both bond series were March 1, 2016. The refunding resulted in debt service savings of approximately $3,853,000 on a present value basis.

June

In June, the City issued $1,725,000 of General Obligation Tax Increment Bonds, Series 2003A (West Side Milling) and $6,900,000 of General Obligation Tax Increment Bonds, Series 2003B (Heritage Park) to fund two ongoing redevelopment projects. Also issued were $36,000,000 of Taxable General Obligation Pension Bonds (MERF) to fund pension obligations for the Municipal Employees Retirement Fund and $68,615,000 of General Obligation Various Purpose Bonds, Series 2003 supporting the five year capital plan.

The various purpose bonds supporting the capital plan were as follows:

500,000	Diseased Tree Removals
8,590,000	Flood Mitigation & Combined Sewer Overflow Projects
8,350,000	Water Works Projects
9,630,000	Fleet Equipment Purchases
14,215,000	Public Safety Capital Initiative Projects
100,000	Library Improvements
661,500	Municipal Building Commission Projects
1,920,000	Park Improvements
24,648,500	Various Public Works Infrastructure Projects

October

In October, the City issued $6,130,000 of General Obligation Improvement Bonds, Series 2003 for various special assessment projects. Also issued were $15,985,000 of General Obligation Various Purpose Refunding Bonds, Series 2003 and $57,000,000 of General Obligation Library Bonds, Series 2003 for construction of Central and Community Library system projects. Finally, $17,900,000 of Taxable General Obligation Pension Bonds (MPRA), Series 2003 were issued for pension obligations for the Minneapolis Police Relief Association.

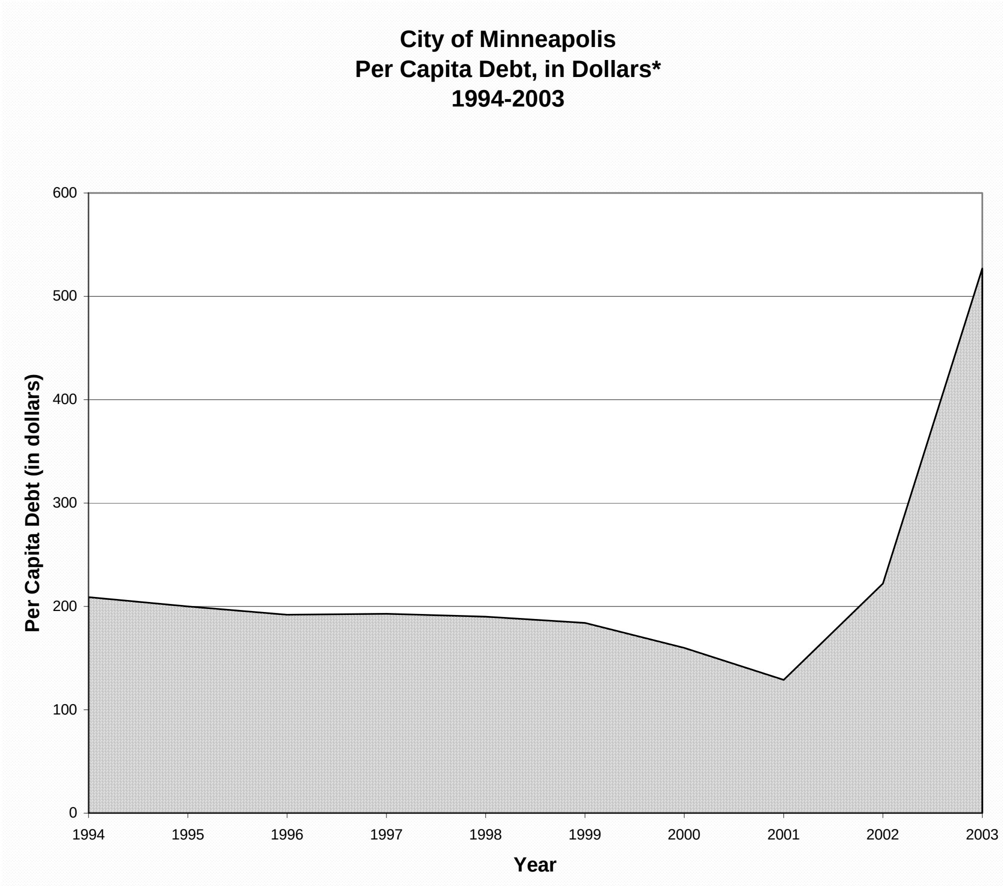
December

In December, the City issued $16,100,000 of General Obligation Guthrie Parking Ramp Bonds, Series 2003 for design and construction of a new parking ramp to serve the new Guthrie Theater.

Management of the City's debt involved consideration not only of the absolute amount of debt, but also attention to yearly trends in the relationship of the debt to other financial measures. For purposes here, Mortgage Revenue bonds and General Agency Reserve Fund System bonds of the Community Planning & Economic Development Department (formerly Minneapolis Community Development Agency) were not included as City Debt.

Debt Trends

The accompanying chart shows a ten-year history of the total City debt level for years 1994 - 2003. The total included general obligation debt, backed by the full faith and credit of the City, and non-general obligation debt, which included only tax increment revenue bonds.



Figures shown are adjusted indebtedness, which represents the total general obligation indebtedness of the City less that indebtedness supported by revenues other than general property taxes. Some of the increase in 2003 will be offset by funding from self supporting enterprises of the City but the extent of this amount was not fully known at the time of this publication.

Debt Capacity – Total Debt

The primary goal of the City's debt management effort was to maintain the ability to incur debt at minimal interest rates without endangering the City's ability to finance essential City services. The policy focused on a revenue/debt ratio approach and called for the City to closely monitor the absolute amounts and year-to-year trends of key financial ratios. The policy stated that the City should limit the issuance of new bonded debt so as to make improvements in the key financial ratios over time.

The key management ratio used in monitoring total debt was total debt outstanding as a percent of estimated full market value of Minneapolis' taxable property. The ratio of total outstanding debt to the Minneapolis City Assessor's market value of taxable property remained at an estimated 4.7% in 2003, the same as the previous year, even though Total Debt applicable to this calculation rose by over $117 million during this timeframe.

The chart below shows 1994 as the highest total debt/market ratio even though total debt was decreasing. This was due to declining market valuations experienced in the early 1990's. From 1994 - 1999, the ratio’s favorable downward trend reflected a recovery in property valuations at the same time the total debt level was stable to slightly increasing. Total Debt levels increased in 2000 and 2001, declined in 2002 and rose again in 2003, but the impact of these higher debt levels were more than offset by a continuing increase in the market value of the City's taxable property.