

**City of Minneapolis
FY 2004 Budget
Financial Overview**

Demands on the Property Tax Levy: Ten-Year Projection

Background

The financial pressure the City faces over the next several years is considerable. To respond to the pressure, elected leaders have stepped up work on comprehensive long-term financial planning. One of the major parts of this effort concentrates on the City Council and independent boards jointly reviewing all the demands on the property tax versus independently making property tax decisions. This joint decision-making occurs at the Board of Estimate and Taxation, which sets the maximum property tax levies for the City Council, and the Park and Library Boards. The decisions made by the Board of Estimate and Taxation are important because the property tax is a major revenue source for general city services, including parks and libraries. Other revenues for general city services are either set by another government entity, such as the state or federal government (i.e., Local Government Aid, Community Development Block Grant) or are restricted in how they can be spent (i.e., sales taxes).

During the first six-months of year 2002, the Mayor and City Council reviewed and discussed the long-term pressures on the property tax. The Mayor and Council discussions resulted in the adoption of a budget resolution to limit the growth in the levy. In January of 2003, the Mayor and City Council Adopted a Five-Year financial plan for the City's property tax funded services.

Budget Resolution to Limit Levy Increases Approved

The City Council passed a budget resolution on July 12, 2002 to limit the increase in property taxes. Because of previous city debt and legislative changes that shifted property tax burdens from commercial to residential property as well as other financial obligations, there will be considerable pressure on the property tax for the foreseeable future.

The resolution limits the City's levy increase to 8 percent annually through 2010. Approximately 4 percent of that will go to pay off debt obligations, both internal and external, and 4 percent for cost-of-living adjustments (inflation). The Board of Estimate and Taxation approved a similar policy statement limiting the levy increase to 8 percent on July 24, 2002.

Projected Future Pressures on the Property Tax Levy

The future projected demands on the property tax include the anticipated reductions or targeted strategies that the Mayor and Council will need to implement (based on

projections) to manage the City's General Fund budget within the adopted tax policy. The policy requires the Park and Library Boards to implement budget plans that will allow for them to stay within a maximum 4 percent annual growth in property tax levy.

For the past few years, the City has made policy choices to fund park and library expenditures at a greater level in order to improve these services. Since 1994, property taxes and state aids have grown by 60% for the park board, and by 42% for the library board. (This does not count the voter approved Library referendum, which will start to show up on property tax payments in 2003.) The growth in the same set of resources - property tax and state aids - for general city services has been about 35%. What this means is that the City, like the Park and Library Boards, has had and will continue to find efficiencies and reductions in its budget in order to meet the normal costs of doing business (inflationary increases on wages, health insurance, and utilities). However, finding major cost reductions from efficiency gains in the major services areas funded by the property tax - police, fire and public works - is getting more and more difficult and as a result future funding cuts to these areas will have an impact on service delivery.

In order to continue to fund all that the City does and pay off its debts (both internal and external), it is estimated that the property tax revenues collected by the City would have to triple by 2010. (This increase does not include revenue to do new things - these amounts reflect current commitments for current programs only). This level of increase is not an option. The City's policy-makers are working to make important decisions to balance the priorities of infrastructure investments, parks and recreation, public safety and library services.

**Council Adopted 2004 Budget
Property Tax Levy Recommendation**

	2003 Adopted Levies	Based on Adopted Tax Policy			2004 Budget		
		2004 Plan	% Chg from 2003	\$ Chg from 2003	2004 Recommended	% Chg from 2003	\$ Chg from 2003
Total by Major Funds:							
General Levies	126,432,388	139,168,239	10.1%	12,735,851	147,002,001	16.3%	20,569,613
Special Levies	39,676,746	40,229,626	1.4%	552,880	32,395,864	-18.4%	(7,280,882)
Grand Total	166,109,134	179,397,865	8.0%	13,288,731	179,397,865	8.0%	13,288,731
Total by Entity:							
City*	117,980,027	126,023,612	6.8%	8,043,585	126,023,612	6.8%	8,043,585
Park Board**	33,074,759	34,827,749	5.3%	1,752,990	34,827,749	5.3%	1,752,990
Library Board	11,360,485	11,814,904	4.0%	454,419	11,814,904	4.0%	454,419
<i>Library Board Referendum</i>	403,863	3,400,000	741.9%	2,996,137	3,400,000	741.9%	2,996,137
Public Housing Authority	1,040,000	1,081,600	4.0%	41,600	1,081,600	4.0%	41,600
Teachers Retirement	2,250,000	2,250,000	0.0%	-	2,250,000	0.0%	-
Grand Total	166,109,134	179,397,865	8.0%	13,288,731	179,397,865	8.0%	13,288,731

Notes:

* Includes the Municipal Building Commission and the Board of Estimate and Taxation.

** Park Board increase from 2003 to 2004 includes the additional capital infrastructure funding as approved in the adopted tax policy, which is why the percent is greater than 4%.

Summary of Estimated Maximum Property Tax Levy Under State Law:

\$126,432,388 2003 property tax levies (not including special levies)
 \$21,034,037 Add 60% of Local Government Aid reduction of \$35 million for Minneapolis
 \$147,466,425 Estimated maximum allowable general levies under State law (does not include special levies)