

**City of Minneapolis
FY 2004 Budget
Financial Management Policies**

The City of Minneapolis' Financial Management Policies provide a framework for the fiscal management of the City. These policies cover the following areas:

- ◆ Budgeting Policies
- ◆ Revenue Policies
- ◆ Reserve Policies
- ◆ Debt Policies
- ◆ Capital Budget Policies
- ◆ Accounting Policies
- ◆ Investment Policies
- ◆ Development Finance Policies
- ◆ Public Participation Policies

BUDGETING POLICIES

The objective of the operating budget policies is to provide adequate levels of essential City services at reasonable costs.

Balanced Budget. The operating budget for the City shall be balanced. For each fund, ongoing costs are not to exceed ongoing revenues plus available fund balances used in accordance with reserve policies.

Self-supporting Enterprises. All enterprise activities of the City shall be self-supporting to the greatest extent possible, including those activities contained within the Internal Service Funds.

Service Levels. Performance measurement and productivity indicators for services shall be integrated into the annual budgeting process. Changes in service levels shall be governed by the following:

Budget Process. The annual budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints. Requests for new programs made outside the annual budget process shall be discouraged. New initiatives should be financed by reallocating existing City resources to the services with the highest priorities.

Personnel Expenses. Additional personnel should only be requested after service needs have been thoroughly documented or after it is substantiated that the new employees will result in increased revenue or enhanced operating efficiencies.

Grant Funded Programs. Programs financed with grant monies shall be budgeted in special revenue funds, and the service program shall be adjusted to reflect the level of available grant funding. In the event of reduced grant funding, City funding sources shall be substituted only after all competing program priorities are considered during the annual budget process.

Basis of Budgeting. The budgets of all governmental and agency funds are created using the modified accrual basis. Their revenues are budgeted if they are measurable and available as net current assets. Major revenues that are determined to be susceptible to accrual include property taxes, special assessments, grants-in-aid, intergovernmental revenues, rentals, franchise fees, and intra-City charges. Interest on investments, short-term notes and loans receivable are accrued; interest on special assessments receivable is not accrued or budgeted. Major revenues that are determined not to be susceptible to accrual because they are not available soon enough to pay liabilities of the current period or are not objectively measurable include delinquent property taxes and assessments, licenses, permits, fines and forfeitures. Delinquent property taxes are not budgeted, while the other categories are budgeted.

In the governmental and agency funds, expenditures are generally budgeted when the related fund liability is incurred, except for principal and interest on general long-term debt which is recognized when due. Compensated absences, which include accumulated unpaid vacation, compensatory time and severance pay, are not payable from expendable available financial resources, except for available resources in the Self-Insurance Internal Service Fund for vested severance pay. Compensated absences are considered expenditures when paid to employees. Salary expenditures are budgeted based on full time equivalents (FTE's), regardless of the type of pay.

Proprietary funds use the accrual basis. Revenues are budgeted as they are anticipated to be earned. Unbilled utility service receivables are recorded at year-end. Utility Service revenue estimates are based on the number of users, without a factor for delinquencies. Compensated absences are considered expenses when they are incurred.

Budgetary Controls. The legal level of budgetary control is at the department level within a fund. The City Coordinator's Office and the Public Works Department are considered to be legal levels of budgetary control within a fund even though budgetary data is presented at the level of the Departments within the Coordinator's Office and the Divisions within the Public Works Department. Budgetary amendments at the department/fund level must be approved by the City Council. Appropriations lapse at year-end.

Purchase orders, contracts, and other commitments are recorded as encumbrances, which reserve appropriation authority. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not represent generally accepted accounting principles (GAAP) expenditures.

REVENUE POLICIES

The objective of the revenue policies is to ensure that funding is derived from a fair, equitable, and adequate resource base, while minimizing tax differential burdens.

Revenue Structure and Sources. The City will maintain a stable and diverse revenue system to shelter programs and services from short-term fluctuations in any single revenue source. Services having a city-wide benefit shall be financed with revenue sources generated from a broad base, such as property taxes and state aids. Services where the customer determines the use shall be financed with user fees, charges and assessments related to the level of service provided.

Tax Base Capacity. The City will seek to ensure that local general tax resources are not increased faster than the tax base capacity of the community. In July 2002, the Mayor and City Council approved a resolution that set the maximum increase in the total property tax levy collected by the City, including independent boards and special levies, at no more than 8-percent from the previous years' amount from year 2003 forward. This resolution serves as a guideline for preparing tax revenue forecasts.

User Fees. The City shall implement user charges in lieu of general revenue sources for identified services where the costs are related to the level of service.

Cost of Service. The City shall establish user charges and fees at a level that reflects the service costs. Components of the user charges shall include operating and capital costs, as well as the direct and indirect costs of providing the service. Full cost charges shall be imposed unless it is determined that policy, legal or market factors require lower fees.

Policy and Market Considerations. The City shall consider policy objectives, market rates and charges levied by other public and private organizations for similar services when City fees and charges are established.

Non-Resident Charges. User fees and other appropriate charges shall be levied for City activities, services or facilities in which non-residents participate, whenever practical. Non-resident fees shall be set at market levels to minimize the tax burden on City residents.

Enterprise Service Fees. User charges for Enterprise Services, such as water, sewer and solid waste collection, shall be set at rates sufficient to finance all direct and indirect operating, capital, and debt service costs. Overhead expenses and general government services provided to the enterprise activities shall be included as indirect costs. Rates will be set such that these enterprise funds are never in a cash deficit during the year. The City shall maintain a minimum cash balance in its Enterprise Funds equal to approximately three months of operating expense.

Code Enforcement and License Fees. These activities shall be funded through user charges that reflect the cost of the services provided, including direct and indirect expenses, to the extent legally allowable.

Internal Service Fees. When interdepartmental charges are used to finance internal service functions, the charges shall reflect full costs, including all direct and indirect expenses.

Administrative Fees. Administrative fees shall be assessed on all non-General Fund supported capital projects. These fees allocate the proportionate share of general government services to those projects so that the General Fund is not required to subsidize infrastructure or economic development projects.

Parking Fees. Hourly, daily, and monthly contract rates for City-owned parking facilities shall be adjusted at least annually to reflect market prices of privately owned parking facilities. Fee adjustments shall also consider downtown objectives, such as development incentives, space availability, business promotion, traffic control, and mass transit patronage.

Fines. Levels of fines shall be set according to legal guidelines, deterrent effect, administrative costs and revenue potential.

Convention Center. The Convention Center will develop a profit and loss statement for each event. The Center shall be managed so that operating costs are financed through user charges to the greatest extent possible within the overall mission of the Convention Center.

Dedicated Revenues. Except where required by law or generally accepted accounting principles (GAAP), no revenues shall be dedicated for specific purposes. All non-restricted revenues shall be deposited in the General Fund and appropriated by the annual budget process.

Private Revenues. All private money donated, contributed or lent to the City shall be subject to grant solicitation and acceptance procedures and shall be deposited in the appropriate City fund and accounted for as public money through the City's budget process and accounting system.

RESERVE POLICIES

The objective of the reserve policies is to provide adequate working capital for cash flow and contingency purposes, while maintaining reasonable tax rates.

Cash Flow and Contingency. The City shall maintain a minimum unallocated fund balance of 10 percent of the General Fund budget to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs. To the extent that unusual contingencies exist as a result of state or federal aid uncertainties, or other highly variable factors, a balance larger than this minimum amount shall be maintained.

Appropriate operating contingency reserves shall be maintained in enterprise funds to provide for business interruption costs and other unanticipated expenditures of a non-recurring nature. Appropriate capital fund reserves shall also be maintained for emergency improvements relating to new regulations, or emergency needs for capital repair or replacement.

For all other funds, appropriate balances shall be maintained reflecting the nature of the accounts, such as:

Special Assessment Funds. The appropriate balance shall be the amount needed for revolving fund cash flow purposes.

Enterprise Funds. The appropriate balance shall be maintained to ensure adequate maintenance reserves, cash flow balancing requirements and legal restrictions. For most funds, the City will maintain a three-month operating cash balance. Where cost-effective access to capital markets is available and debt financing is regularly used, replacement balances shall not be maintained so current consumers are not required to pay for future facilities.

Use of Fund Balances. Available fund balances shall not be used for on-going operating expenditures, unless a determination has been made that available balances are in excess of required guidelines and that plans have been established to address any future operating budget shortfalls. Emphasis shall be placed on one-time uses that achieve future operating cost reductions.

DEBT POLICIES

The objective of the debt management policies is to maintain the City's ability to incur present and future debt at minimal interest rates for infrastructure and economic development, without endangering essential City services. In addition to these general policies, specific guidelines have been adopted by the City Council and Board of Estimate and Taxation to manage Minneapolis debt practices.

General Obligation Bonds, Property Tax Supported. The City utilizes general obligation, property tax supported bonding to finance only those capital improvements and long term assets that have been determined to be essential to the maintenance or development of the City.

Tax Increment Bonds. The City utilizes tax increment bonds only where projects can be shown to be self-liquidating from tax increments arising in sufficient amounts or where secured guarantees are provided for potential shortfalls, and with appropriate timing to avoid the use of city-wide property tax revenues and where maximum allowable guarantees are obtained. (The City maintains a Tax Increment Financing (TIF) Policy, separate from these Financial Management Policies.)

Special Obligation Revenue Bonds. Special obligation revenue bonds, those bonds for which the City incurs no financial or moral obligation, are issued only if the associated development projects can be shown to be financially feasible and contributing substantially to the welfare and/or economic development of the City and its inhabitants.

Variable Rate Debt. The City may elect to issue bonds as variable rate instruments to provide flexibility and/or attempt to achieve interest savings.

Debt Management. City Financial Management Policies shall be designed to maintain a balanced relationship between debt service requirements and current operating costs, encourage growth of the tax base, actively seek alternative funding sources, minimize interest costs and maximize investment returns. The City limits the issuance of new bonded debt so as to maintain or make improvements in key financial trend lines over time.

Bond Term. The City shall issue bonds with terms no longer than the economic useful life of the project. For self-supporting bonds, maturities and associated debt service shall not exceed projected revenue streams.

Feasibility. The City shall obtain secured guarantees for self-supporting and tax increment supported bonds to the extent possible. The City shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds.

CAPITAL BUDGET POLICIES

The objective of the capital budget policies is to ensure maintenance of the Minneapolis public infrastructure in the most cost-efficient manner.

Capital Improvement Program. The City prepares and adopts a five-year Capital Improvement Program (CIP) that details each capital project, the estimated cost and funding source. An adopted priority system is used to rank and recommend projects.

Operating Budget Impacts. Operating expenditures must include the cost of implementing the CIP and reflect estimates of all personnel expenses and operating costs attributable to the capital outlays.

Repair and Replacement. The City strives to maintain its physical assets at a level that protects the City's capital investments and minimizes future maintenance and replacement costs. Where possible, the capital budget shall provide for the adequate maintenance, repair and replacement of the capital plant and equipment from current revenues.

ACCOUNTING POLICIES

The objective of the accounting policies is to ensure that all financial transactions of the City of Minneapolis and its boards, commissions, and agencies conform to the City Charter, Minnesota statutes, grant requirements, and the principles of sound financial management.

Accounting Standards. The City shall establish and maintain accounting systems according to the generally accepted accounting principles (GAAP) of the Government Finance Officers Association (GFOA) and the Governmental Accounting Standards Board (GASB). The central system shall be used for financial transactions of all City departments, boards, and independent agencies.

Disclosure and Monitoring. Full disclosure is provided in all financial statements and bond representations. Financial systems are maintained to monitor expenditures and revenues on a four-week period basis, with a thorough analysis and adjustment, if required, at mid-year.

INVESTMENT POLICIES

The objective of the investment policies is to ensure that revenues received by the City of Minneapolis are promptly recorded and deposited in designated depositories. If not immediately required for the payment of obligations, revenues shall be placed in authorized investments. Funds shall be deposited only in the types of investment instruments authorized by the City's Financial Management Policies, Minnesota statutes, or City Council resolutions. Investments by the City shall conform to the following investment principles:

Safety. Safety of principal is the City's foremost objective. Each investment transaction shall seek to first ensure that capital losses are avoided, whether from securities defaults or from erosion of market value.

Liquidity. The City's investments shall be structured to provide liquidity to meet its obligations in a timely manner without loss of principal.

Yield. The investment portfolio shall be designed to attain a market-average rate of return through budgetary and economic cycles, taking into account the City's investment risk constraints, cash flow characteristics, and safety of principal.

Diversification. The City of Minneapolis shall diversify its investments to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

Maintaining the Public Trust. The investment program shall be designed and managed with professionalism worthy of the public trust. The best investment vehicles for the City's objectives shall be sought through competitive processes. Investment officials shall avoid any transaction that might impair public confidence in the City of Minneapolis government.

Prudence. The "prudent person" standard shall be applied in managing the investment portfolio. Investment officers, acting in accordance with fiduciary standards and written procedures, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported timely and appropriate action is taken to control adverse developments.

Internal Controls and Safekeeping. The City Finance Officer shall establish a written system of internal controls. To protect against potential fraud and embezzlement, assets of the City of Minneapolis shall be secured through third party custody and other safekeeping procedures. Bearer instruments shall be held only through third party institutions. Investment officials shall be bonded.

DEVELOPMENT FINANCE POLICIES

The objective of the Development Finance Policies is to provide public assistance of community development efforts in a manner that balances costs against benefits. In addition to the City's Financial Management Policies, detailed guidelines have been adopted by the City Council, Mayor, and Minneapolis Community Development Agency Board to manage specific development resources and programs.

To the greatest extent possible, all development activities shall be self-supporting. Sufficient public and private resources shall be identified at the time a project is approved to ensure feasible completion and operation of the project. All development financing proposals shall be reviewed to certify that the proposed financial plan is reasonable, balanced, and the best deal possible to achieve City objectives, while adequately protecting City-wide financial interests.

PUBLIC PARTICIPATION POLICIES

The objective of the public participation policies is to enhance the City's ability to meet financial and policy challenges by facilitating a well-informed community and by encouraging public input in the decision-making process.

Financial and Performance Measurement Reports. Information shall be provided on the City budget, financial statements and performance measurement.

Budget and Service Priorities. Various methods shall be used to ensure public input into the budgeting process, such as informational hearings, surveys, resident-based review committees and community meetings.