

City of Minneapolis
FY 2005
Financial Plan

Equipment Fund

Background

This fund accounts for the ownership and operation of a fleet of approximately 1,200 vehicles, and other pieces of motorized equipment; as well as 400 vehicle accessories (such as plow blades). The City's fleet of vehicles and equipment is the largest portion of the Fund's assets and has an estimated replacement value of approximately \$75.1 million.

The Equipment Fund rents vehicles and other equipment to other City departments. For example, it provides police vehicles, fire trucks, heavy-construction equipment, snowplows, and other maintenance equipment to City departments. In addition, the Fund provides drivers and operators for equipment as necessary.

Historical Financial Performance

Revenue from Charges for Service

During the 1990's the Equipment fund was not recovering all of its costs. In 2000 the Fund had a deficit cash balance of over \$17.8 million. Early in 2001 the Finance Department and the Public Works Department developed a workout plan for the fund, that has raised the revenues sufficiently to cover the full cost of operations. Because of the workout plan, the Fund has sufficient revenue to match its expenses.

Cash and Net Assets Balances

Under the current workout plan, fleet purchases will be financed with bonds through 2008. This strategy, together with other measures in the workout plan, will cause the cash position in the fund to improve. Upgrading the fleet will reduce the average age of the fleet, thereby reducing maintenance costs. The workout plan will be revised in the next year to update the plan to reflect current circumstances.

2005 Budget

Change in Accounting Practices

Starting in 2005, the equipment services division budget, both expenditures and revenues, will be increased due to intra-fund charges. This is used by organizations within the fund, charging other organizations within the fund for services and sales. Since the expenditures and Revenues match, this will have no effect on how the fund as a whole performs. This change increases the expenses and revenues evenly, and allows the managers to manage segments of this fund more effectively.

Revenue

Starting in 2004, the equipment division has been using an activity-based costing approach to bill the internal customers. This has resulted in setting a rental rate for the fleet that covers the replacement of the vehicles after the useful life; and maintenance, repairs and fuel separately. All of these charges will be billed at a rate that allows the equipment division to match its expenses. Revenue estimates for 2005 are higher than 2004 due to a change in accounting practices related to intra-fund charges. This is not an increase in service level, and does not have a financial impact to the City.

Expenditures

Overall expenditures in 2005 will decrease by \$1 million from the 2004 Budget. This is due to a reduction of \$6 million in Capital purchases due to the delivery of a large amount of fire equipment in 2004 that was ordered in 2003 to update a very old fleet, and also to accommodate a change in vehicles that the Fire Department is using. Operating expenses will increase due to a change in accounting practices related to intra-fund charges. The accounting practices change is not a change to service level, and does not have a financial impact to the City. The budget also includes a change in accounting for the General Fund Overhead charge that replaces various charges for indirect costs that were previously budgeted in separate agencies.

Transfers to Other Funds

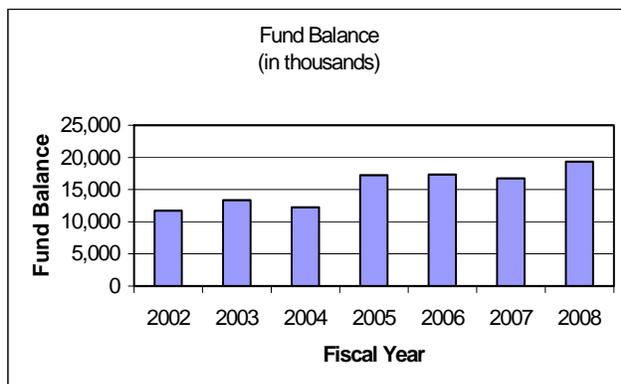
The 2005 budget includes a transfer out of \$262,937 for debt service related to the MERF unfunded retirement fund. The Business Information Services (BIS) and Self-Insurance funds used to receive transfers from the equipment fund, but starting in 2005 the financial plan will show these transfers as expenditures.

Debt Service

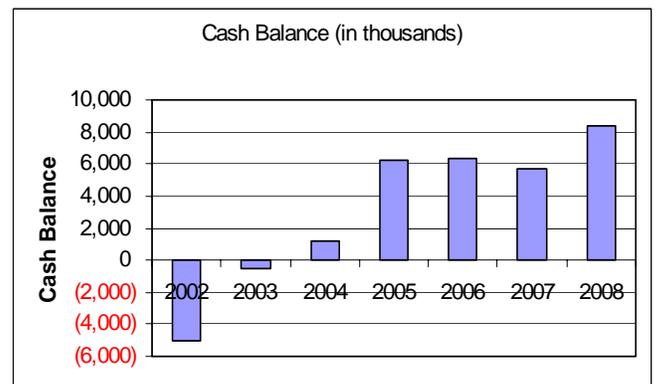
As part of the fleet modernization effort that began in 1997, the City issued bonds to finance fleet upgrades and to build new maintenance facilities. Principal and interest payments totaling \$6.3 million will be due on these bonds in 2005. Consistent with the fund's workout plan, modified for the fire apparatus replacement program, \$5.5 million in bonds will be issued for fleet replacement in 2005.

Fund Balance

Part of the workout plan is to increase the fund balance of Net Assets and cash. The following chart illustrates how the fund is doing:



City of Minneapolis – Equipment Services Financial Plan



Council Adopted Budget

City of Minneapolis
 FY 2005 Budget
 Financial Plan (in thousand of dollars)

Equipment 6100

	2002 Actual	2003 Actual	2004 Current Budget	2004 Projected	2005 Budget	% Change From 2004 Budget	2006 Forecast	2007 Forecast	2008 Forecast
Source of Funds:									
Charges for Service	514	602	4,972	5,600	7,389	49%	8,000	8,100	8,300
Charges for Sales	2,570	2,537	5,145	3,600	6,434	25%	7,000	7,100	7,300
Interest	0	1	1	1	1	0%	1	1	1
Gains	40	12	200	5	200	0%	200	200	200
Rents	27,958	28,772	24,138	24,000	27,267	13%	29,881	30,473	31,820
Other Misc Revenue	460	589	310	250	310	0%	315	315	315
Operating Transfers in	0	1,819	2,180	2,180	4,180	92%	4,000	4,000	4,000
Proceeds from long term liabilities	6,444	5,596	10,363	11,863	5,540	-47%	0	0	0
Total	37,985	39,928	47,309	47,499	51,321	8%	49,397	50,189	51,936
Use of Funds:									
Debt Service	1,381	1,629	1,571	1,571	6,348	304%	7,761	7,435	3,988
Transfers	91	61	62	62	263	324%	270	280	290
PW Equipment	34,683	30,557	34,365	33,323	35,275	3%	36,600	37,340	38,080
Finance	506	482	573	573	0	-100%			
PW Equipment Capital	5,473	5,596	11,863	11,863	5,540	-53%	6,140	6,240	7,200
Total	42,134	38,325	48,434	47,392	47,426	-2%	50,771	51,295	49,558
Fund Margin	(4,149)	1,603	(1,125)	107	3,895		(1,374)	(1,106)	2,378
Fund Balance	11,722	13,325	12,200	13,432	16,095		14,721	13,615	15,993
Cash Balance	(4,995)	(502)	1,224	2,456	6,262		4,888	3,782	6,160

Note:

The 2005 Recommended Budget reflects a change in accounting and budgeting practice for the Equipment Services Fund. As a result, the annual percentage change figures comparing the 2004 budget to the 2005 Mayor's Recommended budget are significantly impacted.

The cash balance listed is operating cash, excluding bond funds available, and capital appropriations.