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April 29, 1998

Mayor Sharon Sayles Belton
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Council Members
Citizens of Minneapolis
City of Minneapolis, Minnesota

The Comprehensive Annual Financial Report (CAFR) of the City of Minneapolis (City) for the fiscal year ended December 31, 1997, is respectfully submitted. Responsibility for both the accuracy of the information and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations for the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

FORMAT

The CAFR is presented in three sections: ***Introductory***, ***Financial*** and ***Statistical***. The Introductory Section includes this transmittal letter, an organizational chart, a list of elected officials and a copy of the prior year's Certificate of Achievement for Excellence in Financial Reporting. The Financial Section includes the general-purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

REPORTING ENTITY

The financial reporting entity includes all the funds and account groups of the City as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City is financially accountable for: (1) organizations that make up its legal entity; (2) legally separate organizations if its officials appoint a voting majority of an organization's governing body and either is able to impose its will on an organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government; and, (3) governmental organizations that are fiscally dependent on it.

Blended Component Units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the following organizations are reported within the combining, individual fund, and account group financial statements:

- Minneapolis Community Development Agency (MCDA)
- Municipal Building Commission (MBC)
- Board of Estimate and Taxation (BET)

Discretely Presented Component Units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. The following organizations are reported as discretely presented component units:

- Minneapolis Library Board (Library Board)
- Minneapolis Park and Recreation Board (Park Board)

The following organizations are **Joint Ventures** of the City:

- Minneapolis/Saint Paul Housing Finance Board
- Minneapolis Neighborhood Revitalization Policy Board (NRPB)
- Minneapolis Youth Coordinating Board

The following **Related Organizations** do not meet the financial accountability criteria discussed above and accordingly, have been excluded from the City's general-purpose financial statements:

- Metropolitan Sports Facilities Commission
- Minneapolis Public Housing Authority (MPHA)

Complete financial statements for any of the listed organizations may be obtained as described in the Notes to the Financial Statements.

FINANCIAL REPORTING AND AUDITING

This CAFR has been prepared pursuant to state statutes of Minnesota and the City Charter which require an annual audit of books of accounts, financial records, and transactions of the City. Additionally, the audit is intended to meet the requirements of the Single Audit Act Amendments of 1996 and related United States Office of Management and Budget Circular A-133, Audits of State and Local Governments and Nonprofit Organizations. The independent auditor's report on the general-purpose financial statements and combining and individual fund statements and schedules is included in the financial section of this CAFR. Under Minnesota statutes, the Office of the State Auditor (OSA) is charged with the responsibility of auditing cities of the first class, which includes the City. This report includes all of the funds and account groups of the City and its component units.

The independent auditor's report related specifically to the single audit is published separately in a Management and Compliance Report. The separate report contains a schedule of expenditures of federal awards, findings and recommendations along with City responses, and a report on the internal control structure of the City including its compliance with laws and regulations. The management and compliance report will not modify, or affect in any way, the auditor’s report on the financial statements. Copies of this report may be obtained from the City’s Finance Officer.

INTERNAL AUDIT

The Board of Estimate and Taxation (BET) maintains responsibility for the internal audit function of the City, including boards and commissions that are a component unit of the City. Internal audit staff reports to the BET and works closely with an Audit Management Committee (AMC) composed of nine members. The City Finance Officer is chair of this committee. Eight of the nine seats on the committee are permanent and one of the seats is rotated between City departments, boards or commissions. The AMC approves the internal audit work plan, provides staff support to the Internal Auditor, and reviews all audit reports prior to formal presentation to the BET. The BET is described in the accompanying Notes to the Financial Statements.

CASH MANAGEMENT

The City's investment policy is to ensure that all revenues received by the City are promptly recorded, deposited, and invested in a manner that assures safety and minimizes credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by Federal Deposit Insurance or collateral was provided. The market value of collateral pledged must equal 110 percent of deposits not covered by insurance. All collateral on deposits was held by the Federal Reserve Bank of Minneapolis and the Notes to the Financial Statements detail the City's investment holdings by risk category as defined by Governmental Accounting Standards Board (GASB) Statement No. 3-Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements. Both the City and its three outside investment managers are required to exercise extreme caution in the use of derivative instruments and consider derivative use only when a sufficient understanding of the products, and the expertise to manage them, have been developed. The City's portfolio does not contain a material, or significant, amount of derivative type investments.

Effective January 1, 1996, the City converted to a new fully integrated state of the practice financial management system. As a result, the City is able to more effectively pool funds for investment management purposes and distributes investment income daily to funds that earn interest. Also, the City Council has adopted a policy to apply a working capital charge to proprietary funds that may periodically have a deficit cash balance.

ECONOMIC CONDITION AND OUTLOOK

Minneapolis is the largest city in Minnesota and the center of finance, industry, trade and transportation for the Upper Midwest. Minneapolis is home to 368,383 people (1990 Census) and People of Color comprise an estimated 22% of the City's population. Forty-seven thousand students are enrolled in Minneapolis public schools and non-public school enrollment is 7,000. The main campus of the University of Minnesota is just minutes from downtown, ranks among the top twenty universities in the U.S., and is one of the largest universities with enrollment of approximately 37,000 students. Three professional major league teams with operations in Minneapolis attract attendance in excess of 2,000,000 annually. Minneapolis has 78 residential neighborhoods offering a broad range of housing to 161,000 households. More than 150,000 people work in downtown Minneapolis and each year there is an increase in housing opportunities in the downtown sector. There are 62 downtown blocks in Minneapolis connected by approximately five miles of skyways. The Twin Cities is second only to New York in per capita attendance at theater and art events and Minneapolis itself has more than 30 theaters, with the Guthrie Theater and the Children's Theater companies being recognized as two of the country's best theaters.

Over the years, Minnesota has consistently maintained, and been noted for, its quality of life in the areas of health, education, housing, employment, and quality of governmental services. Historically, Minneapolis was founded to process Minnesota grain with the tremendous power-generating capabilities of St. Anthony Falls on the Mississippi River. Today, the international corporations of Pillsbury, General Mills and Cargill are headquartered in the area and Minneapolis is a center for graphic arts, electronics, banking, insurance, metal fabricating, plastics, computers, and publishing. Minneapolis is also a nationally known medical center and produces many high technology medical products.

The core downtown area, which uses about eight percent of the land area, is comprised of a mixture of office space and retail largely connected by skyways. The downtown area, over the years, has expanded dramatically, initially contributing to a downturn in values due to a temporary oversupply of commercial office space. In support of this expansion, the City has provided numerous strategically located parking facilities on the periphery of the downtown core for workers, shoppers, and other downtown visitors and has instituted, in partnership with local retailers, a related downtown parking validation program. The temporary oversupply of office space has been offset by record breaking leasing years and the City has, as of the end of the fourth quarter of 1997, a Class A vacancy rate of 4.2 percent, as compared to 16 percent in 1993, and a Class B vacancy rate of 8.2 percent. In response to this tight market for office space, there are 36 development projects in downtown Minneapolis that have been proposed, scheduled for, or under, construction or recently completed.

The downtown area also includes a City owned and operated convention center that attracts national conventions and other major events. The convention center currently contains 800,000 square feet with 280,000 square feet of exhibit space. To continue to attract world class conventions, the City will be completing construction of the facility as originally planned by adding an additional 525,000 square feet with 220,000 square feet devoted to additional exhibition space and 132,000 square feet allocated to meeting and assembly space. The estimated total cost of completing the convention center is $175 million and occupancy of the new portion of the facility is scheduled for the year 2001. To finance the completion of the center, the State of Minnesota will issue bonds totaling approximately $87 million, to retire existing debt on the facility, and the City will issue bonds for the completion project totaling $175 million staged to conform with the construction schedule. It is estimated that completion of the center will generate 4,000 new jobs and $14 million in sales taxes. Major new exhibitors have already booked into the facility based on these plans.

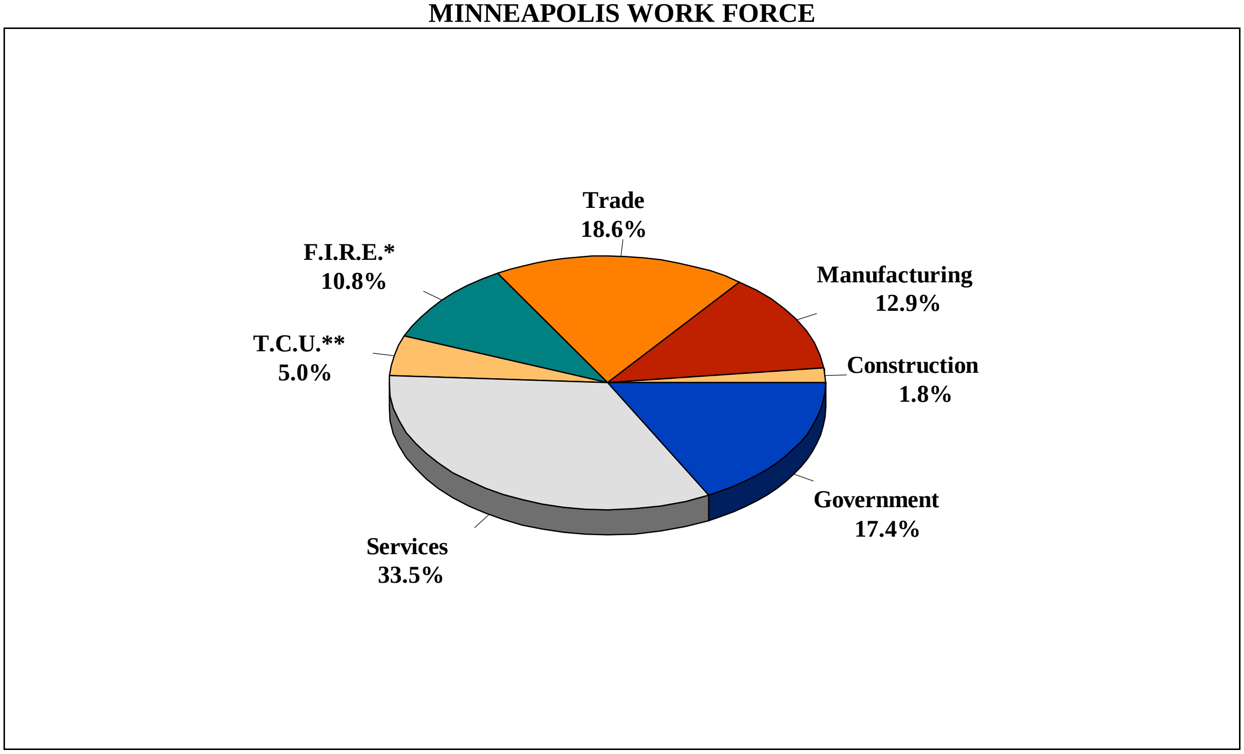
The Historic Orpheum and State Theatres, which are owned by the MCDA and located in the downtown area, attract major Broadway productions in addition to a broad mix of musical, theatrical and other entertainment offerings. On a combined basis, the two theatres generated nearly $22.5 million in ticket sales (up by $5.4 million from 1996 sales) for 367 shows attended by over 556,000 patrons.

Employment and Population

According to the Minnesota Department of Economic Security, the state unemployment rate measured 2.8 percent as of November 1997, and the Minneapolis-St. Paul jobless rate was 1.9 percent compared to the national unemployment rate of 4.6 percent. The Twin Cities metropolitan area is among the fastest growing metro areas in the northern U.S., both in terms of employment and population. The population growth from 1980-1995, was 19.3 percent, or 13.2 percent higher than the average national growth rate and, since 1990, the city's employment levels have grown 13.5 percent.

The following chart portrays the diverse nature of the Minneapolis work force:

EMPLOYMENT SECTORS
MINNEAPOLIS WORK FORCE



***F.I.R.E.** is Finance, Insurance, and Real Estate.
****T.C.U.** is Transportation, Communications, and Utilities.

Housing

The age of residential buildings in the city reflects an older housing supply with only eleven percent of the structures having been constructed since 1960. Consequently, 20.2 percent of the city's housing units are rated as below average. However, single family detached homes make up the majority of homestead properties and, over three-quarters of the single attached units and one-half of the duplex structures are owner occupied. To address the housing issues facing the City, four housing principles have been adopted as follows:

- The variety of housing types throughout the city, its communities and the metropolitan area shall be increased, giving prospective buyers and renters greater choice in where they live.

- The management, quality and balance of subsidized housing throughout the city and the metropolitan area shall be improved.

- Housing markets that are already strong shall be preserved and strengthened.

- The quality of the housing stock shall be improved.

The MCDA, in cooperation with the Greater Minneapolis Metropolitan Housing Corporation (GMMHC), the Minneapolis/St. Paul Family Housing Fund, the Minneapolis/St. Paul Joint Finance Board, and the Neighborhood Revitalization Program (NRP) have developed a variety of programs that are used to create and finance affordable housing opportunities in Minneapolis. A sample of these activities includes the following 1) Revenue bond financed home mortgages, 2) Federal CDBG loans and grants for home improvements including lead abatement, 3) Minnesota Housing Finance Agency home improvement loans and accessibility grants, and 4) HUD Rental Rehabilitation grants and matching funds for home improvements.

Revenue Base

Minnesota's economy reflects, or exceeds, the robust economy that is present today in the U.S. Inflation and unemployment are at all time lows and Gross Domestic Product growth is accelerating without leading to inflation. Minnesota has benefited from the state of the economy such that budgetary surpluses exceeding one billion dollars each over the last two years have been used, in part, to provide income tax refunds amounting to 20 percent of real estate taxes paid for 1997 as well as for 1998. Renters may claim a rebate of 18 percent of rent paid as such amount is defined as "rent constituting property taxes". Also, in 1997, the legislature enacted major changes to the property tax system to be effective for 1998. The effect of the legislation, absent any change in property values, is to reduce the Tax Capacity in Minneapolis by approximately 10.8 percent. As a result of the legislative changes, the final City tax capacity rate for 1998 is 39.059, an increase of 9.5 percent over the 1997 rate of 35.672, assuring that the City does not loose tax yield as a result of a reduced Tax Capacity.

Specifically, the following revenue changes or forecasts are applicable to the City:

- The taxable net tax capacity of the City decreased to $278.4 million in 1997, which represents an eight percent decrease over 1996. This is attributable to the reduction of property tax classification rates, primarily for commercial, industrial and apartment buildings. For comparative purposes, the total assessed market value for the City increased by 6.9 percent in 1997.

- The City is projecting receipt of $70,487,000 of State Local Government Aid during 1998, which is about $1.7 million, or 2.5 percent, more than the amount received in 1997.

- Sewer rental rates were increased 6.8 percent as of January 1, 1998 (a monthly increase of $1.05 for each customer using a hypothetical consumption of 600 cubic feet).

- Water rates were increased 5.9 percent effective January 1, 1998 (a monthly increase of $0.67 for each customer based on a hypothetical consumption of 600 cubic feet).

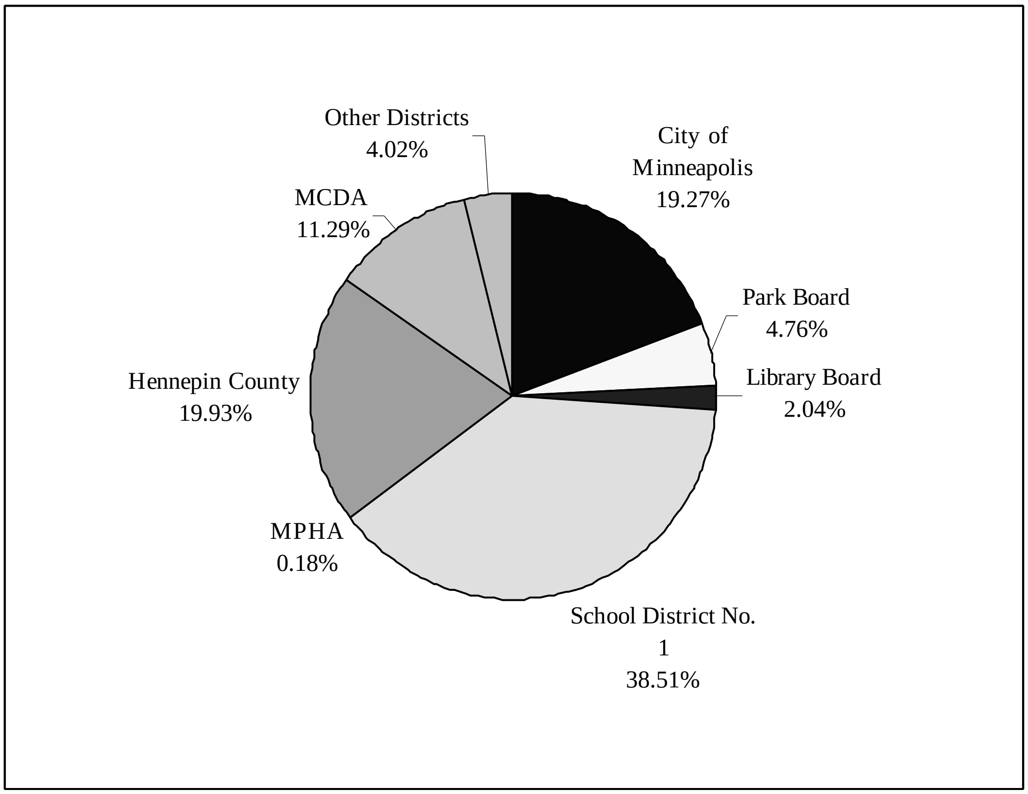
- Sales taxes supporting the Minneapolis Convention Center (MCC) and related facilities remain strong with 1998 revenue projections running ahead of 1997, which increased by approximately 4.85 percent over 1996.

- Franchise fee collections were about 1.2 percent higher in 1997 than 1996 due to increased gas consumption in January and February of 1997, as compared to the same months in 1996.

- Property tax collections increased to 99.4 percent of total taxes levied as compared to a collection rate of 98.4 percent in 1996.

The following chart illustrates the distribution of tax levies, including MCDA projected Tax Increment collections of $60.3 million, among the various taxing jurisdictions for 1998:

DISTRIBUTION OF PROPERTY TAXES
BY JURISDICTION



MAJOR INITIATIVES

The Mayor and City Council continued their commitment to public safety/safe neighborhoods; livable neighborhoods; economic development; healthy families and children; and government management. The eight City goals are: 1) Livable neighborhoods that are safe, 2) Access to convenient transportation services, 3) Ensure strong and healthy families and children, 4) Educational opportunities for all children through successful public schools, 5) Diverse, resilient economy that creates needed job opportunities, 6) Strong and healthy downtown area for housing, commerce, employment and entertainment, 7) Develop a municipal government that is efficient and effective, responsive to the needs of citizens and neighborhoods, and ensures quality services, and 8) Protect and sustain our natural and built environment.

Individual City departments and management systems attained significant achievements in pursuit of City goals in 1997, as summarized below:

Assessor

- The second phase of business process reengineering was successfully completed in 1997 and eight significant core processes were redesigned.
- A citywide valuation model continues to be the basis for the annual assessment. Use of the model in the strong real estate market has resulted in the strengthening of the residential tax base by over $1 billion.
- The economics of the Central Business District continue to be strong resulting in a value increase, including new construction, of over $400 million.
- The assessment cycle was shifted forward to provide for more time to work with taxpayers on valuation appeals and provide additional information through four neighborhood meetings attended by nearly 500 residents.

Attorney

- The Criminal Division increased its collaboration with the Hennepin County Attorney's Office on enforcement of nuisance crimes and actively participated in the integrated systems advisory board of the Criminal Justice Coordination Committee.
- More aggressive policies on prostitution cases were instituted in order to deal with repeat offenders. Additionally, a more effective vehicle forfeiture program was developed resulting in 59 forfeiture cases.
- An in-house Litigation Committee, which meets twice monthly to review pending litigation, has helped the City achieve consistency and cost effectiveness in case specific litigation.
- A Domestic Abuse Roundtable was established to include prosecution, defense, probation, police, court and advocacy representatives. The collaborative effort is attempting to encourage greater victim and/or witness cooperation in domestic abuse cases.
- The office has participated extensively in the redesign and implementation of the City's Risk Management Program with one objective being the reduction of tort liability expenses.

Civil Rights

- A Small Business Enterprise Program was designed and implemented in collaboration with Hennepin County.
- The department participated in a redesign study of the Civilian Review Authority and facilitated passage of a City Charter amendment that extends to citizens the right to file charges of misconduct against the Police Department.
- Over 1,000 Affirmative Action plans were reviewed and approved and several departmental work processes were modified to improve operating efficiency.

Clerk

- A Records Management Redesign project continued throughout the year and citywide general retention schedules for financial and human resources documents have been developed. Streamlined policies and procedures will lead to efficient, legally based, document management practices.

- Pilot projects in the field of imaging and document management were initiated to increase the ability to electronically access Council actions and all associated documents.

- The department began printing stationery and envelopes in-house providing faster and more cost-effective service than the former private sector vendor.

- Election redesign continued in collaboration with Hennepin County and such efforts will result in new County purchased vote tabulating equipment being available for the 1998 elections.

- Assisted Human Resources and Finance staff with postal standards for mailing City employee payroll checks and notifications of direct deposit concurrent with startup of a new integrated payroll and benefits management system.

Coordinator

The primary roles of the City Coordinator are to assist the Mayor and City Council in defining city policies and establishing priorities; mobilize the Charter Department Heads and Coordinator's staff to implement the Mayor's and Council's priorities; and to strengthen the management systems of the City.

In support of various City goals, the Coordinator facilitated the development of an Alternative Dispute Resolution process for settling workplace disputes; conducted an extensive analysis of the Minneapolis Police Civilian Review Authority and presented recommendations to the Mayor and Council; worked with a coalition of business, labor and government to develop plans and financing for the completion of the Minneapolis Convention Center; led an interdepartmental staff team to examine alternative methods to improve customer access to non-emergency services; continued to facilitate Management Teambuilding across City departments to design methods to work together to achieve City goals and enhance services; implemented a Return to Work Program for workers injured on the job; continued to co-chair, with the Police Chief, a Safe Schools/Safe Areas Initiative aimed at improving safety in school buildings and parks; chaired an interdepartmental work team to draft long range plans for telecommunications for the City; and formed a partnership of City and County elected officials to address issues relating to the new welfare-to-work requirements brought about by the federal government Personal Responsibility and Work Opportunity Act of 1996.

The management systems and operations of the City that the Coordinator oversees are: Finance, Human Resources, Information & Technology Services, Intergovernmental Relations, and Operations & Regulatory Services. A breakdown of their initiatives and accomplishments for 1997 follows:

<u>Finance</u>

- During 1997, the department completed the close of the first fiscal year (1996) using a new financial management system that includes the following fully integrated finance functions: General Ledger, Advanced Budget Preparation, Inventory Control, Fixed Assets, Performance Measurement, Extended Purchasing, Job/Project Cost Accounting, and Investment Management. The department also began implementation of the Client Server version of the system to reduce operating costs and take advantage of various upgrades available in the newer version.

- The 1998 budget process was the fourth budget developed under the guidelines and principles adopted with a Budget Redesign model. A major initiative for the 1998 budget was the development of a five-year Capital Program.

- A Director of Risk Management was hired and the function was consolidated into this new division as a strategy aimed at controlling losses and loss related expenses.

Human Resources

The Human Resources Department continued its HR Reform Initiative throughout 1997 and accomplished the following:

- In collaboration with the Finance and Information & Technology Services Departments, completed installation of a $6.5 million software/hardware benefits and payroll package to achieve operating efficiencies and improve access to payroll/personnel information.

- Recruitment and selection practices were revised and improved to obtain "better applicants quicker".

- A more relevant and reliable job classification system was developed and over seventy-five position titles were eliminated thus providing more flexibility in the management of the City's human resources.

- Reorganized the Labor Relations Division that reduced the City's dependence on outside labor consultants and to expedite handling of grievances. Concurrently, a long range negotiating strategy aimed at reaching affordable Union Contracts with increased management discretion was developed.

Information & Technology Services (ITS)

In 1997, ITS focused much of its energy on two new government management enterprise systems: Financial Information System to include upgrading to a client server version, and a Human Resources Information System which was installed in mid-year. Additionally, major components of infrastructure were implemented, stabilized, or expanded including CityNet, CityMail, a Data Warehouse, and a City Web Site. ITS also accomplished the following:

- A vendor was selected and an initial implementation strategy was developed for a Geographic Information System.

- An Equipment Management Information System was implemented and tied to the Human Resource Information System.

- A Utility Billing data warehouse was activated and is being used extensively for assessment processes.

- The capabilities of the Action Center (an internal "Help" desk) were enhanced through the use of new software.

- CityNet was expanded to 2,300 users and CityMail was expanded to include the Park Board and the Police Department with the number of users increasing from 1,800 to 2,200.

Intergovernmental Relations (IGR)

IGR re-established interdepartmental work teams on specific issues of legislative concern, including property tax reform, economic development, baseball park, convention center completion and transportation/transit. Further measures were developed so that the City's formal legislative agenda would be focused on a specific set of priorities developed in consultation with the Minneapolis legislative delegation. The 1998 legislative package will be guided by the four major priorities adopted by the Mayor and City Council as follows:

- Protection of property tax relief.

- Economic development and the completion of the Minneapolis Convention Center.

- Transportation/transit funding.

- Family, children and public safety.

Operations & Regulatory Services

This department has a wide range of responsibilities that include both regulatory and service functions. Regulatory services are the function of the Licenses and Consumer Services Division as well as the Inspections Division. Licenses and Consumer Services includes Traffic Control, Animal Control, the Lead Abatement Program, Environmental Health and Licenses. The Inspections Division consists of inspections programs in housing, rental licensing, hazardous buildings, trades, permits, zoning and environmental management. Operations involve the Minneapolis Convention Center (MCC). In 1997, these divisions:

- Joined five other jurisdictions to form the Middle Mississippi Watershed Management Organization to develop a five-year capital plan to address water quality issues in the watershed.

- Initiated a new Petro Cleanup Program to accelerate and streamline remediation of petroleum polluted sites in the City and comply with new Environmental Protection Agency guidelines relating to underground storage tanks.

- Implemented risk-based field inspections and administered and renewed over 25,000 City licenses.

- Responded to over 15,000 animal related requests for service.

- Began a full-scale implementation of an Inspections Business Plan that focuses on customer service, automation, and employee development.

- Developed "One-Stop-Shopping" at the Public Service Center.

- Strengthened the Graffiti Program and revised the noise ordinance for the City which was passed by the City Council.

The MCC is one of the primary economic engines driving the success and vitality of downtown Minneapolis and generates sales tax revenues and other economic benefits for the region and the State. Occupancy of the three exhibit halls averaged 84 percent, which is considered to be past the maximum or full occupancy, by industry standards. There were 75 conventions and tradeshows this past year with 45 of these events considered as national or international in scope.

Fire

The department revamped the State mandated Emergency Medical Technician (EMT) Training Program, making it a more cost effective, efficient, and workable program. By working with the State EMS Regulatory Board, a continuous education unit (CEU) program that would meet their approval for EMT recertification requirements was developed. Also, a contract was established with Hennepin County Medical Center EMT training instructors to provide a 36 CEU EMT training program over a two-year period for Fire personnel while they are on duty. The new approach to training has eliminated previous overtime costs, is efficient to administer, and is convenient for fire personnel.

During 1997, the department responded to 22,265 medical emergency alarms and 10,669 fire alarms as compared to 22,490 and 10,894 respectively, in 1996. Average response time remained constant at 3.3 minutes.

Total losses from fires were $8.8 million in 1997 and represents a 17 percent reduction from the previous year.

The Fire Prevention Bureau Inspectors performed 1,838 inspections in 1997, which resulted in the correction of 3,023 hazardous conditions.

Health and Family Support (HFS)

In 1997, HFS and Neighborhood Services (NS), a former component of the City Coordinator's office, were merged. The Housing and American Indian advocates and the Senior Ombudsman offices became part of the new HFS in January, and the rest of NS were moved in July. HFS, in collaboration with Hennepin County, began the SHAPE (Survey of the Health of Adults, the Population, and the Environment) survey. The survey is intended to provide data on the health status of Minneapolis residents at the community level.

HFS has continued in its role as the primary partner with Minneapolis Public Schools in a collaborative project with health plans and other community partners to work towards meeting a new vision for school health services. The new vision includes development and implementation of new data collection systems to monitor students' health and collaborating with others to reduce school absences attributable to lack of immunizations.

Minneapolis Community Development Agency (MCDA)

The MCDA, as the development arm of the City, adopted FOCUS MCDA, a business plan that centers activities on three main goals: livable neighborhoods, a resilient economy that creates job opportunities, and a strong downtown and Mississippi riverfront. The Agency enjoyed a successful and productive year in 1997, as it marked its 50th anniversary. A separate report which details the numerous accomplishments of the MCDA may be obtained from their offices at Crown Roller Mill, 105 Fifth Avenue South, Minneapolis, MN 55401-2534. Just a few highlights of the MCDA's achievements in 1997 include:

- Over $3.8 million was received from the Metropolitan Council to clean up more than 30 acres of land in Minneapolis for new development.

- Several new businesses completed or started construction in two major industrial areas (Seward Place Industrial Center and North Washington Jobs Park). Such new, or expanded businesses, include an office warehouse, a manufacturing facility, a flooring distribution facility and a printing facility.

- The Quarry, Minneapolis' largest commercial center outside of downtown, opened in 1997 and MCDA's efforts also have been instrumental in a K-12 public school project for downtown. Also, a new Federal Reserve Bank, a Federal Courthouse, and the Bravo Celebration Center were opened in 1997.

- The MCDA's business financing programs broke 1996 production records in 1997, facilitating over $75 million in financing for 172 Minneapolis businesses ranging from small start-ups making use of working capital and commercial renovation funds to large industrial manufacturing projects using revenue bond financing.

- Ground was broken for the 360-unit RiverStation, the largest home ownership development in the history of Minneapolis.

- The MCDA's Housing Development Department acquired 222 parcels, sold 101 parcels, demolished 131 structures, started construction or rehabilitation on 1,167 housing units, completed construction or rehabilitation on 446 housing units, and provided financing for 1,448 housing units in 1997.

- MCDA residential finance programs provided mortgage and home improvement loans totaling more than $57 million to over 1,000 customers.

- The Neighborhood Revitalization Program (NRP)/Citizen Participation Department, in collaboration with the NRPB provided funding to 61 neighborhood groups representing 75 neighborhoods and facilitated the expenditure of $23.7 million in NRP funds for home improvement loans and grants, school and park improvements, infrastructure investments and support for neighborhood organizations.

- The MCDA received numerous awards and special recognitions, including recognition from the Department of Housing and Urban Development (HUD) for being among the top five nonprofit purchasers of HUD-owned homes in 1997.

Neighborhood Revitalization Program (NRP)

As more fully described in the Notes to the Financial Statements, the Neighborhood Revitalization Policy Board (NRPB) was established in accordance with a Joint Powers Agreement involving several local jurisdictions. Funding for the NRP comes from MCDA tax increments of $20 million per year for 20 years under special state legislation enacted in 1990.

- By the end of the year, 38 of the possible 66 neighborhood Action Plans had been developed and subsequently approved by the NRPB and the City Council. An additional 19 neighborhoods had First Step Plans approved.

- NRP expenditures totaled $23.7 million for 1997 as compared to $2.9 million for 1992.

- Approved Action Plans now total more than $86.0 million as compared to $6.3 million at the end of 1991.

- Major projects completed in 1997 in which the NRPB was a partner included the Whittier Elementary School and Neighborhood Early Learning Center, Dinkytown Streetscape, renovation of the Pratt Community Center, and the revitalization of Nicollet Avenue.

Planning

- Staff completed drafting the City's new comprehensive plan, which is known as "The Minneapolis Plan". During 1997, the Plan was reviewed with elected officials, independent boards, department heads and staff, and was released for public comment.

- The draft of a comprehensive revision of the Minneapolis Zoning Code was completed. Community workshops and public hearings on the ordinance were conducted and the Planning Commission recommended adoption of the text portion of the ordinance to the City Council.

- The department completed the annual "State of the City" report and a more extensive version of the report, which provides information regarding population, housing, economic development, transportation, property services, human development, health and safety, and government management of the City, is available on the department's Web site at www.ci.minneapolis.mn.us/planning.

- During 1997, the department brought over 450 items and reports to 23 Planning Commission meetings including 81 conditional use permits, 44 location and design reviews, 26 NRP Reports/Action Plans, 16 requests for rezoning, 60 site plan reviews, 30 requests for vacations of streets/alleys, and 23 requests for variances.

Police

- In collaboration with the Downtown Business Council, a new Downtown Command was established to provide 24-hour police coverage for the downtown. Additionally, the Cedar-Riverside area of the Third Precinct became part of the new Command.

- Several *Safe Summer* initiatives focused primarily on the Phillips neighborhood and the result was one of the lowest crime summers in recent years. During this period there were eight homicides, as opposed to 40 in 1996.

- The department participated in the *Zero Tolerance* initiative that resulted in 2,400 arrests for "quality of life" crimes and continued its *Safe Schools* initiative which addresses safety of children primarily in school and park areas.

- Six additional officers were assigned to the Gang Strike Force resulting in several significant investigations, arrests, and actions taken involving gangs and gang members.

- Throughout 1997, the department engaged in research and planning leading to implementation of a Computer Optimized Deployment Focused on Results (CODEFOR) program which became operational in 1998. Such program provides for a focused response to crime based on usage of data regarding current trends.

- The department hired and trained in excess of 100 officers and reached the highest operational strength (960) in the history of the City. Eleven positions in the department were "civilianized" freeing up sworn personnel for redeployment to the street.
- The department, in collaboration with the Office of the City Attorney, continued to seek ways to minimize tort liability cases against the City. In cases where the department was involved in jury decisions, 15 out of 19 cases were decided in favor of the City.

- Numerous strategies were developed and implemented to improve communications with the media and the public and personal/community outreach continued to be a priority for the department.

- A build-up of the Community Response Teams throughout the year and the creation of two new positions in the Organized Crime Unit as well as the Licensing Division led to enhanced vice enforcement with the result being an increase of prostitution arrests of 64 percent over 1996. Five saunas involved in prostitution have been closed and the remaining five have actions pending as a result of prostitution arrests in the establishments.

Public Works

- A long-range capital improvement plan for the Water Works infrastructure was developed. Additionally a multi-year flood mitigation plan was developed in response to heavy rainfalls and subsequent localized flooding.

- The department developed a program to install short-block and mid-block street lighting throughout the City.

- Phase I of a Public Works Facilities plan commenced with a groundbreaking for a new facility that will house a police garage, a radio shop and Lands and Buildings functions. Phase II of the Facilities Plan will be to replace the equipment services facility and to provide a fueling depot. Design for that phase has begun.

- A *State of the Minneapolis Public Infrastructure* report was completed and presented to the Mayor and Council in July.

- A Clean City initiative that has a menu of options was begun. Such options include additional graffiti removal programs; "Adopt" programs for roads, blocks or litter containers; "Sentence to Serve" crews; "Environment Court" for resolution of littering, dumping and graffiti crimes; Targeted street sweeping.

- Operation of the City concrete plant was discontinued for at least two years based on a Paving Products report and recommendations as adopted by the City Council.

- A new Federal Courts parking ramp with tunnel connections to City Hall was opened and construction of another ramp in connection with the downtown K-12 school project began.

ACCOUNTING SYSTEM, BUDGETARY CONTROLS, AND INTERNAL CONTROLS

Accounting System

The accounts of the City are organized on the basis of funds and account groups. Funds are self-balancing sets of accounts recording assets, together with related liabilities and equities. An account group is a financial reporting entity that records assets and liabilities not recorded in funds. The General Long-Term Debt Account Group and the General Fixed Assets Account Group record the long-term debt and fixed assets of the City's governmental funds.

Budgetary Controls

Budgetary control is maintained in compliance with the City Charter, and the Mayor has the responsibility for preparing and submitting a budget to the City Council. Appropriations are required for all funds except agency funds. Appropriation control occurs at the department level within a fund. The City maintains an encumbrance accounting system as one technique of accomplishing budgetary control. An encumbrance is a reservation of appropriation authority, based on contractual obligations, prior to an actual expenditure being made.

The City's capital improvement planning and budgeting process is prescribed by a series of Council resolutions and, as of December 1997, a City ordinance that details a coordinated procedure for proposing, reviewing, adopting, monitoring and evaluating a comprehensive capital improvements program. The responsibilities of the Mayor, the City Council, the Capital Long-Range Improvements Committee (CLIC), the City Coordinator, the Financial Planning and Budget Division, and the Planning Commission are set forth and the procedures to assure citizen participation are specified. One of the effects of the 1997 ordinance was for the CLIC to shift from a "known" guideline for capital funding to recommending tax and fee policies to accomplish asset replacement cycles based on a desired asset condition.

The CLIC is a representative advisory organization of 33 citizens who are appointed by the Mayor and the City Council. The organization advises on capital policy and capital improvement program development and recommends proposals and funding level for the City's capital improvement program.

Internal Controls

The City's management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) valuation of costs and benefits requires estimates and judgment by management.

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to achieve compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff. As a part of the City's single audit, as described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to expenditures of federal awards. Also, tests are conducted to determine that the City has complied with applicable laws and regulations.

GENERAL GOVERNMENT FUNCTIONS

The general government functions of the primary government consist of the general fund, special revenue funds, debt service funds, and capital projects funds.

General Fund

For the purposes of this presentation and analysis, operating transfers-in have been restated based on their original revenue source, and operating transfers-out have been restated to reflect their ultimate program purpose.

The general fund's primary source of revenue continued to be intergovernmental revenues that produced 40.79 percent of total revenues. The three largest revenue items in this category were general purpose local government aid of approximately $55 million, homestead and agricultural credit aid of $13.0 million, and $10.3 million of state aids to amortize the unfunded pension obligations of three closed retirement plans. Taxes were significant revenue sources as well, totaling $86.1 million. The general property tax contributed $43.5 million; franchise fees were the next largest item at $20.3 million; fiscal disparities provided $7.4 million; and a combination of general property tax and fiscal disparities provided $9.2 million to amortize unfunded pension obligations.

The table on the following page illustrates general fund revenues and operating transfers-in:

GENERAL FUND
REVENUES AND OPERATING TRANSFERS-IN
For the years ended December 31, 1996 and 1997

Revenues and Transfers	1997 Amount (Thousands)	1997 Percent of Total	1996 Amount (Thousands)	1996 Percent of Total	Increase (Decrease) (Thousands)	Percent Change From Prior Year
Taxes	$ 86,137	38.90%	$ 79,570	39.02%	$ 6,567	8.25%
Licenses and Permits	14,059	6.35%	12,477	6.12%	1,582	12.68%
Intergovernmental Revenues	90,312	40.79%	80,480	39.47%	9,832	12.22%
Charges for Services and Sales	19,449	8.78%	18,414	9.03%	1,035	5.62%
Fines and Forfeits	5,929	2.68%	5,957	2.92%	(28)	-0.47%
Special Assessments	2,387	1.08%	2,805	1.38%	(418)	-14.90%
Interest	1,848	0.83%	1,392	0.68%	456	32.76%
Miscellaneous Revenue	1,308	0.59%	2,809	1.38%	(1,501)	-53.44%
Totals	$ 221,429	100.00%	$ 203,904	100.00%	$ 17,525	8.59%

The most significant expenditure is for personal services, which includes wages and salaries as well as fringe benefits. When combined with prior year pension costs of $14.3 million, personal services expenditures total $162.2 million and are approximately 77.1 percent of the total expenditures of $210.4 million within the general fund. General fund expenditures for major departments or divisions were as follows: a) Police-$81.1 million, b) Fire-$35.0 million, c) Public Works-$35.0 million, d) Inspections-$10.6 million, e) Finance-$4.9 million and f) Licenses and consumer services-$4.3 million. Combined, these departments and divisions represent 81.2 percent of total general fund expenditures.

The following table illustrates general fund expenditures and operating transfers out:

GENERAL FUND
EXPENDITURES AND OPERATING TRANSFERS-OUT
For the years ended December 31, 1996 and 1997

Expenditures and Transfers	1997 Amount (Thousands)	1997 Percent of Total	1996 Amount (Thousands)	1996 Percent of Total	Increase (Decrease) (Thousands)	Percent Change From Prior Year
General Government	$ 40,664	18.54%	$ 41,763	20.36%	$ (1,099)	-2.63%
Public Safety	139,097	63.43%	125,188	61.02%	13,909	11.11%
Highways and Streets	35,130	16.02%	33,787	16.47%	1,343	3.97%
Health and Welfare	3,429	1.56%	3,045	1.48%	384	12.61%
Economic Development	193	0.09%	192	0.09%	1	0.52%
Culture and Recreation	768	0.35%	1,182	0.58%	(414)	-35.03%
Totals	$ 219,281	100.00%	$ 205,157	100.00%	$ 14,124	6.88%

Coordinator-Licenses and consumer services increased by $537,000; Job Bank expenditures decreased by $678,000; Transfers to Self-insurance fund (which have been recast as General Government Expenditures) decreased by $2,971,000 as a result of implementation of “insurance rates” in lieu of Operating Transfers; Transfers to Intergovernmental services fund (which have also been recast as General Government Expenditures) have increased by $1,101,000 primarily in support of debt service paid by that fund for hardware/software related projects that were financed with general long-term debt. The decrease in Culture and Recreation expenditures is attributable to a mid-year transfer of a program, previously administered by the Park Board, to the YCB. Consequently, the Operating Transfers to the Park Board (which have been recast as Culture and Recreation expenditures) declined by 35 percent.

Fund Balance at the beginning of the year was $18.48 million and increased by $2.46 million (13.3 percent) resulting in a year-end fund balance of $20.94 million and is the highest fund balance since 1993. The fund balance exceeds (by $727,000) the City’s goal of maintaining a ten percent reserve.

Special Revenue Funds

Special revenue funds are used to account for specific revenue sources that are used to finance specified activities as required by law or administrative regulations. Within the City there are eleven special revenue funds as follows: Arena Reserve, Board of Estimate and Taxation, Community Development Agency, Community Development Block Grant, Convention Center, Convention Facilities Reserve, Employee Retirement, Grants-Federal, Grants-Other, Municipal Building Commission and Police.

The Arena Reserve Fund, which was established in 1995 concurrent with the purchase of a downtown sports, entertainment and health complex, has a year-end fund balance of $2.5 million which is unchanged from the end of 1996. The fund balance in the Convention Facilities Reserve Fund increased by $950,000 for a new total of $5.1 million and is maintained to assure the ability to meet future costs related to the MCC.

The Convention Center Fund accounts for the maintenance and operation of a City owned convention center. Local option taxes in support of the convention center were $38.2 million for the year (an increase of 4.9 percent) with approximately $24.1 million being transferred to debt service or enterprise funds for related debt. The tax rates and collection amounts for 1997 were as follows:

1) Sales tax of 0.5 percent-applied citywide: $21.3 million (up $1.3 million)
2) Entertainment tax of 3 percent applied citywide: $6.1 million (up $100 thousand)
3) Lodging tax of 2 percent applied to motels and hotels of 50 units or more: $2.5 million (up $150,000)
4) Food and liquor taxes of 3 percent each, applied to establishments in the core downtown area: $8.3 million (up $200 thousand)

Debt Service Funds

Debt service funds account for the accumulation of resources for, and the payment of interest and principal on, general long-term debt. Within the City there are four debt service funds as follows: Community Development Agency, Development, Infrastructure, and Multi-Purpose.

The Community Development Agency Fund accounts for a portion of the debt of the Tax Increment Bonds of 1990, the debt of the Orpheum Theater project, a College of St. Thomas project and a portion of the Arena Acquisition Project. As more fully described in the Notes to the Financial Statements, the City, subsequent to December 31, 1997 refunded $31.7 million in General Obligation Tax Increment Refunding Bonds. The refunding drew down $14.0 million of the balance in the Development debt service fund as such amount was in excess of deposits required in the fund for the prior debt.

Capital Projects Funds

The three capital projects funds within the City are: Community Development Agency which consists largely of tax increment funded activities, the Municipal Building Commission which accounts for improvements to City Hall, and Permanent Improvement which accounts mainly for infrastructure capital projects of the City. On a combined basis, these three funds accounted for approximately $109.5 million in revenues for 1997 (up from $90.9 million) and spent $106 million on capital projects, which was a decrease of $6.4 million from the year before. Tax increment income in the Community Development Agency Fund was $60.5 million for the year and represents an increase of $4.6 million from the prior year. This 8.2 percent increase is reflective of the decrease in property tax abatements as well as restoration of property values and new increment coming on line.

PROPRIETARY FUND OPERATIONS

Enterprise Funds

Enterprise funds are used to account for self-supporting activities that typically render services on a user charge basis. Minneapolis uses six enterprise funds to account for a variety of operations as follows:

Community Development Agency

Activities of this fund include various low-interest housing programs, as well as a program in which revenue bonds are issued to finance economic development projects. A new activity of this fund in 1996 involved financing from the Federal Home Loan Bank (FHLB). The FHLB financing is used to provide loans to Minneapolis' businesses for the construction of capital assets. A portion of the interest on the loans is provided to employees of the businesses for down payment and closing-cost assistance to purchase homes in the City. The MCDA is the only development agency nationwide to receive funding authority from the FHLB, and in 1997, one FHLB note in the amount of $440,000 was authorized and issued.

Municipal Parking

This fund accounts for the operation and maintenance of parking ramps and lots, on-street parking, and a municipal impound lot. The City owns 12 parking ramps, 10 surface parking lots, and manages another 3 ramps owned by the Minnesota Department of Transportation. Altogether there are 20,200 parking spaces and 6,000 meters under management. Some of the ramps contain leased space for commercial facilities as well.

The fund had operating income of $8.1 million for 1997, which was an improvement of $2.4 million over 1996 operating income. The increase is attributable to a new ramp opening in 1997, as well as higher revenue rates and an increased usage of the ramps. During 1997, $1.4 million was spent on ramp maintenance to keep the ramps safe and up to date. At the end of 1996, the fund had a deficit in retained earnings of ($.3 million) with a net loss for the year of ($.2 million). For 1997, net income was $1.2 million and ending retained earnings was $1.4 million. One of the factors in this turnaround is that the City, in 1996 and consistent with industry standards, began depreciating parking ramps over 45 years, as opposed to 20 years. During 1997, the Federal Courts ramp opened providing another 290 spaces for downtown parkers. Construction has begun on another ramp as part of the downtown K-12 school project that will provide 640 spaces in the Central Business District.

River Terminal

This fund accounts for the operation of a public terminal facility located on the Mississippi River. The facility is owned by the City and is managed by an operator under contract with the City as administered by the MCDA. During 1997, 520 barges were handled with such commodities as fertilizers, grain, coal, salt, steel, twine, sand, pipe, sugar beet shreds, and aggregate. Total tonnage shipped (in or out) for the year was 1.1 million tons.

The MCDA transferred $742,000 to this fund from its capital projects fund in support of debt service for the facility. As the balance sheet indicates, total debt remaining on this facility is $1.74 million with the last payment scheduled to be made in 1999.

Sewer Rental

As a result of the Metropolitan Reorganization Act passed by the 1994 Minnesota Legislature, the Metropolitan Waste Control Commission (MWCC) on July 1, 1994, became an operating function of the Metropolitan Council and is known as Metropolitan Council Wastewater Services (MCWS). On January 1, 1970, the MWCC assumed ownership of local government sewage interceptor and treatment facilities and credited each municipality with an amount equal to the current value of their facilities. The current value plus interest at 4 percent per annum was spread over 30 years and the annual credit is used to reduce the sewer charges allocated to the City by the MWCC. The amount of the annual credit is approximately $1.4 million and will expire at the end of the year 2000. This activity is reflected in the Sewer Rental Fund. This fund also accounts for storm water management activities including the Combined Sewer Overflow (CSO) Program, which will separate the remaining storm sewer lines still connected to sanitary sewer lines. The 1997 balance sheet reflects an additional $2.49 million of public improvements capitalized as a result of the CSO program which ends in 1998.

The fund had operating income of $4.9 million in 1997 as compared to $3.2 million in 1996. Revenues for sewage service increased by $2.2 million and operating expenses increased by only $.5 million. Net income for the fund was $2.5 million in 1997 as compared to $.7 million for 1996. By the end of 1997, Working Capital (current assets minus current liabilities) increased in this fund by $2.6 million.

Solid Waste and Recycling

This fund was established in 1994 to account for solid waste collection, and disposal/recycling activities of the City. Prior to that time, these activities were accounted for within the general fund. The Solid Waste Division of the Public Works Department provides weekly trash pickup, bi-weekly recycling and yard waste pickup, and operates a solid waste transfer station for over 108,000 households. City crews provide approximately one-half of the solid waste collection service and the other half of the service is provided through a contract with a consortium of companies specializing in waste collection. Partly as a result of changing from quarterly to monthly billings, the cash balance in this fund increased by $822,000.

Water Works

This fund accounts for the operation and maintenance of a water delivery system for the City and several suburban city customers. The City's water delivery systems are capable of providing 180 million gallons of treated water daily. The City, in 1996, sold water directly to seven suburban communities as follows: Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal, and Edina. Such sales amounted to $4.7 million, or 11.9 percent of total sales of $39.5 million.

The City began a five year program in late 1991 to replace over 100,000 water meters with a telephone operated Automatic Meter Reading System (AMRS). By the end of 1997, over 84,000 meters had been replaced providing for more efficient, accurate, and timely billings. The original five-year program has been extended and expanded to address apartment buildings and commercial operations that were not included in the first phase of the project. The second phase is scheduled to be completed in the year 2000. For customers whose meters are on AMRS, conversion to monthly billings instead of quarterly billings began in 1995. To date, over 83,000 accounts have been converted to monthly billing. Operating income in the fund for 1997 was $7.0 million as compared to $7.8 million for 1996. For the two years, operating revenues increased by $.4 million while operating expenses increased by $1.2 million

Internal Service Funds

The City uses six internal service funds to account for a variety of services provided by one department to another or to account for internal activities of the City. Within internal service funds, rate setting policies and practices will continue to be reviewed to make certain that the cost of the service is being appropriately recovered and that replacement reserves, if applicable, are being created. Strategies will be developed to eliminate deficits in several funds as a part of the 1999 budget process.

Intergovernmental Services

This fund accounts for the operations of ITS, which includes telephones as well as the City Clerk's central mailing and printing services. The fund had a net loss for the year of ($1.8 million) after operating transfers which are in lieu of billing individual departments directly for some of the services provided by ITS.

Lands and Buildings

This fund accounts for the physical management and maintenance of fire stations, police precinct buildings, the Public Service Center and various other City office locations (except City Hall which is accounted for within the Municipal Building Commission Special Revenue Fund). This fund also accounts for the coordination and management of special properties such as those in the comprehensive Public Works Facilities Development Program. Also, this fund accounts for the activities associated with two Farmers Markets, one on a downtown mall as well as one in North Minneapolis. An association that pays the City a percent of collected stall rental fees manages the markets. At year-end the fund had a deficit in retained earnings of ($713,000) based on a net loss of ($641,000).

Paving Products

This fund accounts for the operations of the City's asphalt plant, concrete plant, and paving products laboratory. The plants were established during the 1930's with a mission to produce high quality bituminous and concrete products in a cost effective and timely manner for the Department of Public Works construction/maintenance operations. The asphalt plant also provides a disposal site for rubble asphalt pavement generated from City construction projects which ultimately reduces disposal fees and trucking costs. The plant recycles this material into new bituminous mixes enabling favorable pricing of the finished product.

In May of 1997, the City Council adopted a Paving Products Study which suggested exploring other options to fulfill the City's need for concrete products if the plant could not become more cost efficient. The concrete plant has been "mothballed" for a minimum of two years while the City explores other alternatives to obtaining concrete for its operations. The City has established a $1.0 million reserve for renewal and replacement of various facilities associated with this fund. For 1997, the fund had an operating loss of ($390,000) but maintained a positive cash position of $1.4 million.

Permanent Improvement Equipment

This fund accounts for the ownership and operation of a fleet of approximately 1,275 pieces of motorized equipment/vehicles, 400 vehicle accessories, and over 3,000 pieces of radio communications equipment representing a total investment of $35.9 million. The fund operates as a rental agent to various departments and in support of such diverse operations as construction and maintenance of City infrastructure, fire protection, and police services. The primary revenue source for this fund is rental of equipment, which was approximately $14.8 million in 1997, or an increase of $.5 million over 1996 rental income.

In 1997, management began implementing several recommendations contained in a 1996 fleet study that examined equipment procurement, management practices, and repair facilities associated with the operations. Consequently, the fleet size has been reduced by 25 units, net of additions, and there has been a corresponding increase in the value of the fleet of $3.5 million. This type of trend is scheduled to continue over the next several years in an effort to upgrade the overall fleet. Also, a bonding program to replace the 1930's repair facilities has begun and groundbreaking for a new building is scheduled for August of 1998. The fund, for 1997, had an operating loss of ($3.5 million) and a net loss of ($2.9 million).

Public Works Stores

This fund, which was established in 1965, accounts for the centralized procurement, warehousing, and distribution of stocked inventory items, and the purchase of special goods and services (Central Stores). The mission is to provide these items in a cost effective and timely manner through bulk purchasing and to ensure that all products and clothing comply with City standards and safety requirements. Traffic Stores, another component of this fund, was established in 1972 to provide stocked inventory items and materials for assembly of specialized equipment within the Transportation Division of the Public Works Department. For the year the fund had an operating loss of ($186,000) and a review of the funds activities is being conducted to determine whether or not the City will continue to maintain a Central Stores operation.

Self -Insurance

This fund accounts for employee medical, dental, and life insurance benefits programs and the programs' administrative costs. The fund also accounts for occupational health services, severance payments to employees who have retired or resigned and who meet minimum eligibility requirements, a tort liability program, and a workers' compensation program.

For 1997, the self-insured workers' compensation program included the BET, the MBC, the Library Board, and all City departments. The MCDA and the Park Board maintained their own workers' compensation programs. The City and the BET are self-insured for tort liability while the MCDA, Library Board, Park Board, and MBC maintain their own liability programs. The City also purchases excess insurance from the Workers' Compensation Reinsurance Association (WCRA) and, in 1997, the City received a one-time refund from the WRCA of $2.7 million as a result of a statewide reinsurance surplus.

The City annually engages an actuary to review the City's self-insurance programs. Such reviews estimate outstanding losses, project the ultimate losses and recommend overall funding each year. Internal insurance premiums, in lieu of operating transfers, were applied during 1997. At year-end the actuarially determined unpaid claims payable liability was down by 12 percent as a result of a decline in the number of open workers' compensation claims. For 1997, this fund had operating income of $.9 million and net income of $5.0 million.

FIDUCIARY FUNDS

Agency Funds

The City uses four agency funds to account for assets held by the City in a trustee or similar capacity: Community Development Agency, Deferred Compensation, Minneapolis Agency, and Skyway Debt Service.

The Community Development Agency Fund includes the ticket proceeds for two theaters owned by the MCDA and operated by a manager under contract. At year-end there were $3.4 million in ticket proceeds recorded as deposits held for others for future events with $3.0 million of that amount advanced to promoters of major productions but secured by letters of credit. As the Notes to the Financial Statements more fully describe, the deferred compensation plans of the City have been converted to third party trust status and consequently the assets and liabilities of those plans are no longer assets and liabilities of the City.

GENERAL FIXED ASSETS

The general fixed assets account group accounts for the fixed assets of the City that are not accounted for in either an enterprise or an internal service fund. Asset values are stated at historical cost and no depreciation is recorded. Assets exclude the City's investment in infrastructure (for example, streets and bridges) in accordance with GASB standards. The City's total investment in general fixed assets at year-end was $468 million.

CAPITAL PROGRAM INITIATIVES

In connection with adoption of a 1998 capital and operating budget, the City also adopted a nine-year flood mitigation program totaling approximately $71.9 million and a seven-year water works capital program totaling approximately $72.9 million. The programs will be financed through a combination of bond sales, reimbursable work for others, enterprise fund revenues, and other agency (including federal) grants. The flood mitigation program is partly in response to serious localized flooding this past year and includes acquisition of properties in areas prone to flooding, construction of holding ponds, and construction of new storm drains. The water works capital program will involve improving existing facilities as well as construction of a new 40 million gallon finished water reservoir. Another significant initiative includes a 1997-2001 program to reconstruct Hiawatha Avenue from near downtown Minneapolis to the southern border at a total cost of $91.2 million (95 percent federal and state pass through) to replace a roadway that is deficient from a geometric and structural standpoint and to accommodate future light rail transit construction.

DEBT ADMINISTRATION

The data for the City's general obligation debt at the end of fiscal year 1997 are as follows:

General Obligation Bonds	Gross Debt Less Sinking Funds	Ratio of Debt to Present Market Value	Debt per Capita
Property Tax Supported	$ 70,943,000	0.50%	$ 192
Self-Supporting	609,803,000	4.29%	1,655
Overlapping Jurisdictions	215,961,000	1.52%	586
Totals	$896,707,000	6.31%	$ 2,434

The ratio of net bonded debt to market valuation ($14,215,583,000) and the amount of bonded debt per capita (368,383) are indicators of the City's debt position for municipal managers, citizens, and investors. Of the total City general obligation debt outstanding, 90 percent is considered to be self-supporting from revenues other than general property taxes (primarily convention center and related facilities, municipal parking, tax increment, water and sewer, special assessment, and mortgage revenue bonds).

The City maintains a debt management policy that is based, in part, on a debt/revenue ratio approach. Consequently, as the City’s discretionary, or nondedicated, revenues change, the amount of discretionary revenue committed to debt service on tax-supported bonds should also vary. One of the policy goals is that the proportion of discretionary revenue dedicated to tax-supported debt service be kept at a level where adequate funds will remain to finance the City’s essential services. For 1998, the percent of discretionary revenues used to support debt service is nine percent, which is the same level as 1997.

Also, the City participates in a Joint Debt Committee to promote the exchange of information concerning the debt issuance plans of the participating governments over a five-year planning horizon. The City, the Minneapolis Special School District No. 1, and Hennepin County share in whole, or in part, the same property tax base and the Joint Debt Committee plans to meet three or four times per year to develop a better perspective on the debt issuance levels for participating governments. In addition, participants intend to coordinate the amount and timing of future debt issues.

The Supplemental and Statistical Sections of this report present more detailed information about the debt of the City and the following table lists general obligation bonds issued during the past three years:

GENERAL OBLIGATION BONDS ISSUED THE LAST THREE YEARS

Date of Issue	Amount	Purpose	Average Life in Years	Effective Interest Rate	Interest per Borrowed Dollar (in Cents)
3/23/95	72,000,000	Arena Acquisition	19.9	Variable*	-
6/20/95	26,845,000	Multi-Purpose	6.3	Variable*	-
7/1/95	3,505,000	Assessment	10.3	5.31	54.0
7/1/95	14,427,221	Water and Sewer	21.5	CABs**	285.3
1/15/96	67,555,000	Current Refunding	18.8	5.24	96.9
2/6/96	2,535,000	Remarketing	9.9	4.82	46.6
2/6/96	15,999,814	Remarketing	9.9	CABs**	60.2
6/1/96	2,315,000	Assessment	10.3	5.36	55.6
6/13/96	28,200,000	Multi-Purpose	5.21	Variable*	-
6/19/97	8,500,000	Fleet & Facilities	5.45	Variable*	-
6/19/97	24,000,000	Multi-Purpose	6.07	Variable*	-
7/1/97	2,965,000	Assessment	9.86	5.02	49.5

*The variable rate is set once a week by the Remarketing Agent to enable the bonds to be sold at par in the secondary market. Rates for 1997 ranged from 5.0 percent to 6.0 percent.

**Each maturity of Capital Appreciation Bonds (CABs) has its own semi-annual internal compounding interest rate.

Bond Rating

The City's general obligation bonds continue to have the highest possible ratings, which they have carried since 1961:

	Moody's Investor's Service	Standard & Poor's
General Obligation Bonds:	**Aaa**	**AAA**

RETIREMENT PLANS

Employees are covered by one of the following retirement plans as more fully described in the Notes to the Financial Statements:

Plan	Date of Employment
The Minneapolis Fire Department Relief Association (MFDRA)	Before June 15, 1980
The Minneapolis Police Relief Association (MPRA)	Before June 15, 1980
Public Employees Retirement Fund-Police and Fire Fund (PEPFF)	After June 15, 1980
Minneapolis Employees Retirement Fund (MERF)	Before June 30, 1978
Public Employees Retirement Fund- (PERF-Basic and Coordinated)	After June 30, 1978
Union Central Life Insurance Company- (MCDA Employees)	All years

The MFDRA, the MPRA, and MERF have historically had unfunded liabilities as determined by consulting actuaries. However, based on state legislation, MFDRA and MPRA must be fully funded by the year 2010 and MERF must be fully funded by the year 2020.

RISK MANAGEMENT

In 1987, the City officially adopted a program of self-insurance for property and third party liability. In 1988, the City adopted an Occupational Health and Safety Policy and Program and has made continued emphasis of the program a high priority. A risk management review was completed in November 1996, and as a result of the review, all personnel now working in the risk management disciplines of risk financing, claims administration and loss prevention have been consolidated into a new Risk Management Division of the Finance Department. The review made several recommendations relative to: risk management staffing, structure and reporting relationships; approaches to tort defense and settlement of claims; accountability of managers for losses occurring in their departments; and adopting the cost of risk as a measure of city-wide risk management performance.

OTHER INFORMATION

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a ***Certificate of Achievement for Excellence in Financial Reporting*** to the City for its CAFR for the fiscal year ended December 31, 1996. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest professional standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of only one year. The City has received a Certificate of Achievement for the last twenty-eight consecutive years (fiscal years ended 1969-1996). We believe our current report continues to conform to Certificate of Achievement program requirements and we are submitting it to the GFOA.

Acknowledgments

The preparation of this CAFR was accomplished through the combined efforts of the staff of the Finance Department and staff at the MCDA, the Park Board, and the Library Board. The State Auditor’s role in the overall process is greatly appreciated. The Mayor and City Council Members have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly valued and essential for continuous improvement in the City's financial policies and procedures.

Respectfully submitted,

Herbert Hoke | John Moir

Herbert Hoke,
Director of Accounting

John Moir,
Finance Officer