

City of Minneapolis 2004 Budget

Financial Overview

The Adopted 2004 Budget for all City funds represents a 1.6 percent increase in spending from the 2003 adopted budget, from \$1.11 billion to \$1.13 billion.

When including transfer expense between city funds, the total increase is 3.6 percent, from \$1.20 billion to \$1.24 billion. Transfers between funds increased by \$26.8 million due to changes in accounting practices as well as the result of adjustments needed to account for the many organizational changes that have happened in the city. It is anticipated that the transfer amount will decrease significantly from 2004 to 2005 as more permanent budget changes are put in place to fully realize the organization changes that have occurred.

Major Highlights

Many significant organizational and financial changes have occurred since the 2003 budget was adopted last December. The Adopted 2004 Budget builds on these many changes, in addition to adding some new ones. It is important to be aware of these major changes when making comparisons between budget years.

Some of the major changes include:

- The **State of Minnesota cut aid to Minneapolis by \$35 million** (on an annual basis). Local Government Aid (LGA) from the State will be \$82.5 million in year 2004 as compared to an original 2003 budget amount of \$117.5 million. This significant cut ended up being \$1.8 million greater than what the City was to receive based on final figures used during the conclusion of the legislative session. The City responded to this significant revenue cut by reducing spending early in 2003. The annualized impact of the decisions made in 2003 plus the offsetting increases in other revenue results in departments not needing to make additional cuts in 2004. However, the reduced service levels as a result of LGA cuts will remain in effect.
- The **Adopted Budget is built on the assumption and projection that salary and wage growth will be limited to two percent for all unsettled labor contracts**. This is significant because it avoided the need for additional cuts to balance the budget within the available revenue. For example, in the General Fund this saved \$5.0 million in what otherwise would have been a likely cut to positions. This wage cap was assumed across all bargaining units (unsettled) regardless of funding source. This assumption was favorable in helping to improve the projected financial performance of the Convention Center and Parking Funds - two major funds that are showing weak financial performance as a result of poor economic conditions. In addition, the lower wage growth

assumption (from historical levels) also resulted in the ability to hold the line on sewer, water, and solid waste fees increases without making staffing reductions.

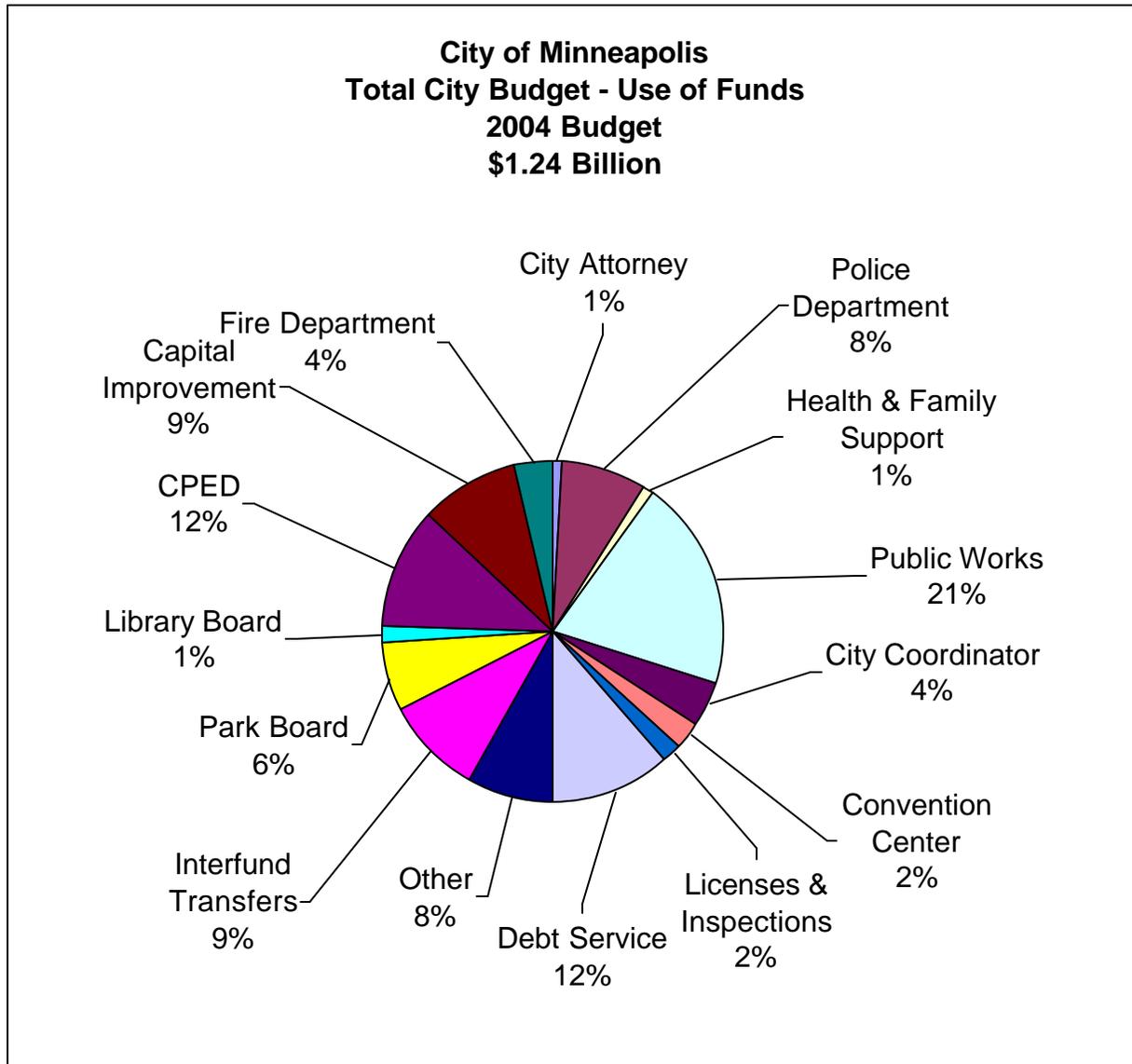
- The Council has approved **the use of \$12.5 million from the "Hilton Legacy Fund" (a permanent transfer of funds) to pay outstanding pension obligations**. This decision will result in the City saving \$1.5 million annually in property tax levy by reducing debt service payments. The City will avoid having to pay the taxable interest costs associated with pension bonds, as well.
- The **Adopted Budget is balanced - it includes both revenue increases and spending reductions**. The budget reflects a decision to look fully at all city revenues (and not just general city revenue, such as the property tax levy and LGA) to identify areas where current charges for service did not cover the full cost of service delivery. As a result, the budget includes additional charges against the City's enterprise funds for indirect costs of services provided as well as increases in inspection and licenses revenue that begin to close the gap on full cost recovery.
- The **Adopted Budget recognizes that the City's Parking Business is in a temporary negative financial position as a result of economic conditions** - revenues are not meeting targets. As a result, the Mayor's budget includes two decisions. The first is to reduce the amount of revenue that the Parking Business provides to the City's General Fund, from \$10.8 million to \$9.8 million, or a \$1.0 million decrease. This is reflected as a permanent reduction until Parking revenues recover. The other decision is to redirect revenues that are currently going to support the Minneapolis Downtown Council and use the revenue (approximately \$300,000) to directly market city ramps.
- The **Council adopted the recommendation that the City reduce the planned increases in utility fees in 2004 and future years**. While fees will still need to increase in order to pay for the cost of major capital investments (i.e., ultra filtration system for water treatment services) the budget includes a slow-down in overall capital spending, specifically related to sanitary and storm water. In addition, a slow-down on the aggressive plan to fund capital improvements and deferred maintenance from current revenue (pay-as-you-go funding) is also reflected. While the City supports the overall goal of the capital initiatives and plans to close the gap on deferred maintenance, growth in utility fees has been slowed in the current budget. Capital and deferred maintenance spending will still be put in place, but at a slower schedule than previously approved.
- The Council adopted the **transfer of budget authority and reporting relationship for the City's Emergency Communications Center** be moved from the Police Department to the City Coordinator. This recommendation is reflected in the budget through the movement of \$6.1 million of budget authority from the Police Department to the City Coordinator.
- The Adopted Budget includes the **transfer of a small portion of housing code inspections from the Inspections Department to the Fire Department** in

order to gain greater efficiencies. The proposal would add housing code inspections to the tasks done during the fire crew pre-planning visits at apartment buildings of 12 units or greater. This proposal will allow the City to get into large residential buildings on an annual basis, which is currently not happening. The Fire Department would also assume some nuisance inspection responsibilities. There is a total budget impact of approximately \$800,000, between departments as a result of this change. The efficiency gained by having the Fire Department assume this responsibility will provide the Fire Department with funding to hire back fire fighters that were previously laid off due to 2003 budget cutbacks.

- As approved by the Council, the Adopted 2004 Budget includes **Community Planning and Economic Development (CPED) as a City department**. However, work is still needed at a detailed budget level to fully realize this transition. The new department was created through the merger of the Minneapolis Community Development Agency (MCDA), the City Planning Department, the Minneapolis Employment and Training Program (METP), and the Empowerment Zone.
- Due to the impact of State LGA cuts on social service organizations and clients, the **Council has approved the recommendation to continue to fund Public Service activities at the maximum level allowed by the Federal government under the Community Development Block Grant**, which is 15% of our expected allocation, or \$2,617,000. The Mayor recommends allocating half of this amount to programs that are clearly aligned with the City's adopted development priorities. The Mayor requests that the NRP Policy Board make a recommendation regarding the allocation of the other half of these funds, in consultation with the Youth Coordinating Board and the Empowerment Zone Board, for review by the City Council.
- The adopted budget is built within the City's five-year financial direction and business planning resolution, adopted in January 2003. Despite the reductions to departments as a result of the LGA cuts and the changes as result of the institution of the 2% wage resolution, the guidelines set out in the five-year financial direction are met. The detailed five-year financial direction resolution is included in the financial policies section of this book.
- The adopted budget includes a recommendation that the City grants office work with the public health advisory committee to review the public/community service grants in the City's consolidated plan for funding (ie the CDBG budget.)

City Spending

Below is a summary of the Council Adopted 2004 Budget by major spending categories, which includes transfers between funds and the independent boards.



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

	2003 Adopted Budget	2004 Adopted Budget
City Coordinator (excluding Inspections and Licenses) ¹	\$48.5	\$52.8
City Attorney	\$9.9	\$11.0
Community Planning and Economic Development		\$141.8
Convention Center	\$27.5	\$29.5
Fire Department	\$44.3	\$43.3
Health and Family Support	\$21.3	\$13.3
Inspections and Licenses	\$23.1	\$22.7
Police	\$100.8	\$99.5
Public Works – Field Services	\$29.9	\$29.1
Public Works – Sewer, Storm Water, Flood Mitigation	\$39.9	\$43.6
Public Works - Solid Waste and Recycling	\$25.8	\$25.6
Public Works – Transportation	\$47.4	\$50.0
Public Works - Water Treatment and Distribution	\$34.8	\$37.6
Public Works - Other (includes Internal Services)	\$61.3	\$58.5
<i>Public Works Subtotal</i>	\$239.1	\$244.4
Other City Services ²	\$16.4	\$11.7
Other ³	\$82.4	\$86.6
Debt Service (including Enterprise Funds)	\$132.4	\$142.5
Capital Improvement (including Enterprise Fund capital)	\$98.1	\$116.5
Subtotal	\$843.8	\$1,015.6
Independent Boards:		
Community Development Agency (MCDA)	\$149.1	--
Library Board	\$22.0	\$18.4
Park Board	\$77.5	\$79.1
Youth Coordinating Board	\$6.1	\$3.6
Other Boards	\$9.2	\$8.7
Subtotal	\$263.9	\$ 109.8
Total Expenditures (without Transfers)	\$1,107.7	\$1,125.4
Transfers to other funds	\$89.6	\$116.2
Total Expenditures with Transfers	\$1,197.3	\$1,241.6

Note: See department sections in the budget document for further explanation on changes between years.

¹ Includes Human Resources, Finance, Emergency Communications, Coordinator Administration, Intergovernmental Relations, and Communications.

² Includes Assessor, City Council, City Clerk, Civil Rights and Mayor.

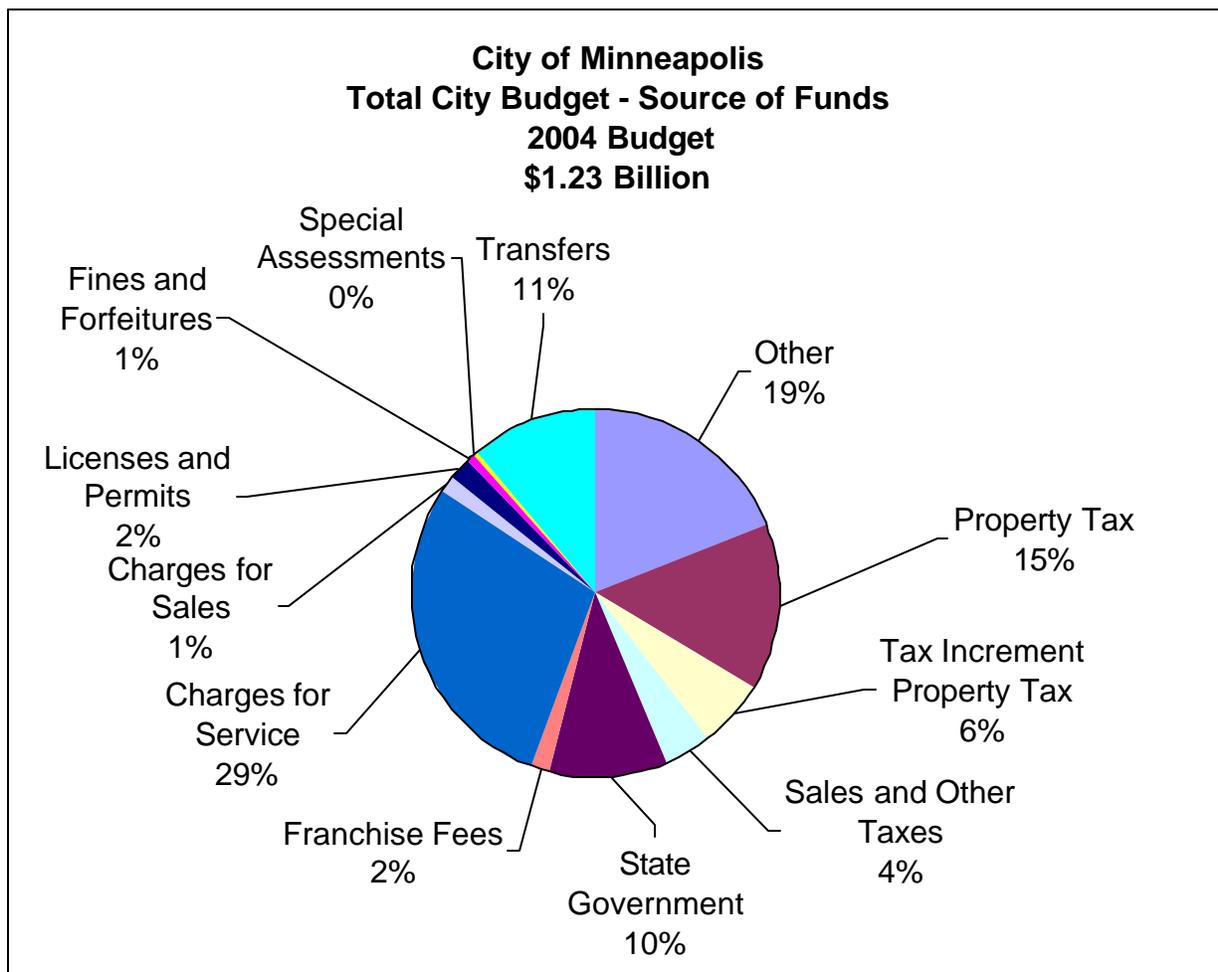
³ Includes Non-Departmental expenses like pension obligations, worker's compensation, payments to health insurers, liability program and contingency.

Sources of Revenue

Below is a summary of the City's total revenues by major category. The City of Minneapolis receives revenue from a variety of sources, but many of these sources have strings attached.

For example, the City cannot use revenue from fees that it charges for services to fund general government services, such as police and fire services. The City charges fees for water, sewer, and garbage pick-up, but the State law requires that these fees be no higher than the cost of providing those services. So the City cannot raise water bills to pay police officers, for example.

The grants and transfers from the Federal Government and other units of government are usually for specific needs and purposes. If the City did not spend such grants for designated need, the City would not get such grants at all. Some cities use assessments, which are also tied to specific purposes like street maintenance. Bond proceeds must go to purposes for which the debt was incurred. Sales tax revenue is dedicated to the Convention Center by State law. Like many Minnesota cities, Minneapolis pays for other city services (police, fire streets, parks, libraries, etc.) with property taxes and Local Government Aid (LGA).



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

	2003 Adopted Budget	2004 Adopted Budget
Property Tax ⁴	\$166.5	\$181.1
Tax Increment Property Tax	\$64.6	\$71.0
Sales and Other Taxes	\$49.5	\$50.0
State Government	\$154.3	\$125.0
Local Government	\$8.3	\$8.4
Federal Government	\$50.0	\$63.4
Franchise Fees	\$20.4	\$23.5
Charges for Service	\$348.5	\$354.0
Charges for Sales	\$14.1	\$17.5
Licenses and Permits	\$21.7	\$21.5
Fines and Forfeitures	\$9.3	\$10.5
Special Assessments	\$10.2	\$4.8
Interest Income	\$3.6	\$9.7
Rents	\$49.9	\$46.6
Other ⁵	\$92.1 ⁶	\$105.6
Subtotal	\$1,063.0	\$1,092.6
Transfers from Other Funds	\$116.0	\$136.6
Total Revenues ⁷	\$1,179.0	\$1,229.2

The City uses different “Funds” to account for the expense and revenue associated with the various services provided. The **General Fund**, which is where most of the property tax supported services are accounted for, represents 21 percent of the 2004 adopted budget, as compared to 23 percent in 2003.

The **Enterprise Funds** include services that the City provides that operate more like a “business” in that they are expected to generate a profit to cover capital purchases and related debt service requirements. Enterprise services of the City include such services as sanitary sewer services, storm water management, flood mitigation, water treatment and distribution, solid waste and recycling, and municipal parking.

Internal Services Funds are similar to Enterprise Funds in that they are used to account for services that the City provides that operate more like a business, however,

⁴ Property taxes are budgeted at 98 percent of gross levy to reflect anticipated delinquencies. This amount includes the levy for the Park Museum.

⁵ Other includes gains, contributions, other miscellaneous revenues, and proceeds from long-term liabilities.

⁶ This is a restatement from the 2003 budget document, which had \$89.7 million, which was a typo. Other revenue shows a 31 percent increase from 2003 due to an increase in non-appropriated capital revenue, which is also budgeted as an expense. This is a change in how this revenue is treated in the budget.

⁷ Total expenditures exceed total revenue, which represents the annual budgeted change in fund balance. The change in fund balance is mostly due to timing of capital projects and bond issuance.

Internal Service Funds primary customer is other City departments. Internal services include such services as information technology, equipment rental (i.e. police squad cars and fire equipment), facility fees and self-insurance.

Other Funds includes Special Revenue Funds where that proceeds of specific revenue sources are restricted to expenditures for specific purposes. Services accounted for in the Other Funds include such services and operations as the Minneapolis Convention Center, and other grant funded services.

The **Independent Boards** include Board of Estimate and Taxation, Library, Park, Neighborhood Revitalization, Municipal Building Commission, and Youth Coordinating Board.

City of Minneapolis Budget By Fund (in millions of dollars)

	2003 Adopted Budget	2004 Adopted Budget	2004 as % of Total
Expenditures:			
General Fund	\$263.2	\$262.8	21%
Enterprise Funds	\$239.6	\$295.4	24%
Internal Service Funds	\$144.1	\$149.4	12%
Special Revenue Funds	\$131.0	\$202.1	16%
Capital Projects Funds	\$77.8	\$141.3	11%
Debt Service Funds	\$77.8	\$80.8	7%
Independent Board Funds	\$264.1	\$109.8	9%
Total Expenditures	\$1,197.4	\$1,241.6	100%
Revenues:			
General Fund	\$263.2	\$262.8	21%
Enterprise Funds	\$260.9	\$290.6	24%
Internal Service Funds	\$152.3	\$156.8	13%
Special Revenue Funds	\$123.9	\$205.7	17%
Capital Projects Funds	\$78.0	\$151.8	12%
Debt Service Funds	\$78.7	\$56.8	5%
Independent Board Funds	\$222.0	\$104.7	9%
Total Revenues	\$1,179.0	\$1,229.2	100%
Changes in Balances	(\$18.4)	(\$12.4)	

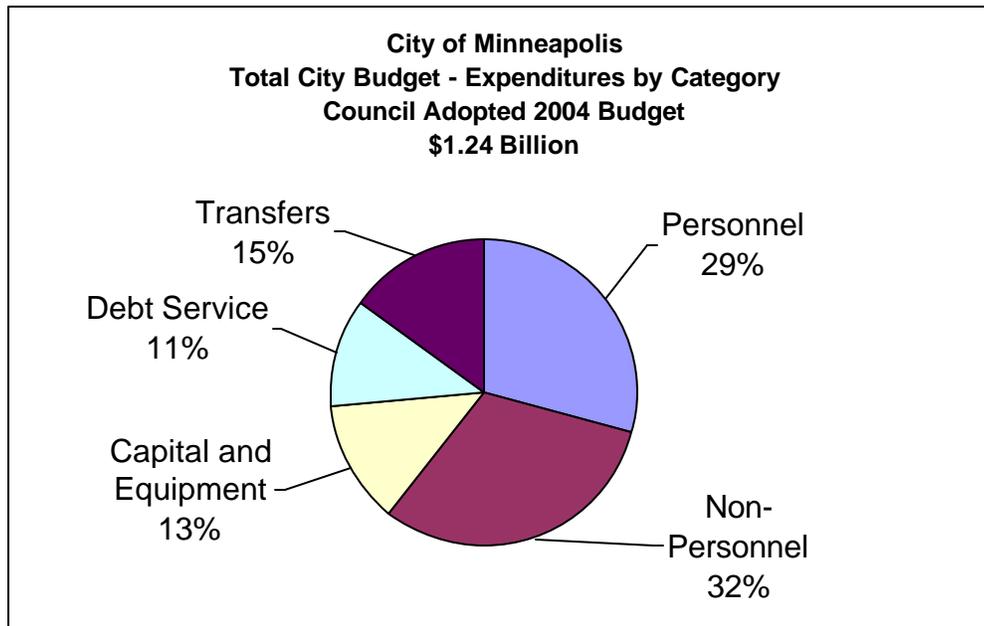
Spending by Major Categories

The majority of the City's budget is spent on personnel, \$362.5 million or nearly 30 percent of the total budget. The 2004 budget includes a decrease of 464 budgeted full time equivalent positions, nearly an 8% reduction. Most of these position reductions occurred mid-year 2003 resulting from Local Government Aid cuts. The independent boards are included in these figures.

The \$35 million reduction of Local Government Aid funding from the state is the main cause for position reductions, although other factors also impact the total level of positions such as changes in grant funding.

City of Minneapolis Budget by Major Expense Category (in millions of dollars)

	2003 Adopted Budget	2004 Adopted Budget
Full Time Equivalent Positions	6,039	5,575
Expenditures:		
Personnel	\$372.9	\$362.5
Non-Personnel	\$362.9	\$389.3
Capital and Equipment	\$139.7	\$162.7
Debt Service	\$135.7	\$142.3
Transfers	\$186.3	\$184.8
Total Expenditures	\$1,197.4	\$1,241.6



Major Budget Pressures: City Council Funds

➤ Growth in personnel costs

Salary and Wages. The 2004 adopted budget includes a decrease in total personnel expenditures from \$372.9 million to \$362.5 million, a 2.8 percent decrease from 2003. For City positions, not including the Park and Library Boards, growth in salary and wages are budgeted at 2 percent for bargaining units without settled labor contracts. In comparison, the 2003 adopted budget included average salary and wage growth by position of closer to 4.5 percent when both step progression for positions and cost of living adjustments were included.

Benefits. Health and dental insurance expenditures are budgeted to increase by 3.9 percent from 2003 to 2004 budget, from \$31.1 million to \$32.3 million. This change reflects both changes in premium expense (estimated at 20% for health and 4% for dental) and changes in coverage, for example changes between family and single coverage. The overall increase was only 3.9 percent because of the impact of the loss of positions during 2003.

➤ Funding for Internal Services Funds workout plans

The 2004 budget includes an additional \$3.7 million in funding for internal city services: self insurance, equipment services, and information technology services (i.e., workers compensation, general liability, squad cars, fire trucks, and computers).

During the 1990's, due to other external demands, the revenue to support these internal services did not keep pace with the growth in expenditures. Significant negative cash balances resulted because of annual expenses exceeding revenues. At year-end 2002, the City's Internal Services Funds had combined negative net assets of \$38.1 million, as compared to a negative \$32.2 million in 2001, and a negative retained earnings of \$54.4 million in 2000. While the balance is still negative, the position of the funds is showing improvement. The adopted financial workout plans for the Internal Services Funds will result in positive net assets and cash balances for these funds over the next few years.

The financial performance of the internal services funds has been improving at the rate anticipated in the adopted workout plans. The 2004 adopted budget would meet the financial goals of the three adopted plans.

➤ Payment of outstanding bond obligations

The 2004 budget includes \$142.3 million in estimated principal and interest payments, as compared to \$135.7 million in 2003. The annual debt service payments fluctuate depending on the timing of principal and interest payments. This fluctuation can sometimes cause significant swings in budget totals from year to year.

➤ **Funding for physical infrastructure**

Transportation Infrastructure

In January 2003, the Mayor and Council adopted a five-year plan for the property tax supported funds. One of the many results of this plan is a reduction in the funding available for maintenance and construction of transportation related physical infrastructure, as managed by the Public Works Department. The City made the decision that forecasted resource levels would not support the previously adopted planned growth in spending, neither capital nor maintenance. This was based on the Mayor and Council's decisions on how the limited growth in resources would be allocated. Police and Fire were the top priorities for funding.

Resources available for infrastructure investment, especially as it relates to transportation were reduced further as a result of recent cuts to state aid. The City is working aggressively to identify alternative revenue strategies, other than the property tax, to fund transportation capital and maintenance needs.

Park Board Infrastructure

The budget includes the planned growth in the Park Board property tax levy to fund capital projects, as previously approved by Mayor and Council policy. However, the total property tax supported resources for the five year capital plan for the Park Board were reduced by \$480,000 from \$13.9 million to \$13.4 million due to a reduction in property tax resources dedicated to capital improvements.

The Mayor and the Council supported a funding plan for the Park Board that closes 27 percent of their previously identified \$5.5 million annual funding gap for park infrastructure by 2009. To achieve this goal \$215,000 of additional property tax levy will be added annually to the Park Board levy, for a total of \$1.5 million in additional annual funding by 2009.

Utilities (Sewer and Water)

The budget includes funding for additional water and sewer related infrastructure expenditures “gap closure” at a slightly slower rate for sewer. This investment continues the City’s commitment to closing the infrastructure “gap” for water and sewer services. The water and sewer 5-year utility rate schedule recommended reflects this planned investment.

➤ **Funding for increasing pension liabilities**

Increased costs associated with two of the City’s pension funds, Minneapolis Employee’s Retirement Fund (MERF) and Minneapolis Police Relief Association (MPRA), continues to have a significant impact on the budget.

Minneapolis Employee’s Retirement Fund (MERF): While the City and MERF members have been making the annual amount of contributions mandated by the

State, MERF members have been retiring at a faster pace and at higher costs than originally forecasted by MERF actuaries.⁸ The City began issuing general obligation (pension) bonds in December of 2002 to cover the estimated cost of retirements and continued to do so in 2003; additional bonds will have to be issued to cover these costs in 2004 and in the future.

Minneapolis Police Relief Association: The increase in the City's contribution for the MPRA is directly related to an increase in the Association's unfunded liability. In the past year, the fund's unfunded liability has more than doubled, due primarily to the negative performance of the equity markets. This has increased the fund's unfunded liability from \$56 million in 2000 to \$115.5 million in 2001⁹, an increase of \$59.5 million. Beginning with the 2003 budget, the City has and will continue to fund the incremental increase in the City's contribution to MPRA through bond proceeds in order to meet the Mayor and City Council's adopted tax policy.

The 2004 budget will include the funds necessary to make the debt service payments associated with these bonds.

➤ **Funding for debt obligations for voter approved central library and community library improvements**

The first of several years of major increases in property tax levy to fund the new central library and community libraries, as approved by the voters, began in 2003. For 2004, the property tax levy amount will be approximately \$3.4 million and will increase annually by \$3.0 million for years 2005 through 2007 until the base annual property tax levy for payment on the referendum bonds reaches \$12.5 million.

Property Tax and Fee Changes

➤ **Property Tax Revenue**

The estimated property tax rate is estimated at 67.445 percent, a tax rate increase of 1.1 percent from 2003 adopted. This tax rate will provide an additional \$10.3 million in property tax revenue, which is a 6.2 percent increase over 2003. Total property tax revenue will increase from \$165.7 million to \$176.0 million. The City's net tax capacity (after reductions for tax increment and fiscal disparities) is projected to increase by 6.6 percent for taxes payable 2004, from \$215.8 million to \$229.2 million.

In addition to the \$10.3 million in property tax revenue increase that is spread over the City's tax capacity, the City will also need to increase property tax revenue by another \$3.0 million due to the voter approved library referendum bonds that have been issued for a new central library and improvements to the City's community libraries.

⁸ The actuarial assumptions used by MERF are specified by state statute. These actuarial assumptions used have not materialized and as a result have not reflected the actual number and cost of retirements.

⁹ The City's municipal contribution is based on the most recent completed actuarial valuation. The City's 2003 contribution is based upon the 2001 actuarial valuation.

In total, property tax revenue for the City and its independent boards will increase by 8 percent from 2003 to 2004 or by \$13.3 million, based on the adopted budget. This is consistent with the City Council's adopted property tax policy.

➤ **Sewer and Water utility fees**

To fund investments for the City's sewer, flood mitigation, storm water management, and water treatment and distribution systems, the 2004 budget includes an increase in utility rates of \$0.17 for water and \$0.14 for storm water/sewer/flood mitigation (SWSFM). This represents a 7.7 percent increase for water and a 4.3 percent increase for SWSFM.

➤ **Solid Waste and Recycling Fee**

The Council adopted no increase for solid waste and recycling fees for 2004. The five-year rate schedule for solid waste and recycling fees did include a planned 75-*cent* increase in the per dwelling unit monthly rate, but that increase is not necessary due to stronger than anticipated financial performance of this fund. Strong management control has resulted in several years of positive net income above the planned level.

➤ **Other fee changes**

The licenses and inspections fees will be adjusted by an inflationary factor, as already approved by the Council in some cases. In addition, the Council has adopted minimal increases to other licenses and inspection fees to begin to close the "gap" on cost of service delivery and fee collected to pay for the service. This avoids the property tax payers from having to subsidize a fee based service.