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## City of Minneapolis
## FY 2006 Budget

## Financial Plans

The schedules that follow contain the Financial Plans for the major funds of the City. Detailed financial plans are included for the following major funds, listed below. For the other funds of the City, financial information (expenditure and revenue) is included in the *Financial Schedules Section* of this report.

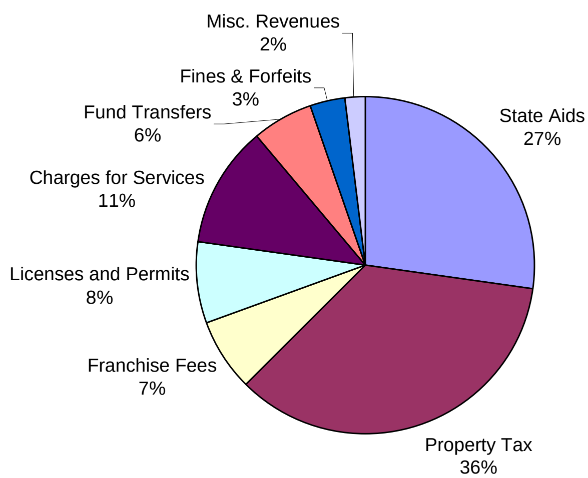
**City of Minneapolis**
**FY 2006**
**Financial Plan**

**General Fund**

## Background

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major sources of revenue include and their relative percentages of total General Fund financial sources are:

**City of Minneapolis**
**2006 Budgeted Revenue by Source**
**$318.5 million**




Combined, the two largest revenues (State Aids and Property Tax) have historically accounted for approximately 60-65% of total sources of funds for the General Fund. The top four sources of funds account for more than 80% of the General Fund's annual financial inflows.

## Historical Financial Performance

The results of the General Fund's annual operations are closed annually into the fund's "fund balance." The General Fund's balance measures the amount of available, spendable resources owned by the fund. The balance provides the City a reserve to cushion adverse economic shocks and to meet the City's liquidity needs. The City's policy is to maintain a minimum fund balance of 10 percent of the following year's revenue budget amount. Until such time that the aggregate internal service funds net asset position is positive, the City's policy requires a 15 percent fund balance.

For several years, the City has been able to increase its General Fund balance. At year-end 2004, the General Fund operations resulted in approximately a $7.8 million increase in fund balance for a total year-end balance of $61.6 million. In 2005, the year-end fund balance was reduced by $14.5 million on a one-time reappropriation from 2004 to 2005, resulting in a net fund balance of $41.7 million.  This amount met the 10 percent reserve requirement of modified budgeted revenues for year 2005. The City anticipates that it will again meet its reserve requirement at year-end 2005.

## 2006 Budget

### *Revenues*

The General Fund 2006 budget includes a total of $318.5 million of revenues and other sources, including $18.8 million in transfers from other funds. Budgeted General Fund revenues for the 2006 budget are 11% higher than 2005 budget. The 2006 budgeted revenues represent a 19% increase over 2004 actual revenues.

As the chart below shows, the distribution of total revenue among the General Fund's revenue categories has continued to change. Property taxes and franchise fees have increased as a percent of the total revenue picture.  The 2006 budget include $6.5 million in one-time Local Government Aid which skews the annual percentage change and the comparisons of each revenue source as a percent of total between years.

| Revenue Source | 2005 Adopted Budget | 2006 Adopted Budget | % Chg from 2005 Adopted | 2005 Budget as % of Total | 2006 Budget as % of Total |
|---|---|---|---|---|---|
| State Aids | 74.7 | 86.4 | 15.7% | 26.1% | 27.1% |
| Property Tax | 101.9 | 112.7 | 10.6% | 35.7% | 35.4% |
| Franchise Fees | 22.1 | 22.3 | 0.9% | 7.7% | 7.0% |
| Licenses and Permits | 22.5 | 24.9 | 10.3% | 7.9% | 7.8% |
| Charges for Services | 33.0 | 36.5 | 10.7% | 11.5% | 11.5% |
| Fund Transfers | 17.0 | 18.9 | 10.7% | 6.0% | 5.3% |
| Fines & Forfeits | 8.5 | 10.4 | 22.0% | 3.0% | 3.3% |
| Misc. Revenues | 6.0 | 6.5 | 6.9% | 2.1% | 2.0% |
| Total | 285.8 | 318.5 | 11.4% | 100.0% | 100.0% |

## State Aids (including Local Government Aid):

The City faced significant pressure in 2003 and 2004 when the State Legislature reduced the Local Government Aid (LGA) to the City by $35 million. Of this reduction, $29.3 million was allocated to the General Fund with the remaining $5.7 million allocated to the Park and Library Boards. This reduction represented an 8% decrease to the General Fund's revenue.

The City's 2006 LGA allocation was originally estimated to decrease by $1.4 million (excludes Park and Library Boards). However, the State Legislature increased the City's total LGA allocation by $15.4 million. As a result of the agreed upon distribution of LGA between the independent boards and the City departments, the General Fund received 80%, or $12.3 million, of this increase. Approximately $5.9 million of this increase is ongoing funding; $6.5 million will be eliminated starting with the 2007 budget.

**Franchise fees** are paid by various utility companies for their use of City rights-of-way. Franchise fees are a percentage of total utility revenues. Therefore, the City's collections vary directly with the paying utility's gross revenues.

There are four franchise agreements which provide revenue for the City:

> The twenty year franchise agreement with Xcel Energy for electricity requires payment of 5% of gross revenues for residential service customers, 3% of gross revenues for commercial and industrial customers, and 5% of gross revenues on small commercial and industrial customers. This franchise agreement expires on December 31, 2014. For 2006, the City is anticipating $11.5 million in revenues from this franchise agreement. Xcel does not provide natural gas services in the City of Minneapolis.
>
> The franchise agreement with Center Point Energy/Minnegasco requires payment of 4.25% of gross revenues for residential buildings with four units or less, 5% for small commercial/industrial/fir or interruptible customers, and 3% for large volume interruptible customers. This franchise agreement expires on December 31, 2015. For 2006, the City is anticipating $8.5 million in revenues from this franchise agreement.
>
> The City also has two smaller franchises. The Bus stop advertising franchise generates approximately $100,000 in revenues. The City's cable franchise is anticipated to generate $2.3 million from cable television service in 2006.

The 2006 budget anticipates the total franchise fee revenue to remain fairly level with the 2005 adopted budget, at $22.3 million.

**Licenses and Permits** create significant revenue for the City's General Fund. The City issues licenses and permits for a wide variety of regulated activities. Building permits are a major component of this revenue category. The 2006 budget anticipates a slight increase in the overall level of activity, with some increases in the actual fees paid, for a 10% increase in licenses and permit revenue. The City also conducted a fee study in 2005, with redistribution of revenue across several departments that contribute to generation of development related fee revenue.

**Fines and Forfeitures** are anticipated to increase approximately 22 percent in 2006. This increase is due, primarily, to the additional revenue generated by 11.0 additional Traffic Officers and 3.0 additional Traffic Control Agents. In addition, the Council added

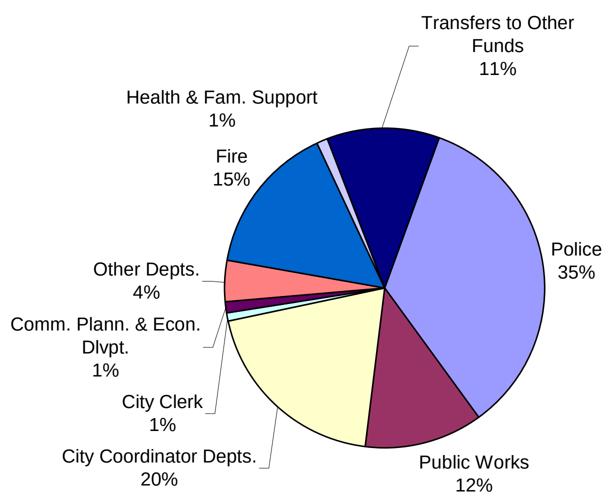
$300,000 in one-time revenue related to the Police Department's "Stop on Red" camera initiative. These revenues will directly support one-time expenses related to the City's traffic efforts.  Ongoing revenue for related to the "Stop on Red" camera initiative is not included in 2006 or beyond, pending more information on the sustainability of this revenue.

*Expenditures*

The 2006 Budget for the General Fund is $318.5 million, which includes $35.6 million in transfers to other funds.  After adjusting for transfers, the budget increased from $258.5 million as adopted in 2005, to $282.9 million in 2006, a 9% increase.

The following graph shows expenditures by department. Public Safety expenditures – Police, Fire and City Attorney – comprise the largest percent of General Fund expenditures.

**City of Minneapolis**
**2006  Expenditures by Service Area**
**$319.5 Million**




The 2006 adopted budget includes the following major General Fund changes:

- Five-Year Financial Direction – Reductions to address the five-year plan for the following departments:  City Attorney ($150,000), Business Information Systems ($200,000), Finance ($250,000), Civil Rights ($133,000) and Public Works ($570,000). Human Resources and 911/311 had budgetary growth below anticipated levels, which allowed them to meet their five-year plan target.

- Five-Year Business Plans - Adopts department five year business plans as presented during budget hearings before Ways and Means from September 20th-

October 19th. Business plans were presented for the following departments and are therefore adopted: Assessor, Attorney, Civil Rights, Clerk/Elections, CPED, Coordinator (including 911/311, BIS, Finance, HR, IGR, Communications, and Regulatory Services), Fire, Health and Family Support, Police, and Public Works.

- Assessor's Office – The Adopted budget adds $50,000 in one-time resources to the department for training in support of succession planning and updating assessment practices.

- City Attorney's Office – The Adopted budget includes a reduction to the City Attorney's office Budget of $150,000, achieved through savings on the department's lease. The Council added $200,000 to fund three paralegal positions to support community prosecutors. General fund support for the Domestic Abuse Project ($75,000) is moved to Health and Family Support.

- City Coordinator/Administration – The results management function moves from Business Information Services to Coordinator Administration. The Results Manager position is eliminated in the Adopted budget ($100,000 savings in the BIS Division). The work of the Results Manager will be absorbed by the Coordinator's existing staff.

- City Coordinator/BIS – Two City operators move to the Coordinator's 911/311 department.

- City Coordinator/Communications – The Adopted budget moves a 0.8 position and $70,000 from Communications to Civil Rights for sign language interpreter services.

- City Coordinator/911/311 – The Adopted budget does not include any additional reductions to 911/311. The department's budget includes the addition of the One Call/311 initiative ($2.6 million, funded by revenues from department payments and $100,000 in one-time transition costs). The breakdown of these costs by department for 2006 is as shown to the right, most of which occur in the general fund.

| Resource Allocation for 311 Call Center | |
|---|---|
| Hours of Operation: 7AM - 11PM, 34 positions | |
| | |
| **Department** | **Total** |
| Assessor | $ 38,000 |
| Attorney | $ 27,000 |
| City Clerk | $ 6,000 |
| Civil Rights | $ 9,000 |
| City Coordinator | |
| BIS (City Operators) | $ 112,000 |
| Communications | $ 12,000 |
| Coordinator's Office | $ 7,000 |
| Finance | $ 261,000 |
| Human Resources | $ - |
| IGR | $ - |
| MECC (911/311) | $ 387,000 |
| Regulatory Services | $ 268,000 |
| CPED | $ 25,000 |
| Fire | $ 25,000 |
| Health & Family Support | $ 45,000 |
| Police | $ 401,000 |
| Public Works | $ 946,000 |
| ***TOTAL*** | ***$ 2,569,000*** |

- City Coordinator/Regulatory Services – One-time funding for the Boarded Building program is included in the Adopted budget ($450,000).

  The Council also adopts the following new fee initiatives ($246,000):

  - An adjustment to the rental license fees ($185,000). The fee adjustments keep the City comparable to surrounding jurisdictions and mitigate the impact on owners of small rental properties.

  - Indexing the pollution control and erosion permit fees to inflation ($35,000).

  - Adjusting the Special Event fee to more accurately recover costs ($26,000).

  The department's training and technology requests are funded on a one-time basis ($600,000). An intern program and overtime are funded permanently.

  The Council moves the Traffic Control division of Regulatory Services to the Police department ($2.8 million and 42 positions). These expenditures will be recorded in the General Fund rather than the Parking Fund. Associated meter revenue estimates ($5.3 million) will also move to the Police Department. The revenues in excess of the meter expense will continue to support the General Fund. The Parking Fund will transfer $2.8 million to the General Fund. This funding mechanism is consistent with the financial impacts of the Parking Fund workout plan.

  The Council also adds funding to Regulatory Services for Graffiti removal for $100,000 paid for from contingency pending year end financial status. This is a one time appropriation and will be considered as part of the reappropriation action during 2006.

- City Coordinator/Finance – The Council decreases positions by 1 to keep in line with the five year plan.

- Civil Rights – The Council decreases the department by 2 contract compliance positions and adds a 0.8 position for sign language interpreter services.

  The Adopted budget includes one-time funding for three initiatives requested by the department:
  - Language initiatives ($50,000);
  - Training for appointed advisory groups, the Civil Rights Commission, and Investigative staff ($100,000);
  - Small and Underutilized Business Program (SUBP) study ($100,000).

- Community Planning and Economic Development (CPED) – The Adopted budget includes $80,000 in revenue from development fee initiatives. One-time funding for non-targeted neighborhood community participation programs is added

($100,000). An accounting adjustment for the existing funding of this program was made – $100,000 is shown in the department Budget rather than interfund transfers. The Council adds funding for 2 neighborhood planners ($150,000), and 1 position ($100,000) for communications marketing funded by General Fund resources. The department also plans to reallocate 2 positions within its budget for additional planning resources.

- Fire Department – The Adopted budget includes no reductions to the Fire department. A department request for one-time funding for recruitment expenses is included in the Adopted budget ($80,000). Funding for the City's Community Emergency Response Team (CERT) is added on a one-time basis ($150,000), with future years' programs funded externally to the City. No further reductions for the department are included in the updated five-year financial direction as adopted by the Council.

- Health & Family Support – No reductions for the Health and Family Support department are included in the Adopted budget. No further reductions for the department are included in the updated five-year financial direction as adopted by the Council. The Council adds $75,000 for the Domestic Abuse Project to the Health and Family support Department on a one time basis. It further directs the Department to develop a strategy for permanent ongoing funding for DAP in its Business Plan in 2006.

- Police Department – The Council added 60 police officers funded from increased LGA and from savings resulting from previous year's debt buy-downs. The total increase to the department for these officers is $4.3 million. No reductions are required of the department in 2006. No further reductions for the department are included in the updated five-year financial direction as adopted by the Council.

  Further, the Adopted budget includes several initiatives related to traffic control and enforcement:

  - The Council adds 11 additional officers specifically dedicated to traffic ($1 million, offset by $500,000 in revenues. Revenue estimate based upon past experience in traffic enforcement efforts).

  - The Council moves the traffic control division of Regulatory Services to the department ($3.2 million and 42 positions). These expenditures will be recorded in the General Fund rather than the Parking Fund; this is a revenue-neutral change. Associated meter revenue estimates ($5.3 million) will also move to the Police Department. The revenues in excess of the meter expense will continue to support the General Fund. The Parking Fund will transfer $3.2 million to the General Fund, maintaining the financial effects of how this service has been funded consistent with the Parking Fund workout plan. The Council also adds 3 traffic control agents ($185,000 with offsetting revenue) to this function.

- One-time funding is adopted by the Council for the City-wide electronic citations system ($450,000) and the purchase of security cameras ($350,000) with priority given to projects with local matching funds as approved by the Council. Ongoing operating costs will be funded by the Police department. One-time revenue in excess of expenses from the red-light camera operations, up to $180,000, funds the Citywide Electronic Citations system.

The adopted budget adds funding for a $60,000 contract with the Tubman Family Alliance to fund a mental health clinician to support police officers working on domestic violence issues.

- Public Works – The department transfers 5.8 positions to the One Call initiative in 2006.

- Public Works/Transportation – The Council's Adopted budget includes $150,000 in increased revenue related to posting of no-parking signs and increased sidewalk closure fees. The department proposed and the Council adopted a reduction of $55,000 in this area to meet the five-year financial direction.

  One-time revenue in excess of expenses from the red-light camera operations, up to $120,000 is appropriated to Public Works in 2006 for Speed Control.

  The Council appropriates $300,000 to conduct a study assessing the use of street cars on those corridors designated as Definite Primary Transit Networks (PTN).

- Public Works/Field Services – The Council adopted the department's proposed reduction of $515,000 in this division. The Council adds $350,000 for seal coating.

- Public Works/Property Services – The Council increases the transfer from the general fund to the property services fund by $30,000 to fund community center operations. Also funded in the general fund, $125,000 in one-time start-up funds for centralized energy management are allocated, with the direction that Public Works convene a cross departmental work team to define the scope, work and ongoing funding of the position. The position and related expenses will be funded in 2007 and beyond with savings realized through the position's efforts.

- Park Board – The Council adopts $200,000 in one-time funding for the Park Board's tree efforts and $100,000 to the Tree Trust to administer the program.

- General Fund Overhead Model – The Council adjusted the revenue estimates for the City's General Fund overhead charge as follows:

  - A reduction to the payments from Community Planning and Economic Development department for communications services ($75,000);

- Postponing the implementation of additional charges to the independent boards ($350,000);

- Postponing the implementation of additional charges to the grant funded projects, pending inclusion of the overhead rates in future grant requests ($400,000).

- Pensions – The City's pension debt will be reduced by $10 million under the Adopted budget, funded by $6.45 million in one time LGA revenues and $3.55 million in one-time General Fund revenues. This debt reduction will result in approximately $1 million in savings in future years.

*Transfers*

The 2006 General Fund budget includes a $2.8 million increase in transfer expense, from $32.8 million to $35.6 million. This increase is related to the internal service funds ($3.6 million) and the tree initiative for the park board ($200,000). Transfer revenues include an increase of $2.8 million from the Parking Fund as a result of the movement of traffic control personnel out of Regulatory Services and into the Police Department's General Fund budget. Also included is a $1 million reduction reflective of the Parking Fund financial workout plan; further reductions in this transfer will continue through 2009.

**Summary of Transfers to Other Funds**

| *(In millions of dollars)* | 2005 Adopted Budget | 2006 Adopted Budget | Change |
|---|---|---|---|
| Internal Service Funds[1] | $16.4 | $20.1 | $3.7 |
| Debt Service Transfers | $16.1 | $15.1 | ($1.0) |
| Other transfers | $ 0.2 | $ 0.4 | $0.1 |
| Total | $32.8 | $35.6 | $2.8 |

**Summary of Transfers from Other Funds**

| *(In millions of dollars)* | 2005 Adopted Budget | 2006 Adopted Budget | Change |
|---|---|---|---|
| Enterprise Funds | $ 9.5 | $11.3 | $1.8 |
| Entertainment Tax | $ 7.5 | $ 7.5 | $ 0 |
| Other transfers | $ 0.0 | $ 0.0 | $ 0 |
| Total | $17.0 | $18.8 | $1.8 |

[1] This includes funds that are transferred to the internal service funds to cover the General Fund's share of both operational costs and debt service payments, related to internal service fund activities.

# City of Minneapolis
# FY 2006 Budget
# Financial Plan (in thousands of dollars)

## General Fund - 0100

| | 2003 Actual | 2004 Actual | 2005 Adopted Budget | 2006 Adopted Budget | % Chg from 2005 Adopted Budget | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|
| ***Revenues:*** | | | | | | | | |
| Property Taxes | 64,613 | 85,998 | 101,926 | 112,689 | 10.6% | 114,365 | 126,509 | 140,675 |
| Annual Property Tax Increase | | | | | | 12,300 | 15,600 | 16,800 |
| *Subtotal - Property Taxes* | 64,613 | 85,998 | 101,926 | 112,689 | 10.6% | 126,665 | 142,109 | 157,475 |
| Local Government Aid | 73,447 | 65,921 | 64,190 | 75,054 | 16.9% | 67,457 | 66,357 | 65,257 |
| *Subtotal* | 73,447 | 65,921 | 64,190 | 75,054 | 16.9% | 67,457 | 66,357 | 65,257 |
| Other State Aids | 15,371 | 10,836 | 10,493 | 11,366 | 8.3% | 11,366 | 11,366 | 11,366 |
| Franchise Fees | 24,083 | 25,121 | 22,110 | 22,310 | 0.9% | 22,310 | 22,310 | 22,310 |
| Licenses and Permits | 22,205 | 24,148 | 22,532 | 24,864 | 10.3% | 25,610 | 26,378 | 27,170 |
| Charges for Services and Sales | 19,980 | 28,182 | 32,957 | 36,499 | 10.7% | 36,499 | 36,499 | 36,499 |
| Fines and Forfeits | 8,026 | 8,910 | 8,512 | 10,385 | 22.0% | 10,385 | 10,385 | 10,385 |
| Special Assessments | 2,723 | 2,628 | 2,743 | 2,763 | 0.7% | 2,763 | 2,763 | 2,763 |
| Interest | 1,432 | 1,159 | 1,830 | 1,860 | 1.6% | 1,860 | 1,860 | 1,860 |
| Other Miscellaneous Revenues | 544 | 1,131 | 1,467 | 1,834 | 25.0% | 1,834 | 1,834 | 1,834 |
| Transfers from other funds | 20,713 | 12,698 | 17,032 | 18,850 | 10.7% | 17,850 | 16,850 | 16,050 |
| Total Revenues | 253,137 | 266,732 | 285,793 | 318,473 | 11.4% | 324,599 | 338,711 | 352,969 |
| ***Expenditures:*** | | | | | | | | |
| Police | 93,632 | 87,604 | 94,749 | 107,526 | 13.5% | 109,922 | 113,435 | 117,348 |
| Fire | 39,934 | 39,495 | 45,200 | 47,162 | 4.3% | 48,334 | 49,879 | 51,600 |
| Public Works | 33,548 | 35,686 | 36,336 | 38,245 | 5.3% | 37,902 | 38,078 | 38,557 |
| City Coordinator Departments | 28,734 | 41,758 | 54,952 | 61,617 | 12.1% | 61,409 | 62,718 | 64,483 |
| City Attorney | 4,260 | 4,631 | 6,422 | 6,790 | 5.7% | 6,767 | 6,833 | 6,969 |
| City Clerk | 1,790 | 2,090 | 2,269 | 3,153 | 39.0% | 3,197 | 3,299 | 3,413 |
| Health and Family Support | 3,415 | 3,446 | 3,653 | 3,701 | 1.3% | 3,811 | 3,933 | 4,068 |
| Community Planning & Economic Dev. | 1,885 | 2,179 | 3,267 | 3,671 | 12.4% | 3,645 | 3,727 | 3,820 |
| Other Departments | 12,766 | 9,349 | 12,028 | 11,025 | -8.3% | 11,629 | 11,892 | 12,500 |
| Transfers to other funds | 24,989 | 32,690 | 32,417 | 35,582 | 9.8% | 37,983 | 44,917 | 50,211 |
| Total | 244,953 | 258,928 | 291,293 | 318,473 | 9.3% | 324,599 | 338,711 | 352,969 |
| ***Net Change in Balance*** | 8,185 | 7,805 | (5,500) | (0) | -100.0% | (0) | 0 | (0) |
| ***Fund Balance/Retained Earnings:*** | | | | | | | | |
| Beginning Balance | 45,653 | 53,838 | 61,643 | 41,690 | -32.4% | 41,690 | 41,690 | 41,690 |
| One time Reappropriation -2004 to 2005 | | | (14,453) | | | | | |
| Ending Balance | 53,838 | 61,643 | 41,690 | 41,690 | 0.0% | 41,690 | 41,690 | 41,689 |
| Ten Percent Reserve Requirement (10% of following year's budget) | 26,275 | 29,129 | 31,847 | 32,460 | 613 | 33,871 | 35,297 | 37,062 |

**City of Minneapolis**
**FY 2006**
**Financial Plan**

**Convention Center Special Revenue Fund**

## Background

The Convention Center Special Revenue Fund accounts for the maintenance and operation of the City-owned Convention Center and the related sales tax activities. The Convention Center was created as an investment to foster and generate economic growth and vitality by providing facilities and services for conventions, trade shows, exhibits, meetings, cultural, religious and sporting events, all of which benefit and showcase Minneapolis, the metropolitan region and the State of Minnesota.

## Historical Financial Performance

The fiscal year-end 2004 fund balance for the Convention Center Special Revenue Fund was $29.9 million. Local taxes support the Convention Center with $52.1 million being collected in 2004. Approximately $22.1 million was transferred for debt service obligations or enterprise related debt. This was $5 million less than 2003's transfer and was a result of the restructuring of Convention Center debt.

Comparative amounts collected were as follows:

| Local Taxes (in millions) | 2003 | 2004 | 2005 |
|---|---|---|---|
| 0.5% Citywide Sales tax | $25.6 | $26.3 | $26.9 |
| 3.0% Entertainment Tax | $7.8 | $8.7 | $9.1 |
| 3.0% Downtown Restaurant Tax | $7.9 | $8.8 | $9.2 |
| 3.0% Downtown Liquor Tax | $3.0 | $3.4 | $3.6 |
| 3.0% Lodging Tax | $4.6 | $4.9 | $5.1 |
| Total Tax Collection | $48.9 | $52.1 | $53.9 |

Funds are transferred annually to the Convention Center Reserve Fund for major repair or equipment replacement for the Convention Center facility. Due to the age of the building, it is anticipated that the amount of this transfer will increase in future years as specific needs are identified. However, the plan keeps the amount flat until an analysis is completed and needs are identified. In 2004, $1.1 million was transferred to the Convention Center Reserve Fund.

Operating Revenues are generated directly by the Convention Center. Exhibit space rental is the largest source of revenue for the Center; also included in operating revenues is equipment and space rental of the Tallmadge Building. Charges for Services are earned in support of space rent and consist primarily of utility and labor services and ramp parking. Commission sales of food and beverage account for most of the other miscellaneous operating revenue line item. In 2005, the Convention Center opened a Business Service Center and began to offer wireless and internet services to customers, generating additional revenue in charges for this service. The wireless and internet services are doing about 50% better than expected. In 2004, total operating revenue generated by the Center was $14.1 million, a gain of 16% from 2003.

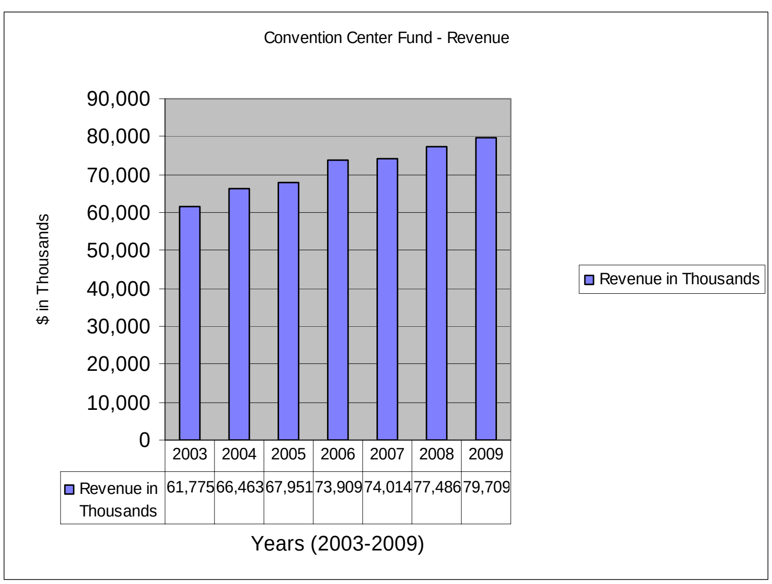
## 2005 Financial Projections

The hospitality industry appears to be rebounding from the effects of the national tragedy of September 11, 2001 and the recession. Event operating revenues are projected to exceed 2004 levels by 4% and meet budgetary goals. Tax proceeds are projected to be 5% over budget and 2% over the 2004 actual totals. Operating expenditures for the Center in 2005 are projected to be 3% under budget, while exceeding their 2004 level by 8%.

## 2006 Budget

*Revenues*

The revenues for the Convention Center have been brought in line with the actual receipts from previous years. The Convention Center annual revenue budget increased $5.5 million, or 8%, over the 2005 adopted revenue budget. The majority of this increase is anticipated in the Sales and Other Taxes revenue category. Revenue is expected to trend upward through 2009. Operating Revenue is projected to increase by 5% per annum for both Charges for Services and Miscellaneous Operating Revenue. Rent Revenue is expected to increase by 7% with increases projected in space, audio visual, and equipment rentals.  Non-Operating Revenue is projected to increase by 2.5% from Sales Tax and 4.5% from Entertainment, Restaurant, Liquor, and Lodging Tax through 2009.



*Expenditures*

In 2006, the Convention Center operations expenditure budget is anticipated to increase 6.4% over the 2005 adopted budget. The increase is due to city-wide rate model charges and normal Cost of Living increases. Capital replacements of $3 million will be funded from the Convention Center Reserve Fund.

The adopted budget includes an increase of $50,000 to the transfer of revenue to the Greater Minneapolis Convention & Visitors Association (GMCVA) for the Sister City program; this transfer will also increase, as usual, based on actual lodging (sales) tax proceeds. In 2004 the City entered into a $2.5 million loan agreement with the GMCVA for the association's joint venture Internet Destination Sales System (IDSS). Also in July 2005, the GMCVA requested, and was given, an additional $2.5 million loan. The loan is pledged against future City's appropriations to the Association and International Destination Sales Systems (iDSS) profits. The GMCVA functions as the primary sales and booking agent of the Convention Center.

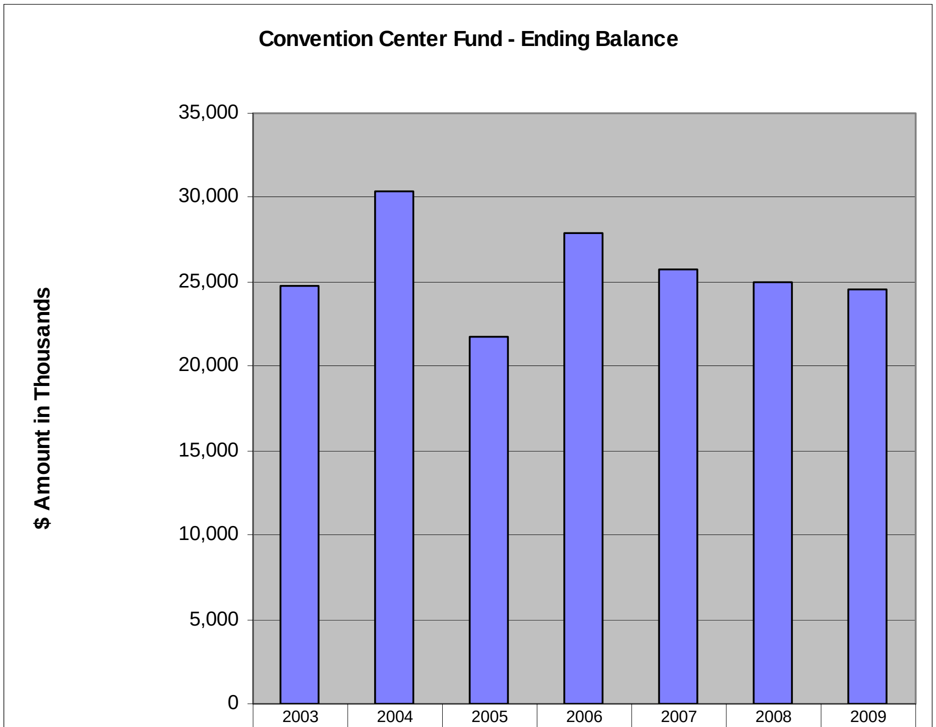
The 2004 to 2005 reduction in the Ending Fund Balance is due primarily to spending increases. The increase is due to additional capital outlays to replace aging and obsolete parts and systems of the facility. The Ending Fund Balance is expected to increase from 2005 to 2006 as a result of increased projected revenues exceeding increased projected expenditures. The Ending Fund Balance for 2006 to 2007 is expected to decrease as a result of increased expenditures and increase from 2007 to 2009 as a result of projected revenue increasing more than projected expenditures.

## Adopted Budget

Allocations for life sciences challenge funding, as recommended by the Mayor, has been reallocated to the replacement of the failed Terrazzo flooring. The Convention Center should conduct a feasibility study for targeting the facility toward life sciences conventions. This amendment returns the capital allocations to the amounts recommended by the Convention Center's Capital Improvements Committee. The adopted budget also includes a transfer of $1 million to the Parking Fund for operational expenses related to Convention Center ramps.

## Cash Position Changes

The Convention Center Special Revenue Fund's 2006 projected cash balance, exclusive of loans to other funds, is expected to fluctuate relative to the fund equity. Most operating revenues and expenditure transactions are cash transactions. The Convention Center has a policy of requiring exhibitor's to pay in advance for space rent and services, which contributes to a healthy cash position. At the end of 2004, client advances, sometimes received years in advance of the event, were $1.9 million and outstanding client receivables were $727,000. In 2000, the Convention Center, as part of the Intergovernmental Services Fund (internal service fund) financial workout plan, advanced $12.8 million to the fund as a long-term loan; while this does not impact the fund balance, the cash balance is reduced.




| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|
| Ending Fund Balance | 24,805 | 30,329 | 21,726 | 27,860 | 25,779 | 24,976 | 24,597 |

## Debt Service and Transfers

*Debt Service*

The 2006 budget includes full funding to meet the annual debt service payments. Outstanding debt for the Convention Center is approximately $237 million in total. In 2004 the Convention Center debt was restructured allowing for substantial long-term savings to the fund.

*Transfers to Other Funds*

Total transfers to other funds in 2006 are budgeted at $37.5 million.

- General Fund - $7.5 million – funded by entertainment tax proceeds, historically a revenue source to the General Fund since 1969
- Arena Reserve - $1.2 million – that portion of the entertainment tax estimated to be derived by Target Center activities

- Convention Center Reserve – $1.2 million for future major Convention Center repairs or replacement

- Convention Center Debt Service - $19.2 million – current year debt service liability for the Convention Center bond issue

- Parking Fund - $9.6 million - funding for the current year debt service obligation for the Convention Center related parking ramps and facilities and Parking Fund Workout Plan.

- Minneapolis Employee Retirement Fund (MERF) – $.015 million to meet MERF pension plan obligations

The City of Minneapolis deposits all of its local tax proceeds (*i.e*., sales tax, lodging tax, etc.) in the Convention Center Special Revenue Funds. All the tax proceeds, except for the Entertainment Tax, are Convention Center-related and are used primarily to fund the debt related to the construction of the Convention Center and other related facilities, as well as to fund operating deficit projected to be $8.9 million for 2006. Operating revenues are not sufficient to cover operating expense.

The Entertainment Tax, established in 1969, is a revenue source for the General Fund to offset additional police and fire department costs associated with citywide entertainment activities. A portion of the tax is redirected to the (Target Center) Arena Reserve Fund to fully credit the fund for Entertainment Tax proceeds generated from Target Center activities, as required by the (Target Center) Arena finance plan. The Entertainment Tax is not deposited directly in the General Fund because it is pledged revenue on the outstanding Convention Center bonds, in the event that other revenue sources pledged to meet Convention Center debt service is insufficient.

**City of Minneapolis**
**FY 2006 Budget**
**Financial Plan (in thousands of dollars)**

**Convention Center Special Revenue Fund - 0760**

| | 2003 Actual | 2004 Actual | 2005 Current Budget | 2005 Projected | 2006 Adopted Budget | % Chg From Budget | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Operating Revenues:*** | | | | | | | | | |
| Charges For Services | 3,720 | 5,000 | 5,230 | 6,306 | 5,660 | 8.2% | 5,943 | 6,240 | 6,552 |
| Rents | 6,194 | 6,468 | 7,063 | 6,877 | 7,415 | 5.0% | 7,934 | 8,489 | 9,084 |
| Other Miscellaneous Operating | 2,321 | 2,694 | 2,505 | 3,122 | 2,570 | 2.6% | 2,699 | 2,833 | 2,975 |
| Total | 12,235 | 14,162 | 14,798 | 16,305 | 15,645 | 5.7% | 16,576 | 17,563 | 18,611 |
| ***Non-Operating Revenues:*** | | | | | | | | | |
| Sales Tax | 25,562 | 26,366 | 26,698 | 27,507 | 27,701 | 3.8% | 28,394 | 29,103 | 29,831 |
| Entertainment Tax | 7,779 | 8,670 | 8,682 | 9,017 | 9,109 | 4.9% | 9,519 | 9,947 | 10,395 |
| Restaurant Tax | 7,907 | 8,802 | 7,948 | 9,461 | 9,248 | 16.4% | 9,664 | 10,099 | 10,099 |
| Liquor Tax | 3,065 | 3,432 | 2,914 | 3,493 | 3,606 | 23.7% | 3,768 | 3,938 | 3,938 |
| Lodging Tax | 4,595 | 4,899 | 4,659 | 5,477 | 5,147 | 10.5% | 5,379 | 5,621 | 5,621 |
| Contributions | 367 | 0 | 0 | 0 | - | 0.0% | - | - | - |
| Interest | 265 | 132 | 215 | 246 | 422 | 96.3% | 215 | 215 | 215 |
| Transfer From Facility Reserve | 0 | 0 | 2,531 | 2,531 | 3,031 | 19.8% | 500 | 1,000 | 1,000 |
| Total | 49,540 | 52,301 | 53,647 | 57,732 | 58,264 | 8.6% | 57,438 | 59,923 | 61,098 |
| ***Total Revenue*** | 61,775 | 66,463 | 68,445 | 74,037 | 73,909 | 8.0% | 74,014 | 77,486 | 79,709 |
| ***Expenditures*** | | | | | | | | | |
| Convention Center Operations | 18,755 | 20,939 | 23,164 | 22,644 | 26,147 | 12.9% | 27,193 | 28,281 | 29,412 |
| Ongoing Equipment and Improvement | 703 | 1,028 | 3,667 | 2,655 | 2,655 | -27.6% | 1,760 | 2,310 | 2,402 |
| Finance | 307 | 302 | 0 | 0 | 0 | 0.0% | 0 | 0 | 0 |
| Convention Related Police Service | | | 100 | 0 | 0 | 0.0% | 0 | 0 | 0 |
| Human Resources | 54 | 58 | 62 | 62 | 64 | 3.2% | 65 | 67 | 68 |
| GMCVA | 7,230 | 6,655 | 12,239 | 12,239 | 7,080 | -42.2% | 7,222 | 7,366 | 7,513 |
| Transfer To Genl Fund - Entert Tax | 6,480 | 7,164 | 7,482 | 7,482 | 7,482 | 0.0% | 8,319 | 8,747 | 9,195 |
| Transfer To Target Ctr Reserve | 1,299 | 1,506 | 1,200 | 1,200 | 1,200 | 0.0% | 1,200 | 1,200 | 1,200 |
| Transfer To Conv Center Reserve | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 0.0% | 1,150 | 1,150 | 1,150 |
| Transfer To Capital Improvements | 60 | 0 | 0 | 0 | 0 | 0.0% | 0 | 0 | 0 |
| Transfer To Debt Service | 16,876 | 13,687 | 19,740 | 19,740 | 19,156 | -3.0% | 18,810 | 18,796 | 18,728 |
| Transfer To Parking Fund | 8,598 | 8,365 | 8,244 | 8,244 | 9,565 | 16.0% | 9,856 | 9,832 | 9,858 |
| Transfer to BIS | 66 | 66 | 0 | 0 | 0 | 0.0% | 0 | 0 | 0 |
| Transfer to Self Insurance | 19 | 19 | 0 | 0 | 0 | 0.0% | 0 | 0 | 0 |
| ***Total Expenditures*** | 61,597 | 60,939 | 77,048 | 75,416 | 74,499 | -3.3% | 75,575 | 77,748 | 79,526 |
| ***Net Income*** | 178 | 5,524 | (8,603) | (1,379) | (590) | -93.1% | (1,561) | (262) | 183 |
| ***Fund Balance/Retained Earnings:*** | | | | | | | | | |
| Beginning Balance | 24,627 | 24,805 | 30,329 | 30,329 | 28,950 | -4.5% | 28,360 | 26,799 | 26,537 |
| Ending Balance | 24,805 | 30,329 | 21,726 | 28,950 | 28,360 | 30.5% | 26,799 | 26,537 | 26,720 |

**Notes:**

As part of the Council approved work-out plan, an advance of $12.8 million was made to BIS in 2000. While this did not affect the Convention Center total fund balance, this transaction decreased cash and increased due from other funds.

A State grant for $3.288 million was received in 2001 and $81 million was received in 2002. These grants will be used to reduce the principal outstanding debt and the amount of transfers to debt service.

Beginning in 2005, the Transfer to BIS is reflected in the Convention Center's Operating Budget based on the BIS Rate Model.

In 2004, the GMCVA entered into a $2.5 million loan agreement with the City for its joint venture Internet Destination Sales System (iDSS). In 2005, the GMCVA requested that the Council advance an additional $2.5 million for the project. In August 2005, the loans were rolled together and a Promissory Note was issued for $5 million. The $5 million loan is to be repaid in full in 2016 at a 5% interest rate. The note repayment for the loan is pledged against assets, future appropriation from the City funding, and profit from the iDSS.

**City of Minneapolis**
**FY 2006**
**Financial Plan**

**Community and Economic Development Funds**

## Background

These funds provide support to the City's development efforts. The main department with allocations in these funds is the Community Planning and Economic Development Department. Funds for the City's activities in these areas have faced numerous challenges over the past several years since the State significantly changed the property tax system.

The City Council adopted a policy in August of 2003 on how these funds were to be prioritized between City-wide discretionary development, the Neighborhood Revitalization Program (NRP) and the City's obligations as owner of the Target Center Arena, the home of the National Basketball Association's Minnesota Franchise. The financial projections in this plan rest upon the assumptions in these policy decisions. (Please see the "Financial Policies" section of the budget book for the policy detail.)

The projections show the following conditions, for the first time shown in the planning horizon of the City's financial plans:

1) the decertification of the pre-1979 tax increment financing (TIF) districts; and
2) the final year of the City's statutory obligation to provide funding to the NRP.

## 2006 Budget

*Revenues*

These projections are based on several revenue assumptions that need to be validated annually:

Revenues from federal grant programs, including the annual disbursement rate for the Empowerment Zone, will remain close to constant;

Although revenues from state and local grants vary in relation to project need and availability, for projection purposes they are shown as constant;

There will be continuing modest increases in bond related fee income from housing and economic development activities;

There will be annual variations in overall project income but these are shown as constant from 2006 for projection purposes;

There is no change to the scheduled 2009 Brookfield payment;

There will be no further legislative actions or assessment adjustments that have a significant negative impact on tax increment or General Fund collections; and

Inflationary growth in Planning's fee revenue.

*Expenditures*

The expenditure projections contain assumptions that also need to be revisited annually in the context of revised revenues and department outcome measures:

- CPED staff levels will generally remain constant or reduce slightly with personnel costs increasing 2 percent per annum while non-personnel expenditures increase approximately 1 percent per annum.
- The Development Account and TIF revenues of the Common Project continue to be restricted to the capitalization of the NRP through 2009.
- Consistent with the Discretionary Development resolution, $3.697 million from the Legacy Fund is being provided annually through 2009.

The projected CPED revenues and expenditures for 2006-2010 show somewhat level revenues through 2008 increasing in 2009 with the receipt of a Brookfield-Dain payment of $27.87 million. However, the total revenue received each year from 2006 to 2009 is smaller than anticipated in the 2003-2009 projections prepared last year, largely due to smaller than anticipated tax increment revenues as a result of recent reductions to market valuations of various properties within the Common Project.

*Debt Service*

Debt service on the post-1979 Common Project TIF districts continues past 2010. Taken together with other projected costs, the forecast for that year is break-even. There is no assumption of a source for discretionary development activity beyond 2009, although the availability of new tax capacity created by the decertification of the pre-1979 districts could allow, as one policy option, the re-use of Chapter 595 levy authority with little or no increase of residential property taxes.

Under current policy direction the Hilton Legacy Fund will also have been repaid in 2009 for the $22 million annually borrowed for discretionary development activity, and will provide another option for development support in 2010 and beyond.

**General Fund Resources**

Projected General Fund revenues and expenditures are displayed consistent with the Five-Year Financial Direction. The direct revenue to the General Fund attributed to CPED increases substantially from 2005 to 2006 (line 5) as a result of the multidepartment fee study completed earlier this year. The additional revenues allocated as a result of this study are included and increased annually at an annual rate of 3 percent.

## Neighborhood Revitalization Program

A further consequence of the reduction of development resources that started in 2001 has been the reduced level of funding (from $20 million per annum in Phase I) available to capitalize the NRP. As noted above, the lowering of market value of several properties within the Common Project appears to have exacerbated this reduction. Table 1, Line 37 displays the current (October 2005) projections.

**Finance Plan - Table 1**

## Projected CPED Revenues & Expenditures 2006 - 2010

| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| 1 | Local Funds | | | | | | |
| 2 | General Fund Total | 3,409,730 | 3,745,973 | 3,681,973 | 3,745,258 | 3,822,242 | 3,912,945 |
| 3 | GF Property Tax & Non-Direct Revenue | 2,099,758 | 1,720,594 | 1,667,469 | 1,731,939 | 1,801,053 | 1,886,550 |
| 4 | General Fund LGA | 742,672 | 680,848 | 671,026 | 646,556 | 630,442 | 610,944 |
| 5 | General Fund Direct Revenues | 567,300 | 1,343,478 | 1,343,478 | 1,366,763 | 1,390,747 | 1,415,451 |
| 6 | Tax/Increment/Abatement | 64,421,783 | 71,085,947 | 76,664,322 | 78,035,163 | 56,879,199 | 32,487,622 |
| 7 | Capital Bonding (CIP) | 1,395,000 | 3,547,000 | 2,900,000 | 900,000 | 400,000 | 400,000 |
| 8 | Dev Acct (Non-TI) | 2,213,272 | 2,199,272 | 2,028,432 | 2,002,705 | 28,302,997 | 300,000 |
| 9 | Interest Earnings all Funds | 5,600,000 | 5,320,000 | 5,054,000 | 4,801,300 | 4,561,235 | 4,720,878 |
| 10 | Bond Fees | | | | | | |
| 11 | Housing Program Fees & Revenues | 1,299,000 | 1,199,000 | 1,244,970 | 1,292,719 | 1,342,317 | 1,393,835 |
| 12 | Economic Dev Program Fees & Revenues | 3,635,000 | 3,639,500 | 3,651,500 | 3,663,620 | 3,675,861 | 3,688,225 |
| 13 | Legacy Fund | 3,679,000 | 3,679,000 | 3,679,000 | 3,679,000 | 3,679,000 | - |
| 14 | Other Project & Program Income | 16,703,892 | 16,700,000 | 16,700,000 | 16,700,000 | 16,700,000 | 16,700,000 |
| 15 | Transfers | 37,252,992 | 50,548,980 | 37,529,085 | 37,549,128 | 46,574,667 | 43,074,667 |
| 16 | Federal Funds | | | | | | |
| 17 | CDBG* | 19,352,211 | 17,583,662 | 16,304,700 | 16,304,700 | 16,304,700 | 16,304,700 |
| 18 | ESG | 601,000 | 597,000 | 597,000 | 597,000 | 597,000 | 597,000 |
| 19 | HOME | 3,911,000 | 3,800,000 | 3,800,000 | 3,800,000 | 3,800,000 | 3,800,000 |
| 20 | Other State/Local Grants | 4,252,803 | 4,500,000 | 4,500,000 | 4,500,000 | 4,500,000 | 4,500,000 |
| 21 | **Total Projected Revenues** | 167,726,683 | 188,144,281 | 178,334,982 | 177,570,593 | 191,139,218 | 131,879,872 |
| 22 | Appropriated | | | | | | |
| 23 | Business Lines: | | | | | | |
| 24 | Economic Policy & Development | 15,664,192 | 15,726,643 | 14,947,543 | 15,171,756 | 15,399,332 | 15,630,322 |
| 26 | Housing & Policy Development | 20,781,514 | 26,730,137 | 25,715,137 | 26,100,864 | 26,492,377 | 26,889,763 |
| 27 | Community Planning | 3,305,810 | 1,985,293 | 2,044,852 | 2,085,749 | 2,127,464 | 2,170,013 |
| 28 | Development Services | 1,420,880 | 2,006,327 | 2,066,517 | 2,107,847 | 2,150,004 | 2,193,004 |
| 29 | Workforce Development | 11,119,063 | 10,842,414 | 10,950,838 | 11,060,347 | 11,170,950 | 11,282,659 |
| 30 | CPED Support: | | | | | | |
| 31 | Executive & Support Services | 6,205,558 | 6,319,452 | 6,445,841 | 6,574,758 | 6,706,253 | 6,840,378 |
| 32 | Transfer & Debt Service | 102,570,796 | 117,208,947 | 106,640,832 | 105,215,723 | 101,144,413 | 66,966,446 |
| 34 | Direct Charge (Development Finance) | 2,414,321 | - | - | - | - | - |
| 35 | Total Appropriated | 163,482,134 | 180,819,213 | 168,811,559 | 168,317,043 | 165,190,793 | 131,972,586 |
| 36 | To be appropriated | | | | | | |
| 37 | Potential NRP Capitalization | 717,155 | 4,363,989 | 4,512,724 | 2,139,122 | 15,937,784 | - |
| 38 | Brookfield repayment to Legacy | 1,769,000 | 1,769,000 | 1,769,000 | 1,769,000 | 11,386,000 | - |
| 38 | **Total Projected Used** | 165,968,289 | 186,952,202 | 175,093,283 | 172,225,165 | 192,514,577 | 131,972,586 |
| 40 | **Projected Revenues Less Uses** | 1,758,394 | 1,192,079 | 3,241,699 | 5,345,428 | (1,375,359) | (92,714) |

* entitlement, program income and federal workforce grants

## Personnel Costs & Overhead

| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| 41 | Personnel (Salary & Fringe) | 10,707,226 | 11,498,092 | 11,728,054 | 11,962,615 | 12,201,867 | 12,445,905 |
| 42 | Non-Personnel CPED Overhead | 3,335,356 | 3,146,001 | 3,208,921 | 3,273,099 | 3,338,561 | 3,405,333 |
| 43 | **TOTAL BASE OPERATING COST*** | 14,042,582 | 14,644,093 | 14,936,975 | 15,235,714 | 15,540,429 | 15,851,237 |

* Total CPED personnel costs (salary & fringe) plus overhead operating costs of the department.

**City of Minneapolis**
**FY 2006**
**Financial Plan**

**Municipal Parking Fund**

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The Municipal Parking Fund accounts for the operation and maintenance of parking ramps, lots, on-street parking, a municipal impound lot and traffic/parking control system. Major parking related capital construction and development activities also occur in this fund.

## Historical Financial Performance

The financial condition of the Parking Fund had historically been stable, but presents a future financial challenge to the City due to cash outflows which continue to exceed the inflows. While the Fund continues to generate a positive fund margin, it is insufficient to pay debt service, make General Fund transfers and restore its productive assets (ramps). Economic conditions and high office vacancy rates have resulted in fund revenues underperforming the annual forecast.

The capital cost of ramps has been financed 100% by debt. Besides servicing the debt from ramp revenues, the fund receives transfers ($8.2 million in year 2005) from the Convention Center Fund to pay its share of debt service on Convention Center-related parking facilities. The fund also receives transfers ($6.9 million in 2005) from tax increment and abatement revenue to pay part of major downtown development projects.

The Public Works Department has prepared a comprehensive financial workout plan for the Parking Fund, with the assistance of the Finance Department. The plan addresses strategies for managing and responding to growing financial concerns regarding the municipal parking system, with annual updates on the performance of the workout plan.

## Historical Financial Performance

*Revenues*

In 2004, operating revenues increased by $1.8 million, or 3%, to $55.2 million compared to $53.4 million in 2003. This is due to increases in on-street parking, City-owned off-street parking and towing. Specifically, revenues from towing and the impound lot increased $1.1 million to $6.7 million in 2004, compared to $5.6 million recorded in 2003. While off-street and on-street parking registered an additional $700,000 in revenue, state-owned ramp revenues were capped at 2003 levels. Changes in rates and the number of vehicles towed account for the revenue growth experienced in impound lot revenues, whereas increased use of LaSalle Ramp has contributed to City-owned off-street parking.

Operating revenue budget for 2005 is $55.6 million and the projection for year-end is currently $53.8 million, which reflects the impact of agreement with the State regarding State-owned facilities. Revenue for the first quarter decreased by $1 million, or 7%, to $13.8 million in 2005 in comparison to $14.8 million for the first quarter of 2004. This decrease can be attributed to off-street parking, and mainly to State-owned facilities; revenues are now only limited to the City's direct expenditures and overheads. Revenues from on-street parking increased $200,000 in the first quarter to $1.6 million from $1.4 million over the same period in 2004. The increase is the result of new meter management plan such as adjustments to rates, hours, time limits and days of enforcement.

*Expenditures*

In 2004, operating expenses (without debt service, transfers or capital) increased by $2.6 million, or 6%, to $47.1 million, from $44.5 million of 2003. This increase is mainly due to $8.6 million payment to the State on the existing balance of excess revenue relating to TAD ramps. To a lesser extent, increase in expenditures was due to the additions of Vineland Place and 11th & Harmon ramps to the City-owned off-street parking system along with continued investment in automation and centralization initiatives of the parking system.

The operating expense budget for 2005 is $43.9 million and the projection for the year is $38.9 million. Expenditures for the first quarter decreased by $725,000, or 10%, to $6.9 million compared to $7.6 million for the first quarter of 2004. A decrease in contractual services in off-street parking system is a key factor for the reduction. It is anticipated that continued efforts to automate and centralize operations will reduce expenses in the current and future years. A new agreement with Municipal Parking Inc. has reduced management fees and should result in savings of $300,000 for the fund. All expenses related to State-owned facilities, including major maintenance, will be fully reimbursed by the State.

*Cash Position*

The Parking Fund cash balance for year 2004 was negative $8.8 million. The transfer of TAD revenues to the State in excess of $16 million over two-year period was a significant factor for this negative balance. The parking system is creating a positive cash flow from its operations, but with transfers and interest payments on debt service, the City-owned facilities have a negative cash flow. Based on current and proposed budgets, operating cash balances are going to continue to decrease, especially cash related to the City system.

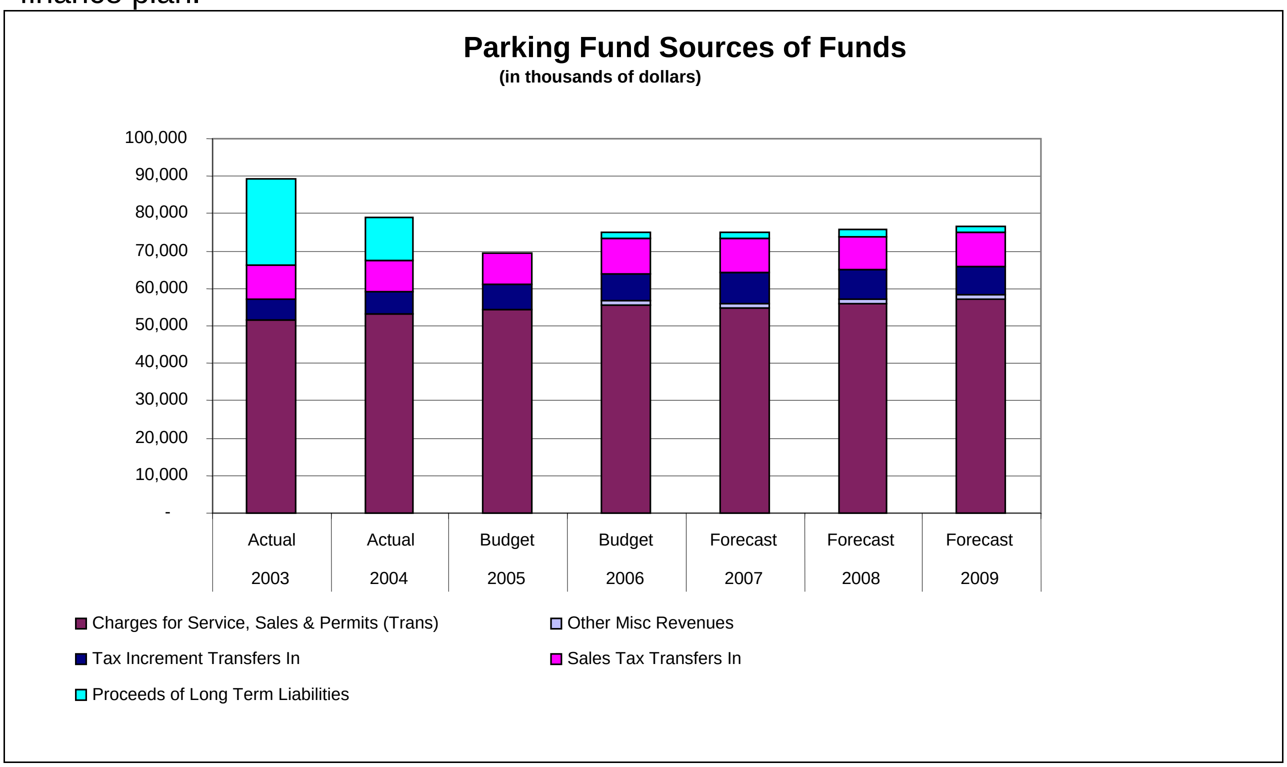
*Revenues*

The operating revenue budget for 2006 increased by $4.4 million to $60 million compared to $55.6 million for 2005. $2 million of this increase is due to workout plan and initiatives resulting in increased revenues from better meter management plan and collections of unpaid tows and storage fees. To a lesser extent, the increase also stems from reimbursement of allocated expenses relating to TAD garages. Assessment revenue from Vineland ramp amounts to $1.6 million increase in the operating budget.

Non-operating revenues consist of interest revenue that is generated by investment earnings, which shows up as revenue but is transferred to the General Fund. Special Assessment revenue is received from the County. The assessment payments are made by businesses to reimburse part of the capital expenses for the construction of the Lyn-Lake Lots that helped them meet their minimum parking requirements.

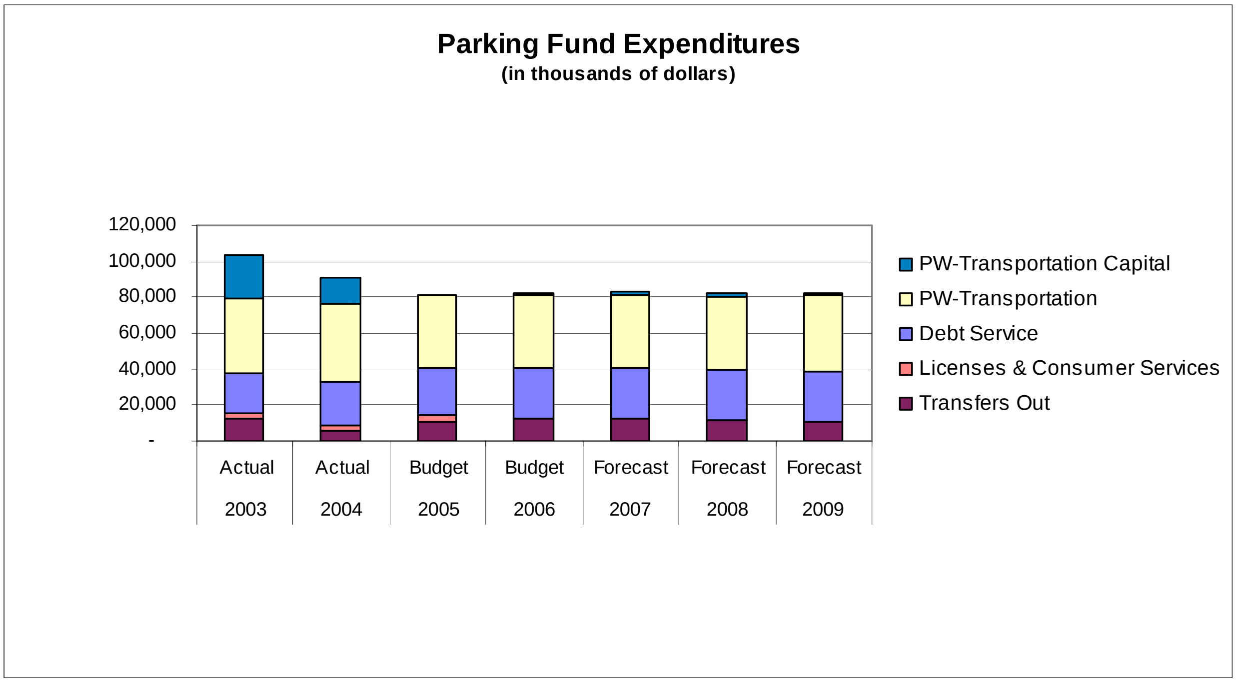
| **Revenue Assumptions** | |
|---|---|
| Utilization Percentage in 2005 | 77% |
| Number of Parking Stalls in the system | 21,176 as of 12/31/2005 |
| Forecasted Revenue increase | 2007 (2%)<br>2008 1%<br>2009 1.2% |
| Assumed rate increases (if any) | 2% |
| System-wide average event rate | $8.29 |
| System-wide average daily rate | $5.64 |
| System wide average monthly rate | $108.03 |
| Number of new stalls in the system | 2007 0<br>2008 0<br>2009 0 |

For assumptions regarding sales tax revenue, please see the Convention Center finance plan.



*Expenditures*

The 2006 Adopted budget includes operating expenditures for Public Works-Transportation and Licenses & Consumer Services which are decreased by approximately $4 million, from $44 million in 2005 to $40 million in 2006. This decrease is the net effect of increase in operations by $2 million and decrease in Licenses & Consumer Services by $2.8 million along with $3.2 million decrease stemming from workout plan initiatives. The decrease in License & Consumer Services is off-set by an increase in transfer out from Parking Fund to General Fund. The capital budget for 2006 increased to $1.73 million from $30,000 in 2005; this increase is for repair and improvements scheduled in 2006 for City-owned parking facilities.




*Transfers*

The transfer to the General Fund increased to $10.7 million in 2006 compared to $8.8 million in 2005. This change reflects the movement of Traffic Enforcement from Licenses & Consumer Services to the Police Department. Transfers to the Target Center Arena Fund increased to $1.9 million from $1.8 million as per the revised finance plan approved in 2000. This transfer comes out of net assets generated by City parking revenues. Revenues from State-owned garages are transferred to the State on a daily basis and the past accumulated revenues related to these garages have been transferred to the State in full. The fund, established for bus shelter litter containers, is transferred to Sanitation at $146,000 a year.

Transfers to parking fund include revenues from sales tax along with revenues from tax increment and abatement. Transfer from sales tax funds increased by $1.3 million, from $8.2 million in 2005 to $9.6 million in 2006. The transfers from tax increment and abatement are budgeted to increase $200,000, from $6.7 million in 2005 to $6.9 million in 2006. Based on various construction facility finance plans where tax increment and abatement were a revenue source, it is estimated that $7.98 million will be transferred for debt service from CPED. The following is a breakdown of the $7.98 million in transfers by facility: $6,752,321 for LaSalle @ 10th Ramp, $477,535 for East LRT Ramp, $650,000 for the Hennepin @ 10th Ramp, and $100,598 for 10th and Washington Ramp.

*Debt Service*

The debt service includes principal and interest on bonds issued for construction of municipal parking ramps. As new facilities are added to the system, debt service will continue to grow. Increase in debt service for 2006 is $2.1 million, from $26.2 million in 2005 to $28.3 million. This increase is due to Guthrie and Mill Quarter bonds sold in 2005. A part of the debt service payments is reimbursed from tax increment and sales tax revenues; these reimbursements are the transfers to the Parking Fund from the Convention Center and Tax Increment Funds, which total $16.5 million for 2006.

*Changes in the Adopted Budget*

The 2006 Adopted budget includes the transfer of traffic and control system from Licenses and Consumer Services over to the Police Department. To reflect this change, the transfer to the General Fund for 2006 was increased by $2.8 million to $10.7 million. The continuation of this arrangement and the movement of funds will be decided and agreed upon at service level between Public Works and the Police Department.

*Workout Plan*

In 2004, the Parking Fund's financial condition was projected to decline to cash deficit of $69.2 million by 2010. In response, the City adopted a financial and operational workout plan and initiatives.

## City of Minneapolis
## FY 2006 Budget
## Financial Plan (in thousands of dollars)

### Municipal Parking Fund - 7500

| | 2003 Actual | 2004 Actual | 2005 Current Budget | 2005 Projected | 2006 Budget | % Chg from 2005 Budget | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Source of Funds:*** | | | | | | | | | |
| Licenses and Permits | 192 | 207 | 193 | 193 | 218 | 13.0% | 221 | 225 | 228 |
| State Government | 296 | 83 | - | - | - | | - | - | - |
| Charges for Service, Sales & Permits (Trans | 51,613 | 53,264 | 54,390 | 52,620 | 55,575 | 2.2% | 54,917 | 55,938 | 56,988 |
| Charges for Sales | 1,185 | 1,575 | 1,001 | 1,001 | 1,301 | 30.0% | 1,321 | 1,340 | 1,360 |
| Special Assessments | 156 | 165 | 133 | 133 | 1,763 | 1230.5% | 133 | 133 | 133 |
| Interest | 1 | 29 | 1 | 1 | 1 | | 1 | 1 | 1 |
| Gains | (1,035) | - | - | - | - | | - | - | - |
| Rents (Transportation) | 123 | 107 | 3 | 3 | 113 | 3656.2% | 114 | 116 | 118 |
| Other Misc Revenues | 62 | 61 | 1 | 1 | 1,201 | 120000.0% | 1,219 | 1,237 | 1,256 |
| Tax Increment Transfers In | 5,342 | 5,628 | 6,915 | 6,915 | 6,915 | | 8,254 | 7,907 | 7,729 |
| Sales Tax Transfers In | 9,097 | 8,365 | 8,244 | 8,244 | 9,565 | 16.0% | 8,856 | 8,832 | 8,858 |
| Other Transfers In | - | 1,812 | - | - | - | | - | - | - |
| *Total Transfers In* | *14,440* | *15,805* | *15,159* | *15,159* | *16,481* | *8.7%* | *14,383* | *16,633* | *16,877* |
| Proceeds of Long Term Liabilities | 23,082 | 11,736 | - | - | 1,700 | | 1,700 | 1,700 | 1,700 |
| Total | 90,115 | 83,033 | 70,881 | 69,110 | 78,352 | 10.5% | 76,737 | 77,428 | 78,371 |
| ***Use of Funds:*** | | | | | | | | | |
| Debt Service | 22,747 | 24,690 | 26,241 | 26,241 | 28,333 | 8.0% | 28,417 | 28,198 | 28,388 |
| General Fund Transfer Out | 10,890 | 3,400 | 8,800 | 8,800 | 10,618 | 20.7% | 10,050 | 9,099 | 8,148 |
| Target Arena Transfer Out | 1,470 | 1,620 | 1,768 | 1,768 | 1,921 | 8.7% | 2,079 | 2,241 | 2,408 |
| Debt Service Transfer Out (Mann Areaways | 287 | 430 | 252 | 252 | - | | - | - | - |
| Internal Service Funds Tranfers Out | 76 | 77 | - | - | - | | - | - | - |
| MERF Liability Transfer Out | - | - | 94 | 94 | 39 | -58.8% | 39 | 40 | 41 |
| Sanitation Transfer Out | 146 | 146 | 146 | 146 | 146 | | 146 | 146 | 146 |
| Park Board Transfer Out | - | - | - | - | - | | - | - | - |
| *Total Transfers Out* | *12,869* | *5,673* | *11,060* | *11,060* | *12,724* | *-29.5%* | *12,314* | *11,526* | *10,743* |
| PW-Transportation | 41,357 | 43,685 | 40,946 | 35,049 | 39,868 | -2.6% | 40,466 | 41,073 | 41,689 |
| Human Resources | 225 | 228 | - | - | - | | - | - | - |
| Finance Department | 578 | 576 | - | - | - | | - | - | - |
| Licenses & Consumer Services | 2,395 | 2,575 | 2,997 | 2,997 | - | | - | - | - |
| PW-Transportation Capital | 24,085 | 14,110 | 30 | 30 | 1,735 | 100% | 1,740 | 1,735 | 1,740 |
| Total | 104,256 | 91,537 | 81,274 | 75,376 | 82,659 | 1.7% | 82,937 | 82,532 | 82,561 |
| ***Fund Margin*** | | | | | | | | | |
| TAD (State Owned) Ramps | (5,508) | (6,749) | 355 | - | - | | - | - | - |
| City Ramps and Lots | (8,633) | (1,755) | (10,748) | (6,266) | (4,308) | -59.9% | (6,200) | (5,104) | (4,190) |
| (1) Total | (14,141) | (8,505) | (10,393) | (6,266) | (4,308) | -58.6% | (6,200) | (5,104) | (4,190) |
| ***Retained Earnings*** | | | | | | | | | |
| TAD (State Owned) Ramps | 6,511 | 1,000 | 1,355 | 1,000 | 1,000 | -26.2% | 1,000 | 1,000 | 1,000 |
| City Parking System | 1,591 | (12,761) | (17,742) | (13,260) | (9,185) | -48.2% | (5,943) | (1,125) | 5,662 |
| Total | 8,102 | (11,761) | (16,387) | (12,260) | (8,185) | -50.1% | (4,944) | (125) | 6,661 |
| ***Cash Balances*** | | | | | | | | | |
| TAD (State Owned) Ramps | 7,015 | 1,000 | 1,355 | 1,000 | 1,000 | -26.2% | 1,000 | 1,000 | 1,000 |
| City System Construction Cash (2) | 16,787 | 4,591 | - | - | - | | - | - | - |
| City System Op Cash | (8,234) | (8,857) | (19,604) | (15,122) | (19,430) | -0.9% | (25,630) | (30,733) | (34,923) |
| Total | 15,569 | (3,266) | (18,250) | (14,123) | (18,430) | 1.0% | (24,630) | (29,734) | (33,924) |

**City of Minneapolis**
**FY 2006**
**Financial Plan**

## Solid Waste and Recycling Fund

This Solid Waste & Recycling Fund accounts for solid waste collection and disposal/recycling activities for the City. The Solid Waste Division of the Public Works Department provides weekly trash and yard-waste pickup, bi-weekly recycling pickup and operates a solid waste transfer station providing service to over 100,000 households.

Funding for solid waste and recycling activities are funded primarily from sanitation fees and partly from sources such as Hennepin County grants, recyclable sales and charges for other services. 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.

### Historical Financial Performance

The overall financial condition of the Solid Waste Fund is positive as a result of management practices and increases in recycling from the past few years. The cash balance for this fund increased from $10.7 million from the year ending 2003 to $12.8 million for the year ending 2004.

The Solid Waste fund has been partially updating its fleet on a yearly basis. In 2004, three sanitation trucks, one pickup truck, one roll-off handler, two cart maintenance trucks, two problem material collection trucks and one litter container truck were purchased.

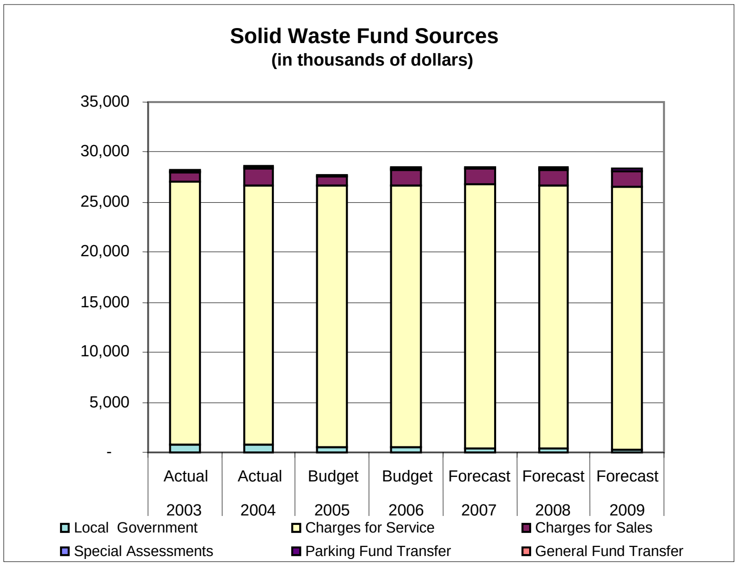
In 2005, year-end revenues from charges for services are projected to be $26.1 million. Expenses for the Public Works cost center are projected to be as budgeted at $27.3 million.

### 2006 Budget

*Revenues*

There will not be a rate increase for Solid Waste and Recycling in 2006. The monthly rate will remain at $19.25 per month per dwelling unit. The Fund’s revenue is expected to increase $700,000, as a result of a new recycling contract.

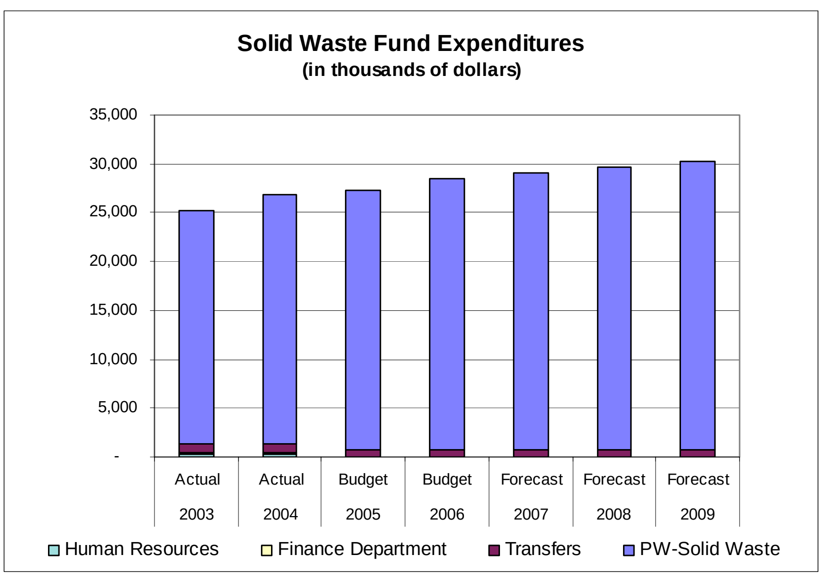
The 2006 Hennepin County Recycling Grant is estimated to remain at its 2005 level of $544,000. It is anticipated that this amount will decrease by approximately $100,000 annually in future years.




| ***Revenue Assumptions (2006)*** | |
|---|---|
| Number of garbage collection customers | 108,000 |
| Number of recycling customers | 102,000 |

*Expenditures*

Overall operating expenditures are budgeted to increase by 1.4% from $27.3 million in 2005 to $28.5 million in 2006. Transfers to Internal Service funds have been replaced with a rate model, which charges the individual costs centers, rather than being financed by a transfer at the fund level.



*Transfers*

The 2006 budget includes the continuation of a $700,000 transfer from Solid Waste and Recycling to the General Fund to pay for snow alley plowing, which will ensure delivery of solid waste and recycling services in the alleys; this transfer is projected to remain at $700,000 in coming years.

A transfer of $35,000 to the Debt Service Fund for pension obligations related to the Minneapolis Employees Retirement Fund (MERF) is also reflected.

The Solid Waste and Recycling Fund receives a transfer of $146,000 from the Parking Fund to pay for litter container pick-up (downtown). In 2004, a permanent transfer of $50,000 was established for graffiti removal.

*Debt Service*

This fund does not have any capital debt service payments.

**City of Minneapolis**
**FY 2006 Budget**
**Financial Plan (in thousands of dollars)**

**Solid Waste Fund - 7700**

| | 2003 Actual | 2004 Actual | 2005 Budget | 2005 Projected | 2006 Budget | % Chg from 2004 | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Sources of Funds:*** | | | | | | | | | |
| Local Government | 844 | 828 | 544 | 544 | 544 | | 444 | 344 | 244 |
| Charges for Service | 26,241 | 25,892 | 26,099 | 26,099 | 26,298 | 0.8% | 26,298 | 26,298 | 26,298 |
| Charges for Sales | 943 | 1,605 | 900 | 1,600 | 1,619 | 79.9% | 1,620 | 1,620 | 1,620 |
| Special Assessments | 93 | 73 | | - | | | | | |
| Operating Transfers In: | | | | - | | | | | |
| From Parking Fund | 146 | 146 | 146 | 146 | 146 | | 146 | 146 | 146 |
| From General Fund | | 50 | 50 | 50 | 50 | | 50 | 50 | 50 |
| Total | 28,267 | 28,594 | 27,739 | 28,439 | 28,657 | 3.3% | 28,558 | 28,458 | 28,358 |
| ***Use of Funds:*** | | | | | | | | | |
| PW-Solid Waste | 23,940 | 25,483 | 26,548 | 26,548 | 27,786 | 4.7% | 28,342 | 28,909 | 29,487 |
| Transfers | | | | - | | | - | - | |
| To General Fund | 762 | 700 | 700 | 700 | 700 | | 700 | 700 | 700 |
| To BIS Fund | 70 | 70 | | - | | | - | | |
| To Self Insuance Fund | 11 | 11 | | - | | | - | | |
| To MERF Fund | | 103 | 58 | 58 | 35 | -39.7% | 36 | 37 | 37 |
| Finance Department | 195 | 196 | | | | | | | |
| Human Resources | 225 | 228 | | | | | | | |
| Total | 25,203 | 26,791 | 27,306 | 27,306 | 28,521 | 4.4% | 29,078 | 29,645 | 30,223 |
| ***Fund Margin*** | 3,064 | 1,803 | 433 | 1,133 | 136 | -68.5% | (520) | (1,187) | (1,865) |
| ***Fund Balance*** | 16,353 | 18,156 | 16,786 | 17,486 | 17,622 | 5.0% | 17,102 | 15,915 | 14,050 |
| ***Cash Balance*** | 10,675 | 12,785 | 13,218 | 11,808 | 11,944 | -9.6% | 11,424 | 10,237 | 8,372 |

**City of Minneapolis**
**FY 2006 Fund**
**Financial Plan**

**Sanitary Sewer Fund**

The Sewer fund which consisted of a combination of Stormwater and Sanitary Sewer was split into two separate funds, Stormwater and Sanitary Sewer, effective for 2005. When the Sewer fund was split it was determined that the majority of the debt service was used to construct infrastructure related to Stormwater. Therefore, all the previous debt service will be allocated to the Stormwater Fund.

The Sanitary Sewer Fund accounts for maintenance of the sanitary sewer system and contractual payments to the Metropolitan Council Environmental Services (MCES) for sewage interceptor and treatment services.

## Historical Financial Performance

The Sanitary Sewer Fund has had positive retained earning experience the last several years. This is due to the combination of rate increases being implemented as planned and actual expenses that were less than budgeted.

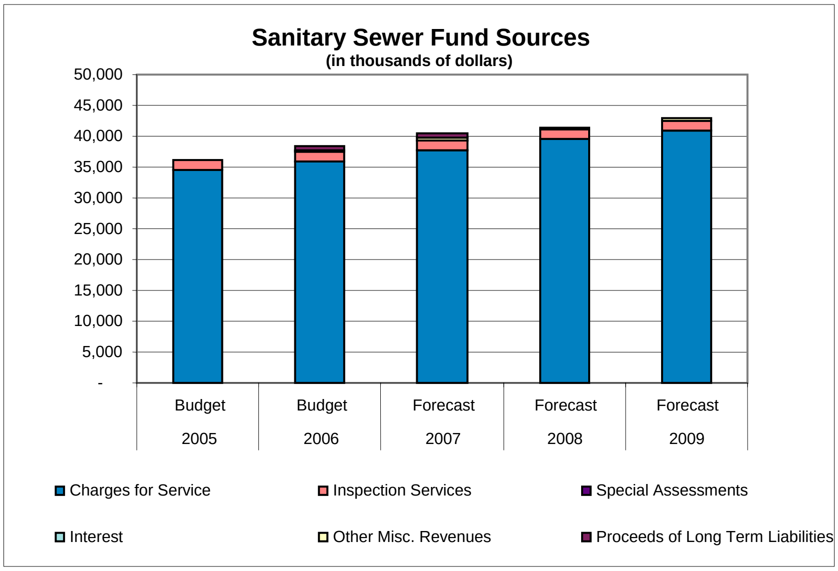
## 2006 Budget

*Revenues*

The Sanitary Sewer Fund has a per unit cost of $2.00 (cost per 100 cubic feet), which will increase to $2.10 in 2006. The fee will be used to pay for ongoing operating expenses and related capital projects. Services Availability Charges (SAC) are included in the Sanitary Sewer revenues.

| Year | Rate (cost per 100 cubic feet | % Increase | Total Planned Revenue from Utility Fee |
|---|---|---|---|
| 2006 | 2.10 | 5.0% | $36.3 Million |
| 2007 | 2.19 | 4.3% | $37.9 Million |
| 2008 | 2.26 | 3.2% | $39.0 Million |
| 2009 | 2.32 | 2.7% | $40.1 Million |

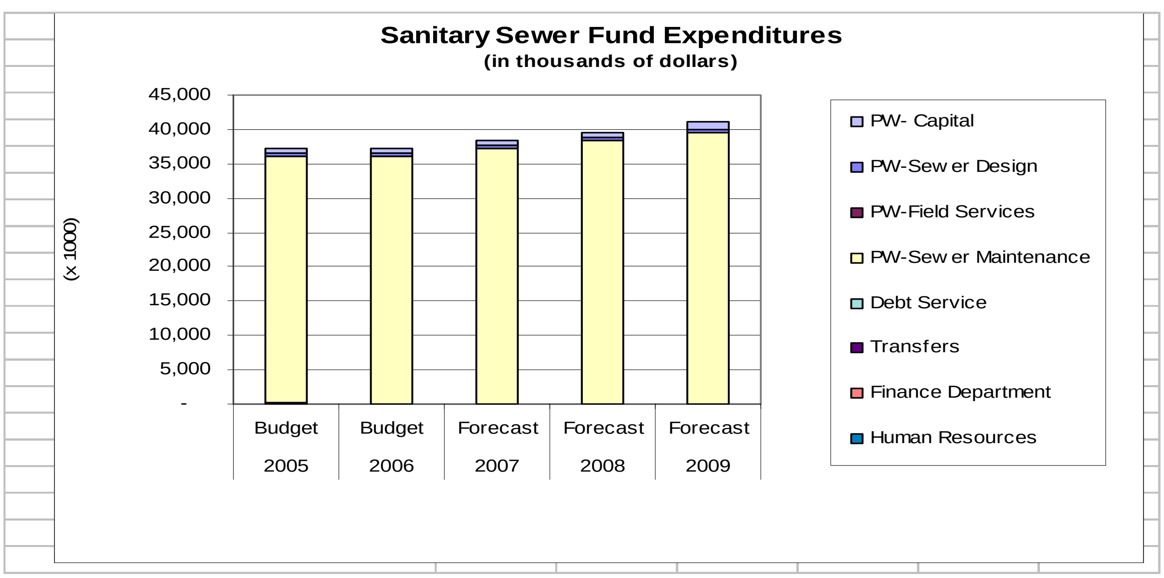
The rate increase percentages are based on the combined Sanitary and Stormwater rates established prior to the split of the sewer fund.




| ***Revenue Usage by Customer*** | ***Percent of Total*** |
|---|---|
| Usage by residential consumers, City | 29% |
| Usage by commercial consumers, City | 35% |
| Usage by multiple dwelling consumers, City | 27% |
| Usage by governments | 8% |
| Usage by schools/churches | 1% |
| Total usage | 100% |

## *Expenditures*

The Sanitary Sewer fund accounts for the majority of the Metropolitan Council Environmental Services (MCES) expense which will slightly increase in 2006. It also includes $5.7 million for maintaining the sanitary sewer system.



# City of Minneapolis
# FY 2006 Budget
# Financial Plan (in thousands of dollars)

## Sanitary Sewer Fund - 7100

| | 2005 Budget | 2005 Projected | 2006 Budget | % Chg from 2005 | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|
| ***Source of Funds:*** | | | | | | | |
| Charges for Service | 34,556 | 34,556 | 35,960 | 4.1% | 37,506 | 38,706 | 39,751 |
| Inspection Services | 1,500 | 1,500 | 1,500 | | 1,500 | 1,500 | 1,500 |
| Other Misc Revenues | 50 | 50 | 364 | 628.3% | 377 | 390 | 404 |
| Proceeds of Long Term Liabilities | | | 625 | | 644 | | |
| Total | 36,106 | 36,106 | 38,449 | 6.5% | 40,026 | 40,596 | 44,655 |
| ***Use of Funds:*** | | | | | | | |
| PW-Sewer Design | 394 | 394 | 396 | 0.5% | 408 | 420 | 433 |
| PW-Field Services | | - | | | - | - | - |
| PW-Sewer Maintenance | 35,862 | 35,862 | 36,200 | 0.9% | 37,286 | 38,405 | 39,557 |
| Debt Service | - | - | - | - | - | - | - |
| Transfers | | - | - | - | - | - | - |
| To Debt Service for MERF Liability | 203 | 203 | - | - | - | - | - |
| PW- Capital | 683 | 683 | 682 | 0% | 683 | 758 | 1,058 |
| Total | 37,142 | 37,142 | 37,278 | 0.4% | 38,377 | 39,583 | 41,047 |
| ***Fund Margin*** | (1,037) | (1,037) | 1,170 | -212.9% | 1,650 | 1,013 | 3,607 |
| ***Fund Balance*** | 7,210 | 7,210 | 8,380 | 16.2% | 10,030 | 11,043 | 14,651 |
| ***Cash Balances*** | | | | | | | |
| Operating Cash | 7,210 | 7,210 | 8,380 | 16.2% | 10,030 | 11,043 | 14,651 |
| Construction Cash | | | | | | | |
| Total Cash Balance | 7,210 | 7,210 | 8,380 | 16.2% | 10,030 | 11,043 | 14,651 |

**** Historical data is not available due to the fund split in 2005***

**City of Minneapolis**
**FY 2006 Fund**
**Financial Plan**

**Stormwater Fund**

The Sewer fund which consisted of a combination of Stormwater and Sanitary Sewer was split into two separate funds, Stormwater and Sanitary Sewer, effective for 2005.

The Stormwater Fund accounts for a portion of contractual payments to the Metropolitan Council Environmental Services (MCES) for stormwater interceptor and treatment services. This fund also accounts for the Combined Sewer Overflow (CSO) program, which separates the remaining storm sewer lines that are connected to sanitary sewer lines. During 1998, the City embarked on a $72 million, nine-year, flood control program. This program targets specific areas in the City and creates holding ponds and additional storm drains that are designed to mitigate the effects of flash floods. This fund also accounts for the cost of street sweeping as a related cost activity.

## Historical Financial Performance

The combined Sanitary and Stormwater Funds have experienced positive net income the last several years. This is due to the combination of rate increases being implemented as planned and unanticipated delays in capital project expenditures. Some delays in capital project expenditures also impact the cash balance, as bonds are sold, but the expenditures are delayed into the next year. These factors have made the cash balance of the fund positive.

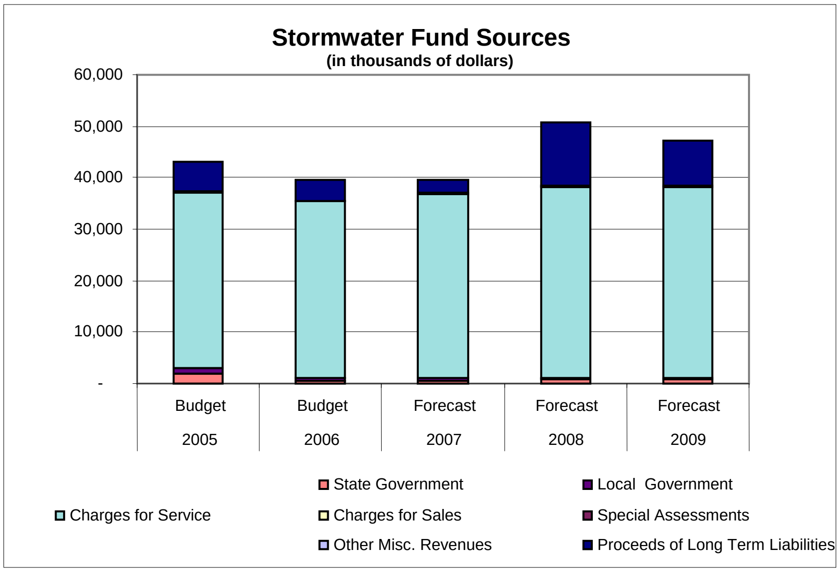
## 2006 Budget

*Revenues*

The Stormwater Fund has a rate increase of 45-cents per ESU (Equivalent Stormwater Unit) for 2006. The rate increase will be used to pay for ongoing operating expenses as well as debt service related to the CSO and flood mitigation programs.

| Year | Rate per ESU (Equivalent Stormwater Unit) | %Increase | Total Planned Revenue from Utility Fee |
|---|---|---|---|
| 2006 | 9.17 | 5.2% | $30.5 Million |
| 2007 | 9.57 | 4.4% | $31.9 Million |
| 2008 | 9.91 | 3.6% | $33.0 Million |
| 2009 | 9.91 | 0% | $33.0 Million |

The rate increase percentages are based on the combined Sanitary and Stormwater rates established prior to the split of the sewer fund.

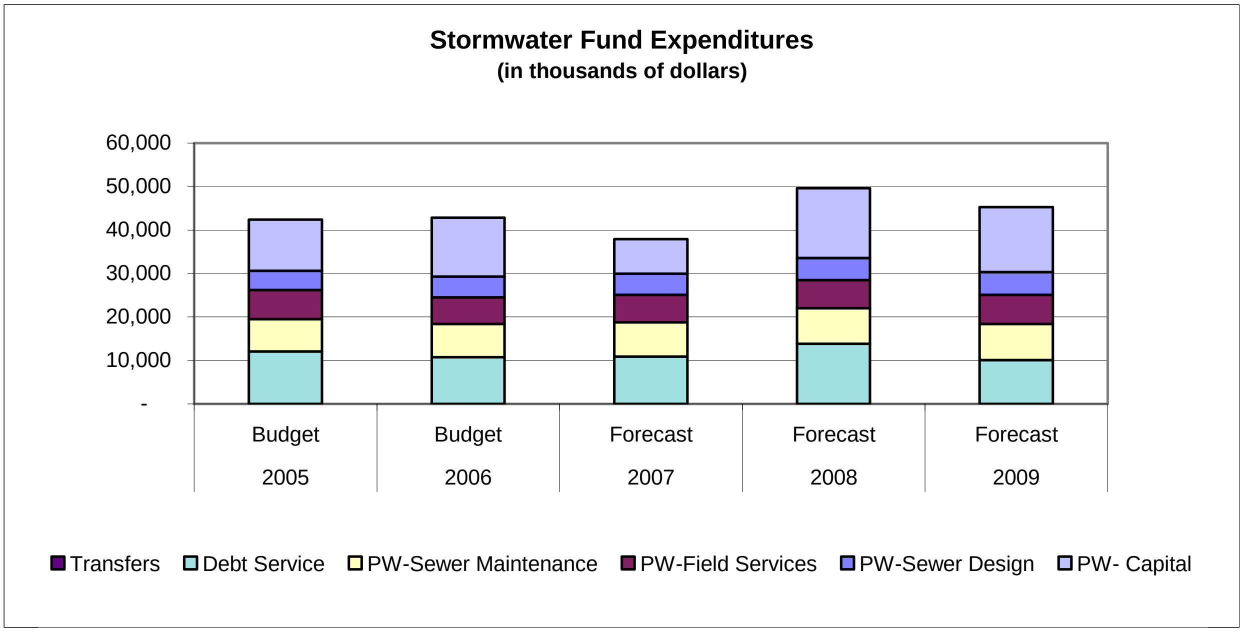



Note: Total revenue from charges for services in the financial plan exceeds the amount generated by the utility fee because revenue is also deposited in the Stormwater Fund from sources other than utility fees, such as Capital work for others billings.

| Total Active Sewer Property Types | |
|---|---|
| **Property Type** | **Count** |
| Residential | 76,346 |
| Commercial | 5,333 |
| Government | 1,032 |
| Schools/Churches | 334 |
| Multiple Dwelling | 14,961 |
| **Total** | **98,006** |

*Expenditures*

For 2006, the capital expenditures will increase as more sewer designs are ready for construction. The Stormwater Fund expenditures include $6.1 million for street cleaning and $7.6 million for sewer maintenance, which includes $1.8 million for a Metropolitan Council Environmental Services (MCES) payment.




*CSO (Combined Sewer Overflow)*

In 2001, a study was done by the City of Minneapolis and Metropolitan Council, which indicated that there were as many as 5,000 buildings and properties with rainwater connection to the sanitary system. To resolve this issue, both parties needed to identify these properties and work on an alternative for rainwater connection. Once this task was completed, the department of Public Works was required to hire additional staff to redesign and reconstruct the stormwater drainage system. The project started in 2004 and is estimated to take three to five years to complete. The estimated cost for 2006 is approximately $2 million.

*Transfers*

A total transfer of $148,000 for the unfunded portion of the MERF pension liability is budgeted in 2006.

*Debt Service*

The debt service payments are primarily for bonds previously sold to finance the Combined Sewer Overflow (CSO) and flood mitigation programs.

## City of Minneapolis
## FY 2006 Budget
## Financial Plan (in thousands of dollars)

### Stormwater Sewer Fund - 7300

| | 2005 Budget | 2005 Projected | 2006 Budget | % Chg from 2005 | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|
| ***Source of Funds:*** | | | | | | | |
| Federal Government | | | | | | | |
| State Government | 1,840 | 1,840 | 644 | -65.0% | 663 | 683 | 704 |
| Local Government | 1,167 | 1,167 | 320 | -72.6% | 330 | 340 | 350 |
| Charges for Service | 34,181 | 31,681 | 34,388 | 0.6% | 35,781 | 36,976 | 37,027 |
| Charges for Sales | 1 | 1 | 1 | | 1 | 1 | 1 |
| Special Assessments | 115 | 115 | 115 | | 118 | 122 | 126 |
| Interest | | - | - | | - | - | - |
| Other Misc Revenues | 10 | 400 | 3 | -70.0% | 3 | 3 | 3 |
| Proceeds of Long Term Liabilities | 5,870 | 5,870 | 4,072 | -30.6% | 2,500 | 12,438 | 8,938 |
| Total | 43,184 | 41,074 | 39,544 | -8.4% | 39,397 | 50,563 | 47,149 |
| ***Use of Funds:*** | | | | | | | |
| PW-Sewer Design | 4,452 | 4,452 | 4,741 | 6.5% | 4,883 | 5,030 | 5,181 |
| PW-Field Services | 6,681 | 6,681 | 6,148 | -8.0% | 6,332 | 6,522 | 6,718 |
| PW-Sewer Maintenance | 7,451 | 5,451 | 7,706 | 3.4% | 7,937 | 8,176 | 8,421 |
| Debt Service | 12,047 | 12,047 | 10,741 | -10.8% | 10,138 | 13,467 | 9,227 |
| Transfers | 139 | 139 | 148 | 6.5% | 152 | 157 | 162 |
| PW- Capital | 11,785 | 11,785 | 9,260 | -21.4% | 8,553 | 17,060 | 15,866 |
| Total | 42,555 | 40,555 | 38,744 | -9.0% | 37,996 | 50,412 | 45,574 |
| ***Fund Margin*** | 629 | 519 | 800 | 27.1% | 1,400 | 151 | 1,574 |
| ***Fund Balance*** | 6,599 | 6,489 | 7,289 | 10.4% | 8,689 | 8,841 | 10,415 |
| ***Cash Balances*** | | | | | | | |
| Operating Cash | 6,599 | 6,489 | 7,289 | 10.5% | 8,689 | 8,841 | 10,415 |
| Construction Cash | | | | | | | |
| Total Cash Balance | 6,599 | 6,489 | 7,289 | 10.5% | 8,689 | 8,841 | 10,415 |

**** Historical data is not available due to the fund split in 2005***

# City of Minneapolis
# FY 2006 Budget
# Financial Plan

## Water Fund

This Water Fund accounts for the operation and maintenance of a water delivery system for the City and several suburban city customers. The City currently sells water to seven cities including Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal and Edina.

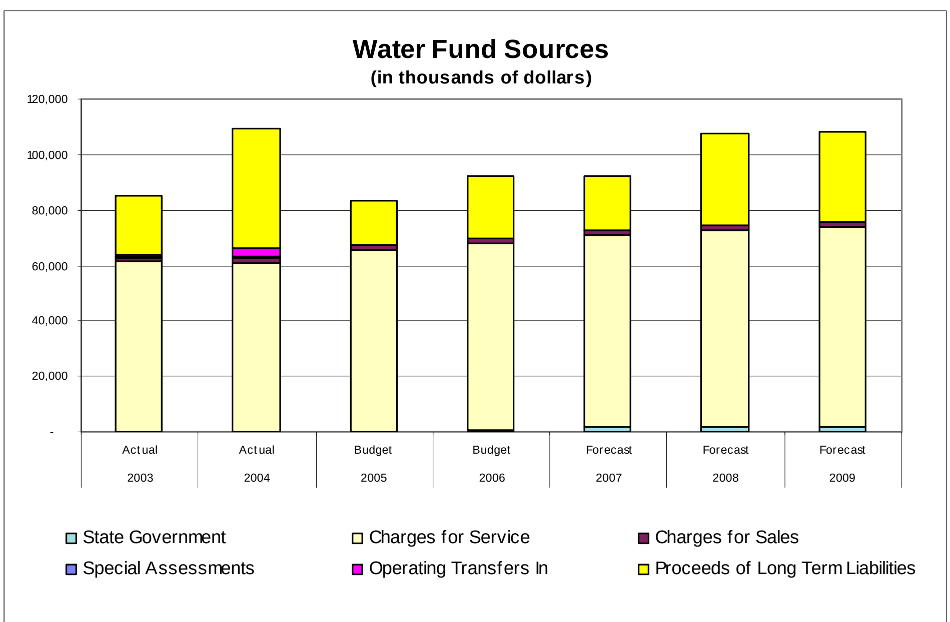
### Historical Financial Performance

The financial condition of this fund has been stable. Retained earnings have been positive the past several years, due primarily to the timing of scheduled rate increases for major capital improvements. The following table shows the revenue earned from Minneapolis and suburban sales for years 2001-2005.

| Source of Revenue | 2001 | 2002 | 2003 | 2004 | 2005 Projected |
|---|---|---|---|---|---|
| Bloomington | 3,295,000 | 2,782,000 | 2,542,000 | 2,547,000 | 3,100,000 |
| Columbia Heights | 826,000 | 842,000 | 1,191,000 | 999,000 | 866,000 |
| Edina | 128,000 | 145,000 | 236,000 | 213,000 | 222,000 |
| Joint Water Commission | 3,466,000 | 5,102,000 | 6,832,000 | 6,522,000 | 5,265,000 |
| Hilltop | 85,000 | 83,000 | 96,000 | 93,000 | 109,000 |
| **Total Suburban** | **7,800,000** | **8,954,000** | **10,987,000** | **10,374,000** | **9,562,000** |
| Minneapolis | 38,682,000 | 41,488,000 | 45,706,000 | 46,339,000 | 50,833,000 |
| **Total Revenue** | **46,482,000** | **50,442,000** | **56,693,000** | **56,713,000** | **60,395,000** |

### 2006 Budget

*Revenues*




The projected rate increases for years 2006-2010 are to pay debt service for the capital expenditures, as well as to cover anticipated growth in operating expenditures. Rate increases may not result in increased revenue due to variable water consumption.

| Charges for Service by Customer Usage Based on 2004 Consumption | Percent of Total |
|---|---|
| Usage by residential consumers, City | 22.1% |
| Usage by commercial consumers, City | 24.8% |
| Usage by multiple dwelling consumers, City | 18.7% |
| Other usage, City | 13.8% |
| Usage by outside municipalities | 20.0% |
| Other usage, outside City | 0.6% |
| Total usage | 100.0% |

*Water Utility Rates*

The budget includes a rate increase for water from $2.50/unit to $2.62/unit. The rate increase will provide funding for the ultra-filtration program, completion of the SCADA system and water distribution improvements.

| Year | Rate (cost per 100 cubic feet) City of Minneapolis | Cost Per Month for Average Consumer[1] | % Increase | Total Planned Revenue from Utility Fee |
|---|---|---|---|---|
| 2006 | 2.62 | 20.96 | 4.8% | $63.4 Million |
| 2007 | 2.67 | 21.36 | 1.9% | $64.6 Million |
| 2008 | 2.75 | 22.00 | 3.0% | $66.6 Million |
| 2009 | 2.80 | 22.40 | 1.8% | $67.9 Million |
| 2010 | 2.90 | 23.20 | 3.6% | $70.3 Million |

[1] Rate is based on cost per 100 cubic feet and assumes 8 units of water are consumed per month.

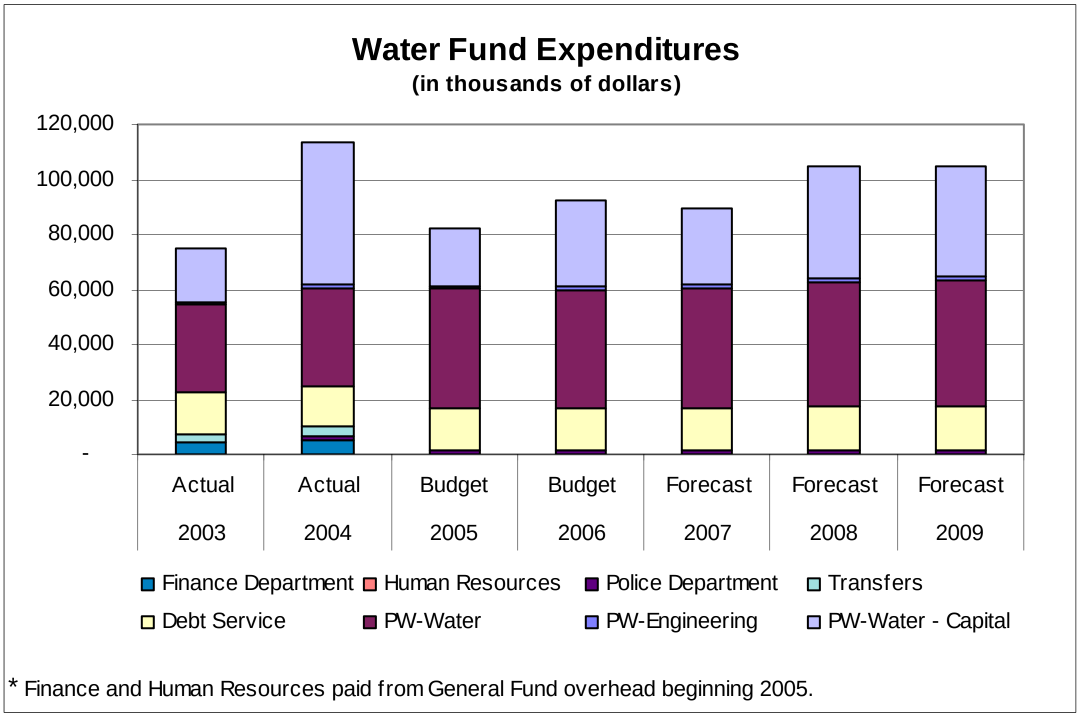
Note: Total revenue from charges for services in the financial plan exceeds the amount generated by the utility fee because revenue is also deposited in the Water Fund from sources other than utility fees, such as Capital work for others billings.

The following table shows the projected revenue earned from suburban utility sales.

| Year | Combined Average Rate | % Increase | Total Revenue Earned from Utility Fee - Suburbs |
|---|---|---|---|
| 2006 | 2.13 | 4.9% | $10.1 Million |
| 2007 | 2.17 | 1.9% | $10.3 Million |
| 2008 | 2.24 | 3.2% | $10.7 million |
| 2009 | 2.28 | 1.8% | $10.9 Million |
| 2010 | 2.36 | 3.5% | $11.3 Million |

*Expenditures*

The budget provides funding for the capital infrastructure improvement program by increasing it by approximately 50% from $20.9 million in 2005 to $31.3 million in 2006. The total budget for security in 2006 is $1.3 million.




*Transfers to Other Funds*

The Water Fund incurs a transfer expense related to its share of the Minneapolis Employee Retirement Fund (MERF) pension obligations. The $0.3 million will be transferred to the bond redemption fund to cover the liability obligations related to Water Fund employees that have retired under the MERF pension plan.

*Debt Service*

The debt service amounts are primarily for bonds and notes sold to finance the Water-Works Capital Construction program.

## City of Minneapolis
## FY 2006 Budget
## Financial Plan (in thousands of dollars)

### Water Fund - 7400

| | 2003 Actual | 2004 Actual | 2005 Budget | 2005 Projected | 2006 Budget | % Chg from 2005 | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Source of Funds:*** | | | | | | | | | |
| Property Taxes | | | | | | | | | |
| Licenses and Permits | 1 | 1 | 1 | 1 | 1 | | 1 | 1 | 1 |
| Federal Government | 154 | 64 | - | - | - | | | | |
| State Government | | | | | 750 | | 1,750 | 1,500 | 1,500 |
| Charges for Service | 61,733 | 60,962 | 65,672 | 65,672 | 67,472 | 3% | 69,101 | 71,126 | 72,491 |
| Charges for Sales | 679 | 1,617 | 1,780 | 1,780 | 1,780 | | 1,833 | 1,888 | 1,945 |
| Special Assessments | 1,031 | 747 | - | - | - | | | | |
| Interest | 2 | 3 | - | - | - | | | | |
| Rents | - | - | 1 | 1 | 1 | | 1 | 1 | 1 |
| Other Misc Revenues | 39 | - | 19 | 19 | 19 | | 20 | 20 | 21 |
| Operating Transfers In | 615 | 3,022 | - | - | - | | | | |
| Proceeds of Long Term Liabilities | 20,923 | 42,861 | 16,000 | 16,000 | 22,250 | 39% | 19,250 | 33,200 | 32,250 |
| Total | 85,177 | 109,277 | 83,473 | 83,473 | 92,273 | 10.5% | 91,956 | 107,736 | 108,209 |
| ***Use of Funds:*** | | | | | | | | | |
| PW-Engineering | 726 | 794 | 1,096 | 1,096 | 1,128 | 2.9% | 1,151 | 1,174 | 1,197 |
| PW-Water | 32,508 | 35,890 | 43,273 | 43,273 | 43,259 | 0.0% | 44,124 | 45,007 | 45,907 |
| Debt Service | 15,186 | 14,652 | 15,014 | 15,014 | 12,763 | -15.0% | 14,994 | 15,985 | 16,072 |
| Transfers | | | | | | | | | |
| To General Fund | 63 | - | - | - | - | | - | - | - |
| To Capital Improvement Fund | - | 80 | - | - | - | | - | - | - |
| To Debt Service for MERF Liability | - | 988 | 584 | 584 | 275 | -52.9% | 283 | 289 | 295 |
| To BIS Fund | 2,429 | 2,526 | - | - | - | | - | - | - |
| To Self Insurance Fund | 26 | 26 | - | - | - | | - | - | - |
| Police Department | - | 1,138 | 1,150 | 1,150 | 1,270 | 10.4% | 1,295 | 1,321 | 1,348 |
| Human Resources | 225 | 228 | - | - | - | | - | - | - |
| Finance Department | 4,332 | 5,168 | - | - | - | | - | - | - |
| PW-Water - Capital | 19,524 | 52,123 | 20,891 | 20,891 | 31,250 | 49.6% | 27,650 | 41,100 | 40,150 |
| Total | 75,019 | 113,613 | 82,008 | 82,008 | 89,945 | 9.7% | 89,497 | 104,875 | 104,968 |
| ***Water Works Fund Margin*** | 10,159 | -4,336 | 1,465 | 1,465 | 2,328 | 58.9% | 2,459 | 2,861 | 3,241 |
| ***Water Fund Balance*** | 125,364 | 130,153 | 131,618 | 131,618 | 133,946 | 1.8% | 136,405 | 139,265 | 142,506 |
| ***Cash Balances*** | | | | | | | | | |
| Operating Cash | 9,502 | 6,786 | 8,251 | 8,251 | 10,579 | 28.2% | 13,038 | 15,898 | 19,139 |
| Construction Cash | 4,971 | 2,122 | | | | | | | |
| Total Cash Balance | 14,473 | 8,908 | 8,251 | 8,251 | 10,579 | 28.2% | 13,038 | 15,898 | 19,139 |

Note: 2004 Operating Cash is 2004 CAFR cash balance of $1,980,486 + $4,805,961 of capital draw down done January 2005

# City of Minneapolis
# FY 2006
# Financial Plan

## Public Works Stores Fund

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This fund is used to account for the centralized procurement, receiving, warehousing, and distribution of stocked inventory items, and the purchase of special goods and services through Public Works Central Stores and Traffic Stores operations.

### Historical Financial Information

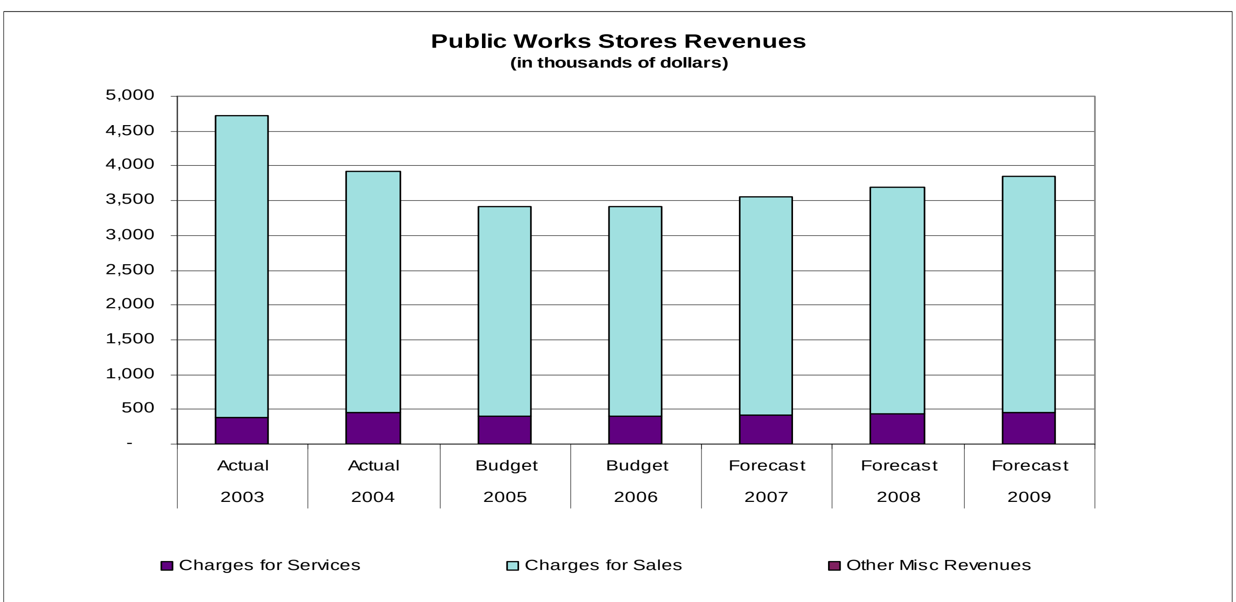
Public Works has operated Central Stores since it was established by the City Council in January 1965. At that time the stockrooms of Property Services, Bridge Maintenance, Paving Construction, and Sewer Construction and Maintenance were combined to establish a Central Stores operation. In 1980 it was decided that Central Stores would handle all of the City's needs for office supplies and non-specialty items.

A study was completed in June 1998, which included a recommended redesign of the Stores function to include a revamped overhead structure with new directives to utilize the Stores. This has resulted in the fund showing positive net income for years' 2000 through 2003. Projections for 2005 and 2006 also indicate a profit.

### 2006 Budget

*Revenues*

Revenues are expected to be sufficient in 2006 to cover expenses.
Pricing structure is being looked at in order to lower overhead rates that were needed to create a positive cash flow for a fund that has needed to borrow at year end. In 2004, the fund needed $667,000 to cover its cash shortages. Unless inventories can be reduced this fund will continue to need to borrow in order to maintain a positive cash



position with its modest projected profits.

*Expenditures*

Expenditures in the fund are primarily for replenishing the fund's approximate $3.0 million inventory, which has resulted in the fund continuing to have a negative cash balance. The Public Works and Finance Departments need to review the carrying cost of this inventory level and determine what adjustments may be needed. This may impact future financial plans for this fund. The budget also includes a change in accounting for the General Fund overhead charge that replaces various separate charges for indirect costs that were previously budgeted in separate agencies.

*Transfers*

There are no transfers in this fund.

*Debt Service*

This fund does not have long-term debt.

# City of Minneapolis
# FY 2006 Budget
# Financial Plan (in thousands of dollars)

## Public Works Stores Fund 6300

| | 2003 Actual | 2004 Actual | 2005 Current Budget | 2005 Projected | 2006 Budget | % Chg from 2005 Budget | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Source of Fund:*** | | | | | | | | | |
| Charges for Services | 387 | 448 | 400 | 510 | 400 | | 416 | 433 | 450 |
| Charges for Sales | 4,328 | 3,472 | 3,023 | 4,345 | 3,023 | 0.0% | 3,143 | 3,269 | 3,400 |
| Other Misc Revenues | | | - | | - | | - | - | - |
| Total | 4,715 | 3,920 | 3,423 | 4,855 | 3,423 | 0.0% | 3,559 | 3,702 | 3,850 |
| ***Use of Funds:*** | | | | | | | | | |
| Personal Services | 555 | 627 | 576 | 576 | 593 | 3.0% | 617 | 641 | 667 |
| Contractual Services | 85 | 34 | 128 | 128 | 267 | 108.6% | 278 | 289 | 300 |
| Materials and other | 204 | 201 | 2,643 | 2,843 | 2,471 | -6.5% | 2,570 | 2,673 | 2,780 |
| Rent | 63 | 62 | 59 | 59 | 70 | 18.9% | 73 | 76 | 79 |
| Cost of Stores Issuance | 3,497 | 2,848 | | | | | | | |
| Interest | | | - | | - | | | - | - |
| Transfers | 14 | 14 | - | - | - | | - | - | - |
| Total | 4,418 | 3,786 | 3,406 | 3,606 | 3,401 | -0.1% | 3,537 | 3,679 | 3,826 |
| ***Change in Cash*** | 297 | (3) | 17 | | 21 | 25.7% | 22 | 23 | 24 |
| ***Cash Balance*** | (155) | (667) | (650) | | (629) | -3.3% | 22 | 45 | 69 |
| ***Fund Margin*** | 280 | 134 | 17 | | 38 | 125.7% | 22 | 23 | 24 |
| ***Fund Balance*** | 2,481 | 2,615 | 2,632 | | 2,670 | 1.5% | 22 | 45 | 69 |

**Note:** At year end Funds with negative cash balance will be advance cash from other funds. The cash reflected here does not reflect any cash advanced.

# City of Minneapolis
# Engineering Materials and Testing
# Fund 6000

## Background

This Fund accounts for the City purchases of Hot-Mix Asphalt and Ready-Mix Concrete to ensure quality control for their placement and assure compliance with State and Federal standards and specifications. The Engineering Laboratory is a component of this Fund by providing Inspection and Testing services along with maintaining a laboratory for testing construction materials, performing geotechnical evaluations, and coordinating related environmental field services.

## Historical Financial Information

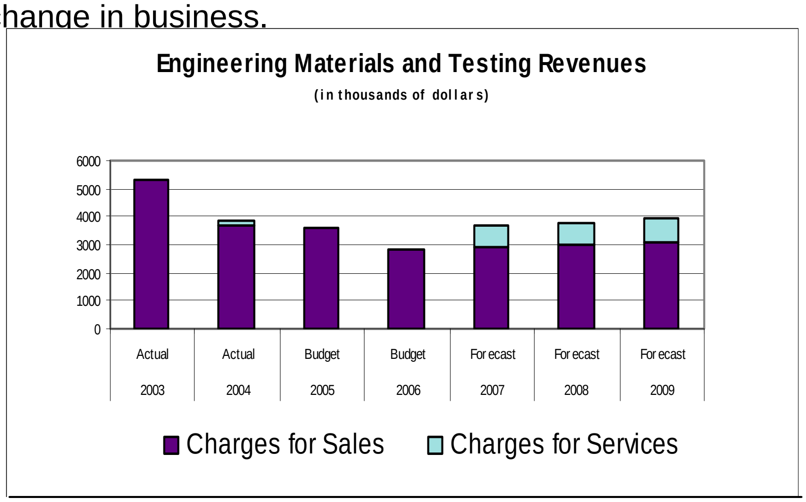
The revenue sources for this Fund include the procurement of Hot-Mix Asphalt and Ready-Mix Concrete materials along with Inspection and Testing services by the Engineering Laboratory.

In 2003, the decision to delay the closing of the asphalt plant due to a positive outlook on paving projects and the usage of bituminous resulted in operating income for the fund of $78,000. The decision to suspend operations at the Asphalt Plant at the end of 2003 resulted in a $777,000 loss with the disposal of this asset. Net asset position decreased to $780,000 in 2003 from $1,489,000 in 2002. In 2004, net assets were reduced again by $180,000.

## 2006 Budget

*Revenues*

This fund now generates revenue from Engineering Services at the lab and the purchasing of concrete and asphalt from outside vendors. Product types and quantities will be identified for customer departments. This fund will continue to lose money in 2005 and thereafter until expenses recover the costs associated with operations and reflect the change in business.



*Expenditures*

The expenditures are based on Engineering Laboratory personnel and the anticipated cost of Asphalt and Ready-Mix Concrete. The budget also includes a change in accounting for the General Fund overhead charge that replaces various separate charges for indirect costs that were previously budgeted in separate agencies.

*Transfers*

The 2006 budget includes a transfer out of $22,000 for debt service related to the Minneapolis Employees Retirement Fund (MERF) unfunded liability.

# City of Minneapolis
# FY 2006 Budget
# Financial Plan (in thousands of dollars)

## Engineering, Materials and Testing - 6000

| | 2003 Actual | 2004 Actual | 2005 Current Budget | 2005 Projected | 2006 Budget | % Chg from 2005 Budget | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Source of Funds:*** | | | | | | | | | |
| Charges for Services | | | | | 800 | | | | |
| Charges for Sales | 5,352 | 3,681 | 3,600 | 4,085 | 2,850 | -20.8% | 2,890 | 3,005 | 3,126 |
| Other Misc Revenues | | 199 | - | | - | | - | - | - |
| Total | 5,352 | 3,880 | 3,600 | 4,085 | 3,650 | 1.4% | 2,890 | 3,005 | 3,126 |
| ***Use of Funds:*** | | | | | | | | | |
| Personal Services | 1,138 | 846 | 1,122 | 787 | 1,052 | -6.2% | 1,094 | 1,138 | 1,183 |
| Contractual Services | 602 | 299 | 615 | | 385 | -37.4% | 400 | 416 | 433 |
| Materials and other | 3,296 | 2,793 | 2,713 | 1,704 | 2,784 | 2.6% | 2,916 | 3,033 | 3,180 |
| Rent | 137 | 98 | 140 | 41 | 40 | -71.4% | 42 | 43 | 45 |
| Interest | | | | | | | | - | - |
| Transfers | 10 | 10 | 10 | 61 | 22 | 126.8% | 10 | 10 | 10 |
| Total | 5,183 | 4,046 | 4,599 | 2,593 | 4,283 | -6.9% | 4,462 | 4,640 | 4,852 |
| ***Change in Cash*** | 299 | (302) | (999) | | (633) | | (1,572) | (1,635) | (1,726) |
| ***Cash Balance*** | 935 | 633 | (366) | | (999) | | (1,572) | (3,206) | (4,932) |
| ***Fund Margin*** | (709) | (180) | (999) | | (633) | | (1,572) | (1,635) | (1,726) |
| ***Fund Balance*** | 780 | 600 | (399) | | (1,032) | | (1,572) | (3,206) | (4,932) |

**City of Minneapolis**
**FY 2006 Budget**
**Financial Plan**

## Intergovernmental Services Fund

This fund is used to account for business information services (information and technology), central mailing and printing services, and telecommunications operations.

The City Council approved a Financial Workout Plan for the Intergovernmental Services Fund in September 2000, to resolve both the annual operating deficit and accumulated cash deficits for this fund. An update to this plan was approved in January 2003. The original plan projected a positive operating margin by year 2003 and positive cash flow to the fund by year 2008 if the following were realized:

1. Refund Existing Outstanding Variable Rate Debt.

   *During 2000, The City issued $22.8 million, 12-year, fixed rate bonds. These bonds were used to refund existing 7-year, variable rate bonds.*

2. Identify Level of Funding Available for Capital Projects.

   *The original plan committed to finishing "in flight" capital projects totaling $12.2 million. During 2002 that number increased by $2.1 million. The increase was necessary to finish construction of the Engineering 2000 software program. The additional costs were financed on a pay-as-you-go basis by the Public Works department. The 2003 budget provided a base budget of $1 million for core infrastructure investments.*

3. Reduce Information Technology Operating Expenditures.

   *The original workout plan called for a $1.5 million reduction in 2002. The savings were realized through a conversion of contractors to city positions and an overall reduction in contractual expenses. Despite these expense reductions, the overall budget for BIS increased by $3 million because of $2.3 million in costs related to software licensing, integration of GIS application support and hardware/software maintenance contracts. In addition, an accounting change related to the Program Management Division resulted in an additional $880,000 in revenue and expense budget. The managed services (outsourcing) contract executed with Unisys in 2003 will require no additional expense for the department. Conversely, it is expected to generate savings by avoiding future capital expenses such as hardware refresh, data center move and disaster recovery.*

4. Commit $1.2 million in Additional Annual General Fund Resources.

   *Since the original workout plan was adopted in 2000, annual adopted budgets have included the $1.2 million increase through 2004. The Five year directive effective in 2005 has altered these increases through 2009.*

5. All City Funds must provide Pay-As-You-Go Funding for Business Information Systems (BIS).

   *Departments have complied with this direction. Examples of this cooperation are, $1.9 million funding from Public Works for E2K, $100,000 from Finance for a MUPS upgrade, $250,000 from Human Resources for an HRIS upgrade.*

6. Adjust the Rates Paid by User Departments/Funds on an Annual Basis.

   *The original and updated workout plan assumes and plans for a 2-3% budgetary increase annually.*

7. Eliminate Internal Working Capital Charge.

   *During 2000, the working capital charge was eliminated for the Intergovernmental Services Fund. This resulted in annual savings of $160,000.*

8. Implement Permanent Inter-Fund Loans.

   *During 2000, the Convention Center and Convention Facilities Reserve Fund loaned $12.8 million to the Intergovernmental Services Fund.*

9. Develop User Rates for Information Technology Services.

   *During 2002, the Finance Department developed a rate model for the fund using an accounting industry standard known as Activity-Based Costing. The model allocates costs to customers on a "level of effort" basis. The model is used to allocate costs to departments.*

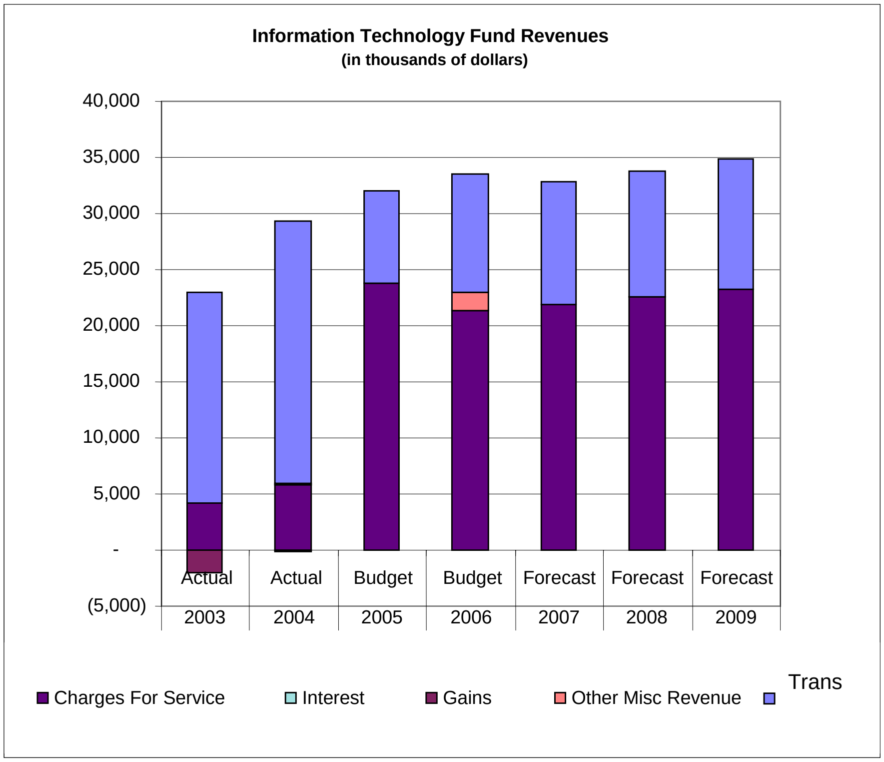
**Historical Financial Performance**

Net assets were affected by the re-alignment of fixed assets and its related debt to the Intergovernmental Services Fund. This change in accounting caused a one-time adjustment to the fund's net assets of a negative $21.7 million. Although this negative adjustment causes fund assets now to have a balance of negative $40 million at year-end 2002 it better represents the financial condition of the fund and the importance of implementing the strategies to meet the guidelines of the workout plan. This trend will be reversed under the plan, if the assumptions hold. At the end of 2004 the cash balance was $200,000 better than the workout plan and Net Assets close to $100,000 better than plan. The projection through 2006 expects the fund to continue to track slightly better than the plan.

## 2006 Budget

*Revenues*

To fund the cost of providing information technology services, the workout plan required an additional $1.0 million in 2001 and $1.2 million annually from 2002-2008 of increased revenue from the General Fund.




Charges for service were increased to reflect the additional revenue that BIS has been generating by providing services and then direct charging city departments for the services they received above and beyond the normal service level provided.

*Rate Model Implications*

BIS is using an Activity-Based Costing “Rate Model” to recover its operating costs for 2006. The rate model and the revenue generated from it changes how revenue is budgeted within the fund and how customer expenses are budgeted within theirs. Formerly, BIS received its revenue through non-operating “Transfers” or subsidies primarily from the General Fund and the Enterprise Funds. With the advent of the Rate Model, revenues in BIS are budgeted as “Charges for Service” rather than “Transfers In”. Conversely, customer expenses are budgeted as “Contractual Services” rather than “Transfers Out”.  This change will show as increases to department operating budgets.

The rate model has four components on the customer expense side: BIS operating, telephony, data connectivity, and telephone charges.  Revenues generated through the rate model will recover:

a) BIS operating costs at a level that conforms to the Council adopted workout plan
b) Projected operating increases related to the purchase of a new phone system
c) Debt service resulting from phone system purchase
d) Expenses related to Constituent Relationship Management (CRM) software.

| ***Revenue Assumptions (2006)*** | |
|---|---|
| Number of PC’s | 2,427 |
| Number of telephones | 3,371 |

*Expenses*

Expenses in the Intergovernmental Services Fund are comprised of the operating expenses (salaries/benefits, contractual, operating, equipment) of BIS and City Clerk. Capital expenditures for information technology investments were budgeted in the City's Permanent Improvement Fund (4100), but now are budgeted in the BIS fund.  This has caused an increase in depreciation expense.

A major cost not reflected in the workout plan for this fund is $8 million in annual depreciation expenses.  This expense will continue to cause losses to the fund that are currently not charged to customers through the rate model.  As a result, BIS financial position will continue to decline and system replacement will pose future challenges as supplemental capital appropriations will be needed.

The budget also includes a change in accounting for the General Fund overhead charge that replaces various separate charges for indirect costs that were previously budgeted in separate agencies.

*Transfers*

The rate model for Business Information Services has been finalized and Internal City customer departments will find a charge to their areas versus a transfer as in previous years.  The remaining amount in transfers in (revenue) relates to a transfer from the General Fund to subsidize BIS debt service payments.  BIS also has a transfer out (expense) in support of the debt service for the unfunded pension liability.

*Debt Service*

The remaining variable rate debt of $16.1 million was retired in 2001 with the $22.8 million of fixed rate debt that was issued in December of 2000. The final pay-off year was extended from 2005 to 2012 with no principal being paid until 2009. This coupled with the payoff by 2006 of debt issued prior to December of 2000 reduces debt service needed in 2007 and 2008. The City re-directed $2.7 million of General Fund resources dedicated to variable rate debt, towards funding the operating costs of BIS. This reduced the annual operating deficit for the fund by $2.7 million. The financial plan reflects this change through 2006.

## City of Minneapolis
## FY 2006 Budget
## Financial Plan (in thousands of dollars)

### Intergovernmental Services Fund - 6400

| | 2003 Actual | 2004 Actual | 2005 Current Budget | 2005 Projected | 2006 Adopted Budget | % Chg from 2005 Budget | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Revenue*** | | | | | | | | | |
| Charges For Service | 4,167 | 5,840 | 23,786 | 22,597 | 21,295 | -10.5% | 21,934 | 22,592 | 23,270 |
| Interest | - | 1 | - | - | - | | - | - | - |
| Gains | (2,027) | (152) | - | - | - | | - | - | - |
| Other Miscellaneous Revenue | 83 | 78 | - | - | 1,635 | | - | - | - |
| Operating Transfers In | 18,666 | 23,398 | 8,266 | 8,266 | 10,523 | 27.3% | 10,866 | 11,192 | 11,528 |
| Total | 20,889 | 29,165 | 32,052 | 30,863 | 33,453 | 4.4% | 32,800 | 33,784 | 34,797 |
| ***Expenses*** | | | | | | | | | |
| Transfers | 51 | 185 | 174 | 174 | 57 | -67.2% | 59 | 60 | 62 |
| Debt Service | 2,215 | 2,129 | 8,781 | 8,781 | 10,316 | 17.5% | 3,149 | 1,974 | 8,209 |
| City Clerk | 977 | 1,163 | 1,111 | 788 | 799 | -28.1% | 823 | 848 | 873 |
| Human Resources | 128 | 174 | 192 | 190 | 195 | 1.6% | 201 | 207 | 213 |
| Finance Department | 188 | 191 | - | - | - | | - | - | - |
| Information & Tech Services | 24,140 | 23,016 | 20,194 | 20,194 | 23,941 | 18.6% | 24,659 | 25,399 | 26,161 |
| Total | 27,699 | 26,858 | 30,452 | 30,127 | 35,309 | 15.9% | 28,891 | 28,488 | 35,518 |
| ***Intergovernmental Services Fund Margin*** | (6,810) | 2,307 | 1,600 | 736 | (1,856) | | 3,909 | 5,296 | (721) |
| ***Intergovernmental Services Fund Balance*** | (39,794) | (37,487) | (35,887) | (36,751) | (38,607) | | (34,698) | (29,402) | (30,123) |
| ***Intergovernmental Services Cash Balance*** | (17,418) | (15,060) | (13,460) | (14,324) | (16,180) | | (12,271) | (6,975) | (7,696) |

**City of Minneapolis**
**FY 2006**
**Financial Plan**

**Equipment Fund**

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## Background

This fund accounts for the ownership and operation of a fleet of approximately 1,200 vehicles and other pieces of motorized equipment, as well as 400 vehicle accessories (such as plow blades). The City's fleet of vehicles and equipment is the largest portion of the Fund's assets and has an estimated replacement value of approximately $75.2 million.

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

## Historical Financial Performance

*Revenue from Charges for Service*

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

*Cash and Net Assets Balances*

Under the current workout plan, fleet purchases were financed with bonds through 2005. This strategy, together with other measures in the workout plan, has caused the cash position in the fund to improve. Upgrading the fleet has reduced the average age of the fleet, thereby reducing maintenance costs.

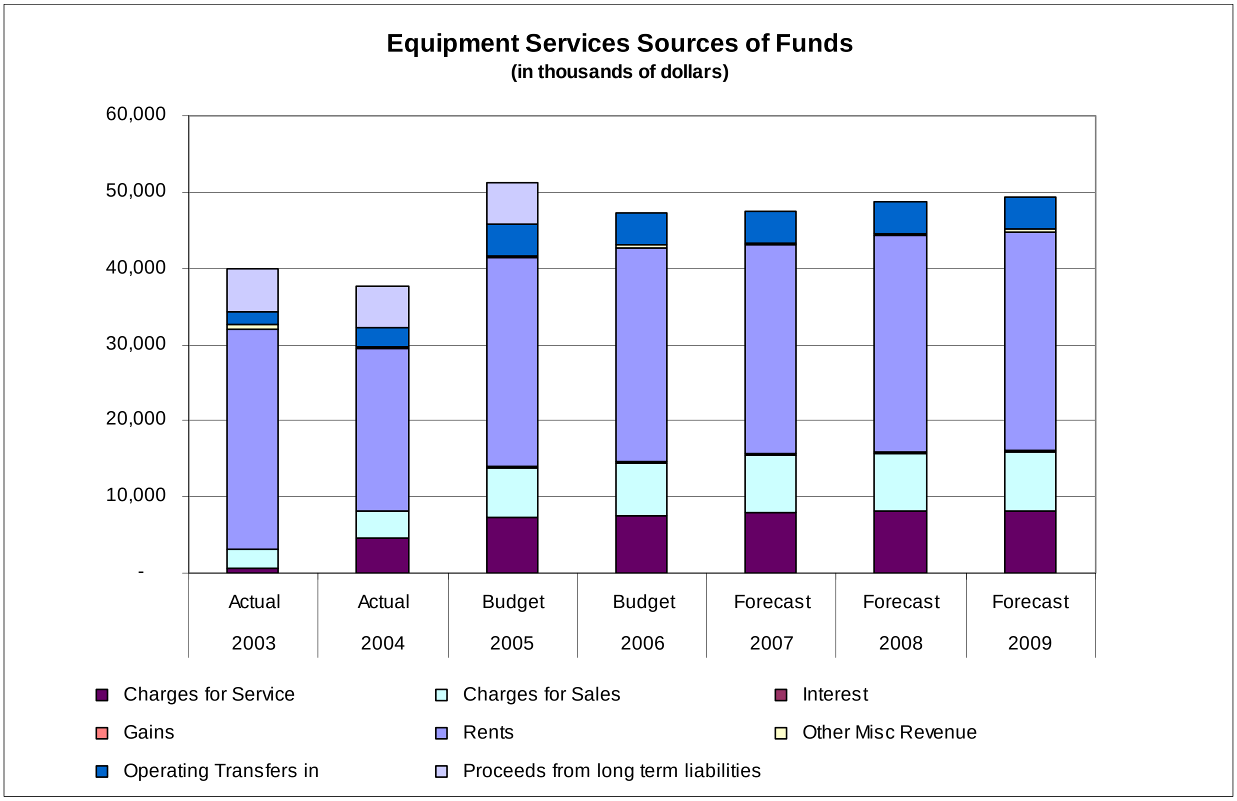
## 2006 Budget

*Change in Accounting Practices*

Starting in 2005, expenditures and revenues in the Equipment Services Division budget, were increased due to intra-fund charges. These charges are applied between organizations within the fund for services and sales. Since the expenditures and revenues match, this will not have an impact on fund level performance. This change increases the expenses and revenues evenly and allows the managers to manage segments of this fund more effectively.

*Revenue*

Starting in 2004, the equipment division began using an activity-based costing approach to bill internal customers. This has resulted in the establishment of a fleet rental rate that covers the replacement cost of the vehicles after the useful life; maintenance, repairs and fuel costs are accounted for separately. All of these charges are billed at a rate that allows the Equipment Division's revenue to match expenses.




| ***Revenue Assumptions (2006)*** | |
|---|---|
| Number of vehicles serviced | 1200 |
| Number of vehicles purchased | 75 |

*Expenditures*

Overall expenditures in 2006 are anticipated to increase by $1.6 million from the 2005 adopted budget; this is primarily due to an increase in debt service of $1.3 million and an increase to capital expenses of $600,000. Operating expenditures are expected to decrease slightly in 2006.

*Transfers to Other Funds*

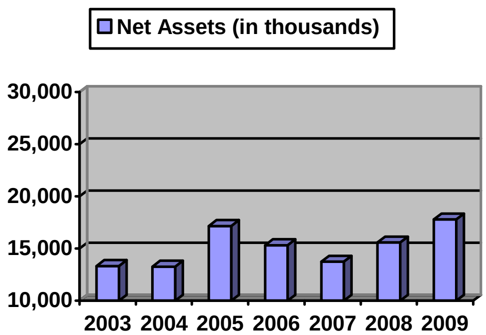
The 2006 budget includes a transfer out of $131,000 for debt service related to the Minneapolis Employees Retirement Fund (MERF) unfunded liability.

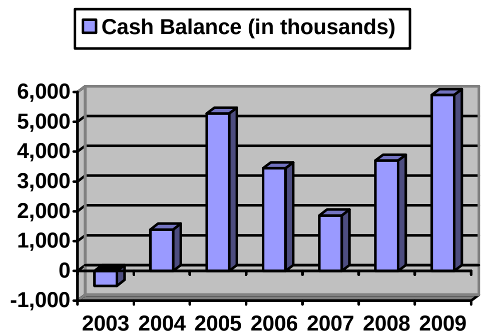
*Debt Service*

As part of the fleet modernization effort that began in 1997, the City issued bonds to finance fleet upgrades and to build new maintenance facilities. Principal and interest payments totaling $7.7 million will be due on these bonds in 2006.

*Fund Balance*

Part of the workout plan is to increase the fund balance of Net Assets and cash. The following charts illustrate the historical and projected performance of the Fund:



## City of Minneapolis
## FY 2006 Budget
## Financial Plan (in thousand of dollars)

### Equipment - 6100

| | 2003 Actual | 2004 Actual | 2005 Current Budget | 2005 Projected | 2006 Budget | % Change From 2005 Budget | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Source of Funds:*** | | | | | | | | | |
| Charges for Service | 602 | 4,686 | 7,390 | 5,435 | 7,500 | 1% | 8,000 | 8,100 | 8,200 |
| Charges for Sales | 2,537 | 3,516 | 6,434 | 6,467 | 6,934 | 8% | 7,400 | 7,500 | 7,600 |
| Interest | 1 | 0 | 0 | 1 | 1 | 0% | 1 | 1 | 1 |
| Gains | 12 | 4 | 200 | 90 | 200 | 0% | 200 | 200 | 200 |
| Rents | 28,772 | 21,265 | 27,267 | 21,638 | 28,067 | 3% | 27,450 | 28,500 | 28,800 |
| Other Misc Revenue | 589 | 188 | 310 | 314 | 310 | 0% | 315 | 315 | 315 |
| Operating Transfers in | 1,819 | 2,543 | 4,180 | 4,180 | 4,180 | 0% | 4,180 | 4,180 | 4,180 |
| Proceeds from long term liabilities | 5,596 | 5,450 | 5,540 | 5,540 | 0 | -100% | 0 | 0 | 0 |
| Total | 39,928 | 37,652 | 51,321 | 43,665 | 47,192 | -8% | 47,546 | 48,796 | 49,296 |
| ***Use of Funds:*** | | | | | | | | | |
| Debt Service | 1,629 | 5,034 | 6,348 | 6,348 | 7,690 | 21% | 7,435 | 3,987 | 3,598 |
| Transfers | 61 | 335 | 263 | 263 | 131 | -50% | 135 | 140 | 145 |
| PW Equipment | 30,557 | 27,145 | 35,274 | 27,264 | 35,074 | -1% | 35,180 | 35,490 | 35,800 |
| Finance | 482 | 573 | 0 | 0 | 0 | 0% | 0 | 0 | 0 |
| PW Equipment Capital | 5,596 | 10,010 | 5,540 | 5,540 | 6,140 | 11% | 6,240 | 7,200 | 7,400 |
| Total | 38,325 | 43,097 | 47,425 | 39,415 | 49,035 | 3% | 48,990 | 46,817 | 46,943 |
| Fund Margin | 1,603 | (5,445) | 3,896 | | (1,843) | | (1,444) | 1,979 | 2,353 |
| Fund Balance | 13,325 | 7,880 | 11,776 | | 9,933 | | 8,489 | 10,468 | 12,821 |
| Cash Balance | (502) | 1,389 | 5,285 | | 3,442 | | 1,998 | 3,977 | 6,330 |

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

# City of Minneapolis
# FY 2006
# Financial Plan

## Property Services Fund

### Background

This fund accounts for the physical management and maintenance of fire stations, police precinct buildings, the Public Service Center, parking ramps, and various other office locations. It also accounts for the coordination and management of special projects. Parking ramp maintenance and the radio shop operations were added to this fund in 2002. In 2004 Property Services added two more areas to its list of duties: space and asset management, and security management. Security management is part of the increase in security that has come about since the 9/11 attacks. In 2005, Property Services added CPED Maintenance.

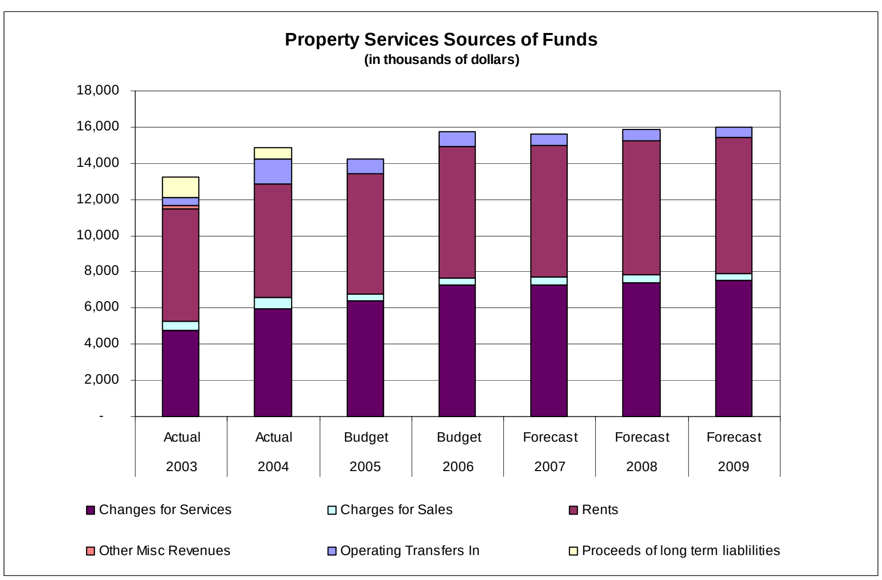
### Historical Financial Performance

The proposed building rental rates are based on a three-year actual expenditure average. In 1998 and 1999 rates were not increased to fully cover the expenditures in this fund, in order to reduce pressure on customer budgets. This resulted in negative financial performance during this period and a decline in cash balance. Since 1999, rates to city departments have been allowed to increase annually in order to fully fund the direct and indirect costs in the Property Services Fund. The fund currently has a negative cash balance of $600,000. Revenues are expected to be slightly higher than expenditures in 2006.

### 2006 Budget

#### *Revenues*

The increase in revenues from 2005 to 2006 is related to maintenance of CPED owned properties.



| *Revenue Assumptions (2006)* | |
|---|---|
| *Total Number of Buildings* | ***120*** |
| *Number of Buildings in Downtown* | ***3*** |
| *Number of Buildings in the rest of the city* | ***117*** |
| *Number of Lease Arrangements managed* | ***1*** |
| *Number of Radios* | ***3000*** |

### *Expenditures*

The increase in expenditures from 2005 to 2006 is related to CPED Maintenance.

### *Transfers to/from Other Funds*

The 2006 budget includes $31,089 of transfers out to other funds to cover the cost of debt service related to the Minneapolis Employees Retirement Fund (MERF) unfunded liability.

There is also a debt service transfer in for $688,563 to cover the General Fund's portion of the debt service related to the 800MHz emergency communications project. The Property Services fund is responsible for $350,000 a year in debt service for the project, with the remainder transferred in from the General Fund.

### *Capital Project and Debt Service*

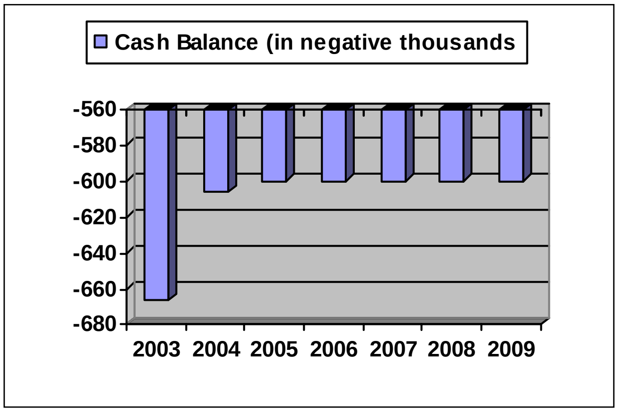
The Radio Shop, a division of the Property Services , has management responsibility for the $14 million 800 MHz Radio System. The Property Services Fund recognizes the fixed assets, along with the debt related to this project. The Radio Shop is funding a portion of the City's Public Safety Initiative through a contribution of $350,000 a year.

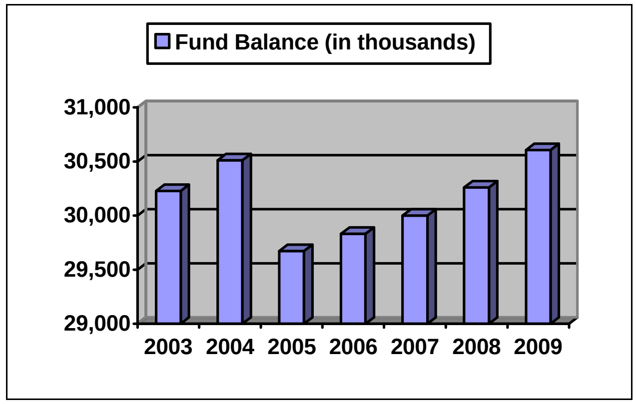
The Debt Service for 800 MHz radio system is now funded as follows:

| | |
|---|---|
| $688,563 | Transfer from the General Fund |
| $350,000 | Property services portion of debt |
| $ 1,038,563 | Total Debt Service (Year 2006) |

### *Fund Balance*

The Property Services Fund had a positive net asset balance of $30 Million in 2005. However, this fund does not recover the depreciation of the buildings that are assets in the fund. Therefore, the fund balance will continue to decrease every year, even though the fund is breaking even in terms of cash. This trend will result in the fund maintaining a negative cash balance of approximately $600,000.


Cash Balance (in negative thousands
-560
-580
-600
-620
-640
-660
-680
2003 2004 2005 2006 2007 2008 2009


Fund Balance (in thousands)
31,000
30,500
30,000
29,500
29,000
2003 2004 2005 2006 2007 2008 2009

## City of Minneapolis
## FY 2006 Budget
## Financial Plan (in thousand of dollars)

### Property Services Fund - 6200

| | 2003 Actual | 2004 Actual | 2005 Current Budget | 2005 Projected | 2006 Budget | % Chg From 2005 Budget | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| **Source of Funds:** | | | | | | | | | |
| Changes for Services | 4,777 | 5,941 | 6,381 | 7,924 | 7,248 | 14% | 7,300 | 7,400 | 7,500 |
| Charges for Sales | 511 | 617 | 385 | 555 | 400 | 4% | 410 | 420 | 430 |
| Rents | 6,214 | 6,269 | 6,648 | 6,507 | 7,256 | 9% | 7,300 | 7,400 | 7,500 |
| Other Misc Revenues | 184 | 12 | 2 | 237 | 3 | 50% | 4 | 5 | 6 |
| Operating Transfers In | 389 | 1,416 | 812 | 812 | 844 | 4% | 612 | 638 | 547 |
| Proceeds of long term liablilities | 1,166 | 581 | 0 | 0 | | 0% | 0 | 0 | 0 |
| **Total** | 13,241 | 14,836 | 14,228 | 16,035 | 15,751 | 11% | 15,626 | 15,863 | 15,983 |
| **Use of Funds:** | | | | | | | | | |
| Property Services Administration | 201 | 186 | 566 | 484 | 775 | 37% | 780 | 790 | 800 |
| Radio Equipment | 1,661 | 1,643 | 2,283 | 1,780 | 2,350 | 3% | 2,350 | 2,360 | 2,370 |
| Municipal Market | 59 | 25 | 31 | 18 | 32 | 3% | 33 | 34 | 35 |
| Facilities Management | 9,604 | 10,923 | 11,053 | 12,258 | 11,361 | 3% | 11,300 | 11,400 | 11,500 |
| Capital Expenditure | 1,166 | 581 | 0 | 0 | 0 | 0% | 0 | 0 | 0 |
| Project Management | 229 | 0 | 0 | 0 | 0 | 0% | 0 | 0 | 0 |
| Debt Service | 502 | 1,162 | 1,049 | 1,049 | 1,039 | -1% | 962 | 988 | 897 |
| Transfers | 117 | 33 | 86 | 86 | 31 | -64% | 32 | 33 | 34 |
| Finance | 115 | | 0 | 0 | 0 | 0% | 0 | 0 | 0 |
| **Total** | 13,654 | 14,553 | 15,068 | 15,675 | 15,588 | 3% | 15,457 | 15,605 | 15,636 |
| **Property Services Fund Margin** | (413) | 283 | (840) | | 163 | | 169 | 258 | 347 |
| **Property Services Fund Balance** | 30,228 | 30,511 | 29,671 | | 29,834 | | 30,003 | 30,261 | 30,608 |
| **Property Services Cash Balance** | (666) | (606) | (600) | | (600) | | (600) | (600) | (600) |

**City of Minneapolis**
**FY 2006**
**Financial Plan**

**Self-Insurance Fund**

The Self-Insurance Fund is used to account for employee medical, dental and life insurance benefit 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.

## Historical Financial Performance

The net assets of the Self-Insurance Fund reflected a negative position $37.9 million at year-end 2004, improving $5.3 million the last three years. The majority of this negative balance is due to the required accounting recognition of liability claims that have occurred, but are not reported.

In 2000, the negative net asset balance increased by $17.1 million due to two major factors. The first was an $8.75 million settlement in which bonds were issued to pay off a legal judgement. The second was a $7.7 million accounting adjustment to "unpaid claims" liability due to the financial results of a recent actuarial study.

During 2003, the City Council adopted a financial plan for the Self Insurance Fund, which will result in the fund reaching positive cash balance by year 2006, from a low of a negative $8.2 million at year end 2001. At the end of 2004, the fund had a cash balance of a negative $2.1 million. This is $3.5 million ahead of plan and the positive cash balance will be achieved a year ahead of schedule if the trend continues.

## 2006 Budget

*Revenues/Expenditures*

Medical and Life programs are fully contracted-out so that revenues and expenses should be equal at year-end as premiums are determined by and paid to the contractors. The City's contract with Blue Cross Blue Shield expires at the end of 2006. For planning purposes, the City has assumed a 19% increase in health insurance premiums for year 2006.

The Dental and Minneflex program premiums are estimated and actual costs are expensed.

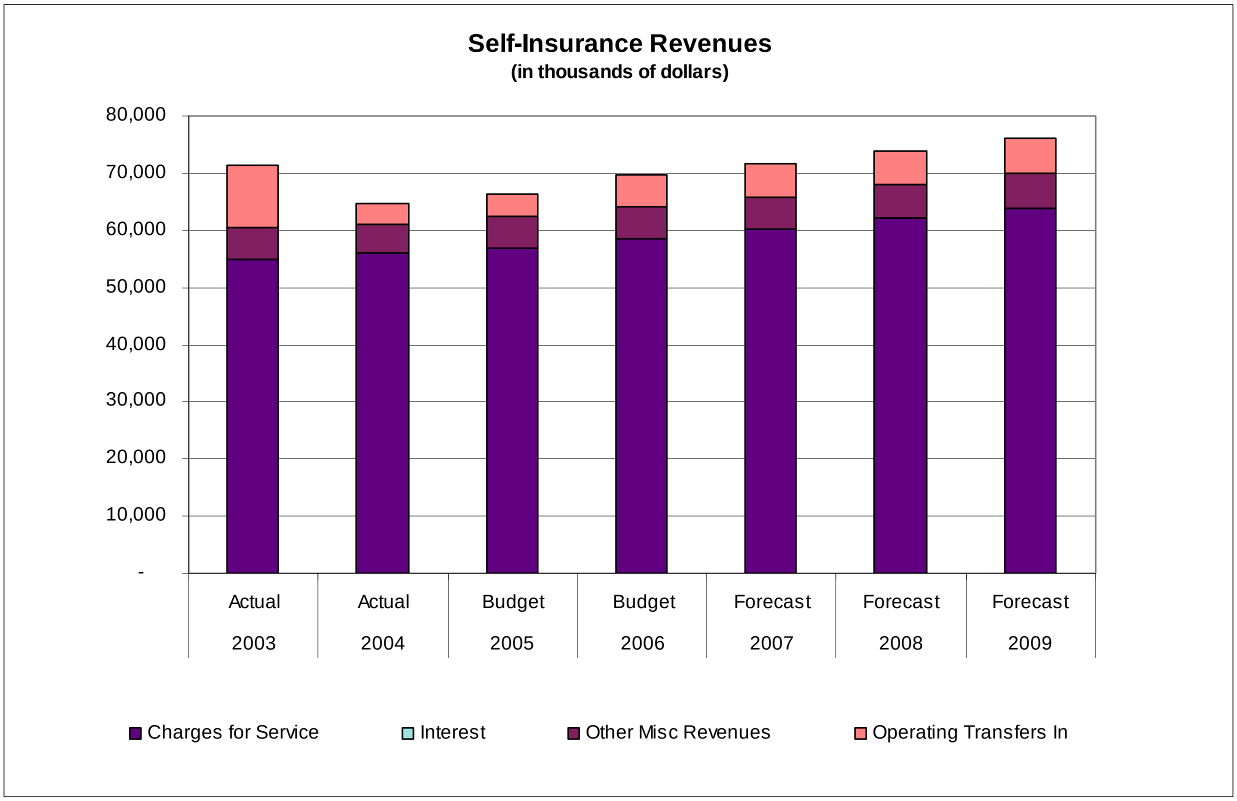
The Unused Sick Leave Program provides a payout of unused sick leave to qualified employees at 50% pay. Payments are funded by 0.7% gross pay contributions from the

City, Park Board and Library Board into a severance pool. The rate for City Police Officers and Firefighters is 1.1% of gross pay. This program was reviewed for compliance with IRS guidelines and modified for year 2002.

The Alternative Dispute Resolution (ADR) Program was established through funds collected through payroll deductions and direct payment as agreed to in previous labor contracts. Occupational Health actual expenses are billed to departments.

The Workers Compensation payments are estimated at $8.4 million for 2006. This is a 4% increase over the prior year.

The Liability Program expenditures for 2006 are $2.9 million. The base budget includes funding for the $1.1 million (average) in annual debt service that is required to service the debt related to the $8.8 million settlement in 2000, for which bonds were issued to finance the payout, for the next 10 years.




The budget also includes a change in accounting for the General Fund overhead charge that replaces various separate charges for indirect costs that were previously budgeted in separate agencies.

*Debt Service*

The 2006 budget includes $1.2 million in debt service payments on an outstanding balance of $5.4 million in variable rate debt.

## City of Minneapolis
## FY 2006 Budget
## Financial Plan (in thousands of dollars)

### Self Insurance Fund - 6900

| | 2003 Actual | 2004 Actual | 2005 Current Budget | 2005 Projected | 2006 Adopted Budget | % Chg from 2005 Budget | 2007 Forecast | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Source of Funds:*** | | | | | | | | | |
| Charges for Service | 54,817 | 56,036 | 56,906 | 57,001 | 58,476 | 2.8% | 60,230 | 62,037 | 63,898 |
| Interest | - | - | - | - | - | | - | - | - |
| Other Misc Revenues | 5,653 | 4,922 | 5,427 | 5,214 | 5,507 | 1.5% | 5,672 | 5,842 | 6,018 |
| Operating Transfers In | 10,779 | 3,697 | 3,885 | 3,885 | 5,665 | 45.8% | 5,835 | 6,010 | 6,190 |
| Total | 71,249 | 64,655 | 66,218 | 66,100 | 69,648 | 5.2% | 71,737 | 73,890 | 76,106 |
| ***Use of Funds:*** | | | | | | | | | |
| Debt Service | 94 | 77 | 314 | 314 | 1,205 | 283.8% | 1,241 | 1,278 | 1,317 |
| Transfers | 5 | 6 | 125 | 125 | 45 | -64.0% | 46 | 48 | 49 |
| Health and Welfare | 43,875 | 43,564 | 45,099 | 44,718 | 45,810 | 1.6% | 47,184 | 48,600 | 50,058 |
| Attorney | 4,250 | 4,249 | 4,986 | 4,922 | 5,316 | 6.6% | 5,475 | 5,640 | 5,809 |
| Workers Compensation | 6,047 | 6,470 | 8,083 | 7,573 | 8,404 | 4.0% | 8,656 | 8,916 | 9,183 |
| Liability | 12,538 | 5,470 | 3,289 | 4,166 | 2,855 | -13.2% | 2,941 | 3,029 | 3,120 |
| Human Resources | 441 | 567 | 700 | 680 | 1,115 | 59.3% | 1,148 | 1,183 | 1,218 |
| Finance Dept - Risk Mgmt | 1,725 | 1,249 | 1,547 | 1,530 | 2,013 | 30.1% | 2,073 | 2,136 | 2,200 |
| Total | 68,975 | 61,652 | 64,143 | 64,027 | 66,762 | 4.1% | 68,766 | 70,829 | 72,954 |
| ***Fund Margin*** | 2,274 | 3,003 | 2,075 | 2,073 | 2,886 | 39.1% | 2,972 | 3,061 | 3,153 |
| | | - | | | | | | | |
| ***Fund Balance*** | (40,983) | (37,980) | (38,908) | (38,910) | (36,024) | 7.4% | (33,053) | (29,992) | (26,840) |
| ***Cash Balance*** | (4,588) | (2,148) | (73) | (75) | 2,811 | 3950.1% | 5,782 | 8,843 | 11,995 |

Note:
- The Deficit Reduction Plan for this fund projected cash to be at ($1 ) million and Net Assets at ($32) million at the end of 2006.