

The City has shown a commitment to address the financial challenges existing within the Internal Service Funds and is confident that the financial plans that have been adopted will resolve the condition within an acceptable time period.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final budget for the City's General Fund represents the original budget plus any previously appropriated funds set aside for the purpose of honoring legally incurred obligations (prior year encumbrances and commitments) plus any additional supplemental appropriations that may occur during the fiscal year. In fiscal year 2002, a total of \$1,138 had been set aside for prior year encumbrances and commitments, and the net amount of supplemental appropriations to the General Fund during the fiscal year was \$2,349. Significant budget actions included:

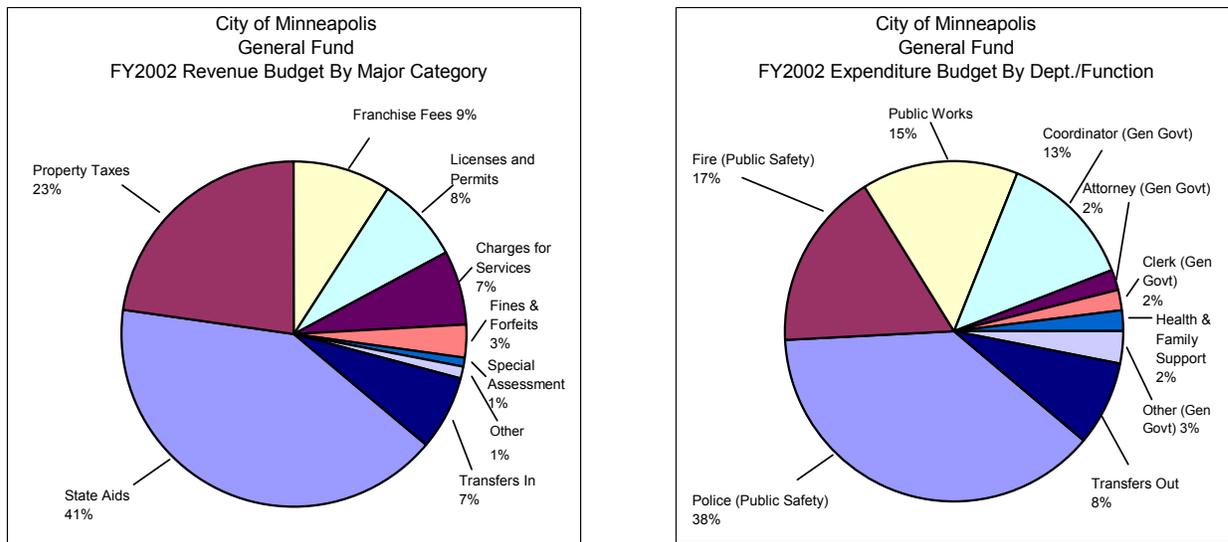
- \$1,432 Police Department budget increase for shift differential pay, and compensatory time, vacation payouts
- \$600 increase in Police Department budget for Water Plant security
- \$580 increase in general fund budget due to reduced tax revenue due to MCDA property tax abatement
- \$524 increase in Public Works – Field Services budget for bridge repair and reconstruction for other departments

Excluding the \$1,138 prior year encumbrance and commitment appropriation, the original General Fund budget for fiscal year 2002 was \$248,822, which includes projected transfers-out of \$20,002. General revenues and other resources were originally estimated at \$248,826, which includes projected transfers-in of \$20,428.

During the year, actual revenues and other resources were greater than final budgetary estimates by \$3,041, and expenditures were less than final budgetary estimates by \$4,871, resulting in a favorable variance of revenues over expenditures of \$7,912.

As indicated above, the General Fund financial performance enabled the City to meet and exceed a fund balance of 10% of current expenditures for the fund, as required by City policy (fund balance equals \$46,089, current expenditures include \$226,570). The variations in the actual amounts from the original and final General Fund revenue and expenditure budgets did not negatively impact services provided from fund resources or the liquidity of fund assets.

Current fiscal year revenue and expenditure budgets for the General Fund by major category or function are as follows:



City officials have undergone a yearlong planning process that involved evaluating Minneapolis' current and long-range financial position and setting goals and priorities for City services. Minneapolis has significant pressures on its general city resources due reductions in Local Government Aid (LGA) from the state beginning in 2003.

Significant future costs are anticipated for funding gaps in the City's pension obligations to retirees and in its internal service funds. Another factor is employee wages and benefits, which make up about 75 percent of the City's general fund expenses. Health care costs are increasing and during the past five years, City employees received pay increases that averaged greater than four percent annually. In addition, Minneapolis voters approved a levy to build a new Central Library and fund improvement to the City's community libraries.

In February 2003, the Governor proposed reductions in LGA for 2003 and 2004 as part of his proposal to balance the State's budget for the 2-year period beginning July 1, 2003. The Mayor proposed and the City Council approved a reduction of \$20,600 for the 2003 General Fund budget to address the LGA allocation reductions. The City is expected to approve a budget for 2004 including any additional LGA reductions.

The City's leaders are dealing with these budget challenges by planning, property tax growth limits, and cutting spending.

Planning. To protect the City's long-term financial health, City leaders have directed departments to base budgets on a long-term financial projection. Instead of yearly estimates, budgets will be based on a five-year financial plan. The Council adopted a resolution in January 2003, Five-Year Financial Direction, establishing resource constraints and providing direction on how City budget cuts will be made over the five-years.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

Property Tax Growth Limits. The Mayor and Council capped annual increases for the City’s share of the property taxes at a maximum of eight percent. About four percent of this increase will be used to support debt for pensions, internal service funds, and libraries.

Cutting Spending. Even with this tax increase, bridging the gap between revenue and expenses, along with paying off the City’s debt, will require substantial cuts to every City department. The Five-Year Financial Direction provides direction on how the cuts will fall across departments within established priorities. City leaders approved a resolution setting a ceiling for annual employee wage increases at two percent for future labor contracts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City’s investment in capital assets for its governmental and business-type activities as of December 31, 2002, amounts to \$1,649,579 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, roads, highways, and bridges. The total increase in the City’s investment in capital assets for the current fiscal year was 5% (a 4.5% increase for governmental activities and a 5.7% increase for business-type activities).

**City of Minneapolis
Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total		
	2002	2001	2002	2001	2002	2001	Variance (%)
Land and easements	\$ 111,455	\$ 112,259	\$ 131,854	\$ 132,084	\$ 243,309	\$ 244,342	(0.42)
Infrastructure	143,918	152,789	277,783	262,093	421,701	414,882	1.64
Construction in progress	62,138	186,392	95,944	88,418	158,082	274,811	(42.48)
Structures and improvements	429,986	258,488	339,638	317,059	769,624	575,547	33.72
Equipment	46,212	49,990	10,651	10,139	56,863	60,129	(5.43)
Total	<u>\$ 793,708</u>	<u>\$ 759,918</u>	<u>\$ 855,871</u>	<u>\$ 809,793</u>	<u>\$ 1,649,579</u>	<u>\$ 1,569,711</u>	<u>5.09</u>

Major capital asset transactions/events during the current fiscal year included:

- In restating balances as of January 1, 2002, the City capitalized infrastructure assets as required by GASB Statement No.34. These assets included items such as bridges, streets, street lighting and traffic signals.
- During 2002, the Convention Center expansion was reclassified from construction in progress to structure and improvements. Between previously recorded construction in progress and current year spending on the expansion, the expansion was capitalized in the amount of \$185,915.
- In 2002, the Water Department started an Ultrafiltration Program with projected costs of approximately \$140,460 (expected completion date of 2007). This new system of water filtration will give the City’s water system necessary plant improvements.

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