

**City of Minneapolis
2005 Adopted Budget**

**Financial Overview
Prepared by the City of Minneapolis Finance Department**

The 2005 Adopted Budget for all City funds represents a 4 percent increase in spending from the 2004 Adopted Budget, from approximately \$1.13 billion to \$1.17 billion.

When including transfer expense between city funds, the total Adopted Budget is \$1.27 billion. This represents an increase of \$29.4 million, or 2.4% percent. Transfers between funds decreased by \$15.6 million due to changes in accounting practices as well as the result of adjustments needed to account for the many organizational changes that have happened in the city.

Major Highlights

The 2005 Adopted Budget builds on many of the significant organizational and financial changes that have occurred in recent years. It is important to be aware of these major changes when making comparisons between budget years.

The major changes include:

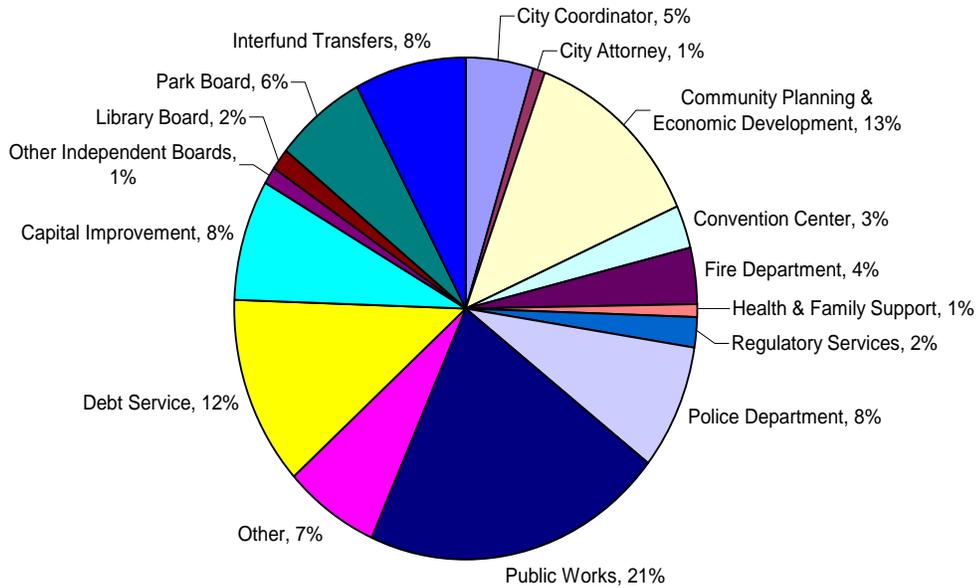
- **The Adopted Budget maintains the financial discipline of the eight percent property tax levy and the two percent limit on wage growth for all unsettled labor contracts.** This sets the parameters for the level of spending for all departments in the five-year financial direction. Ongoing budget pressures make this continued financial discipline critically important.
- **The State of Minnesota cut aid to Minneapolis by \$35 million (on an annual basis) in 2004 and by an additional \$2.2 million in 2005.** Local Government Aid (LGA) from the State will be \$80.3 million in year 2005 as compared to a 2004 budget amount of \$82.5 million and an original 2003 budget amount of \$117.5 million. Reduced service levels as a result of LGA cuts from 2003 and 2004 will remain in effect.
- **The Adopted Budget allocates costs to departments to ensure that they have the needed information for managing resources.** This budget reflects the implementation of the General Fund Overhead Rate model, which charges City departments outside the General Fund for management services they receive from General Fund departments, and the BIS rate model, which allocates the costs for technology, telephone, and data services to departments based on usage. In the future, departments can use this information to make management decisions based on the resources they actually consume. This change affects all City departments, making operating increases appear greater than they actually are.

- **The Adopted Budget recognizes that the City's Parking Business is in a temporary negative financial position as a result of economic conditions.** In order to address this challenge, the adopted budget decisions maintain the integrity of the adopted 2004 workout plan.
- **The Adopted Budget presents a realistic financial picture.** Revenue projections have been brought into line with actual experience, both at the department level, as well as through updating estimates on franchise fee revenue. The City continues to manage significant pension obligations.
- **The Adopted Budget also incorporates planned increases in utility fees in 2005 and future years.** While fees will still increase in order to pay for the cost of major capital investments, the Adopted Budget slows down overall capital spending. The Adopted Budget keeps the total plan for utility rate increases in place, while providing funding for important capital projects. Capital funds are focused in areas that generate operating savings.

City Spending

Below is a summary of the 2005 Adopted Budget by major spending categories, which includes transfers between funds and the independent boards.

**City of Minneapolis
Total City Expense Budget - Use of Funds
2005 Adopted Budget
\$1.27 Billion**



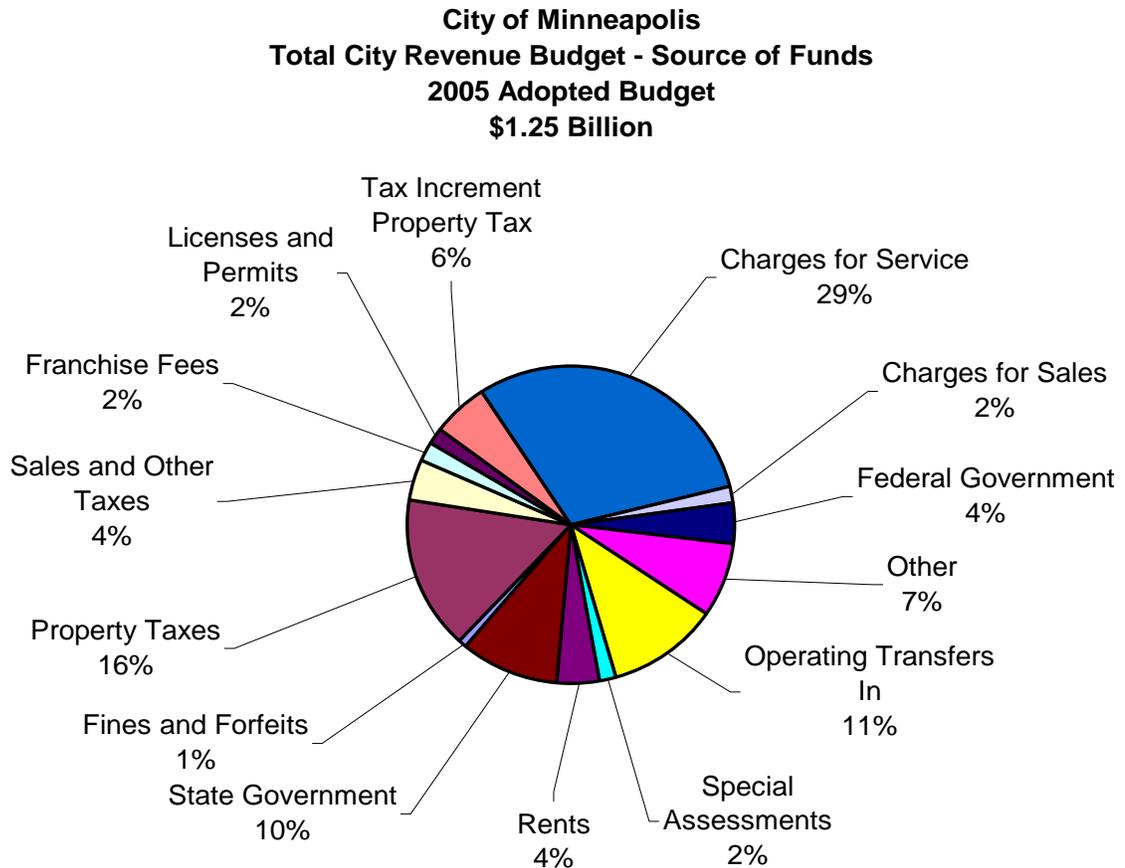
City of Minneapolis Expenditures by Service (in millions of dollars)

	2004 Adopted Budget	2005 Adopted Budget
City Coordinator (excluding Regulatory Services)	\$52.8	\$59.3
City Attorney	\$11.0	\$11.9
Community Planning and Economic Development	\$141.8	\$163.0
Convention Center	\$29.5	\$33.8
Fire Department	\$43.3	\$45.2
Health and Family Support	\$13.3	\$12.9
Regulatory Services	\$22.7	\$24.3
Police	\$99.5	\$102.5
Public Works – Field Services	\$29.1	\$28.8
Public Works – Sewer, Storm Water, Flood Mitigation	\$43.6	\$43.3
Public Works – Solid Waste and Recycling	\$25.6	\$26.5
Public Works – Transportation	\$50.0	\$54.5
Public Works - Water Treatment and Distribution	\$37.6	\$43.3
Public Works - Other (includes Internal Services)	\$58.2	\$70.4
<i>Public Works Subtotal</i>	<i>\$244.4</i>	<i>\$267.0</i>
Other City Services	\$11.7	\$13.6
Other	\$86.6	\$71.2
Debt Service (including Enterprise Funds)	\$142.5	\$155.1
Capital Improvement (including Enterprise Fund capital)	\$116.5	\$99.1
<i>Subtotal</i>	<i>\$1,015.6</i>	<i>\$1,059.0</i>
Independent Boards:		
Library Board	\$18.4	\$19.8
Park Board	\$79.1	\$78.8
Youth Coordinating Board	\$3.6	\$3.8
Other Boards	\$8.7	\$8.9
<i>Subtotal</i>	<i>\$109.8</i>	<i>\$111.4</i>
Total Expenditures (without Transfers)	\$1,125.4	\$1,170.4
Transfers to other funds	\$116.2	\$100.6
Total Expenditures with Transfers	\$1,241.6	\$1,270.9

Note: See “City Council Operating Departments” and “Independent Boards and Agencies” sections in the budget document for further explanation of changes between years.

City Sources of Revenue

Below is a summary of the City's 2005 total revenues by major category.



In 2005, the City of Minneapolis projects \$1.25 billion in revenue from a variety of sources. It is important to note that many of the City's revenues sources are tied revenue, meaning they are required to be spent in defined areas or on specific programs or projects. This limits the City's ability to apply the revenue to other departments or programs. For example, the City cannot use revenue from fees that it charges for services to fund general government services, such as police and fire services. The City charges fees for water, sewer, and garbage pick-up, but the State law requires that these fees be no higher than the cost of providing those services. So the City cannot raise water bills to pay police officers, for example.

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

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

	2004 Adopted Budget	2005 Adopted Budget
Property Tax ¹	\$181.1	\$196.4
Tax Increment Property Tax	\$71.0	\$68.9
Sales and Other Taxes	\$50.0	\$51.2
State Government	\$125.0	\$119.8
Local Government	\$8.4	\$9.5
Federal Government	\$63.4	\$52.2
Franchise Fees	\$23.5	\$22.1
Charges for Service	\$354.0	\$376.7
Charges for Sales	\$17.5	\$22.5
Licenses and Permits	\$21.5	\$23.5
Fines and Forfeitures	\$10.5	\$9.6
Special Assessments	\$4.8	\$21.3
Interest Income	\$9.7	\$3.3
Rents	\$46.6	\$52.2
Other ²	\$105.6	\$79.6
Subtotal	\$1,092.6	\$1,108.9
Transfers from Other Funds	\$136.6	\$139.9
Total Revenues³	\$1,229.2	\$1,248.8

City Budget by Fund

The City uses different “Funds” to account for the expense and revenue associated with the various services provided. The **General Fund**, which is where most of the property tax supported services are accounted for, represents 23 percent of the 2005 Council Adopted Budget, as compared to 21 percent in 2004.

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

Internal Services Funds are similar to Enterprise Funds in that they are used to account for services that the City provides that operate more like a business, however, Internal Service Funds’ primary customer is other City departments. Internal services include such services as

¹ Property taxes are budgeted at 98 percent of gross levy to reflect anticipated delinquencies.

² Other includes gains, contributions, other miscellaneous revenues, and proceeds from long-term liabilities.

³ Total expenditures exceed total revenue, which represents the annual budgeted change in fund balance. The change in fund balance is mostly due to timing of capital projects and bond issuance.

information technology, equipment rental (i.e. police squad cars and fire equipment), facility fees and self-insurance.

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

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

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

	2004 Adopted Budget	2005 Adopted Budget	2005 as % of Total
Expenditures:			
General Fund	\$262.8	\$291.3	22.9%
Enterprise Funds	\$295.4	\$272.6	21.5%
Internal Service Funds	\$149.4	\$167.3	13.2%
Special Revenue Funds	\$202.1	\$171.5	13.5%
Capital Projects Funds	\$141.3	\$132.6	10.4%
Debt Service Funds	\$80.8	\$124.3	9.8%
Independent Board Funds	\$109.8	\$111.4	8.8%
Total Expenditures	\$1,241.6	\$1,270.9	
Revenues:			
General Fund	\$262.8	\$285.8	22.9%
Enterprise Funds	\$290.6	\$270.1	21.6%
Internal Service Funds	\$156.8	\$168.4	13.5%
Special Revenue Funds	\$205.7	\$158.2	12.7%
Capital Projects Funds	\$151.8	\$140.9	11.3%
Debt Service Funds	\$56.8	\$114.9	9.2%
Independent Board Funds	\$104.7	\$110.5	8.8%
Total Revenues	\$1,229.2	\$1,248.8	
Changes in Balances	(\$12.4)	(\$22.1)	

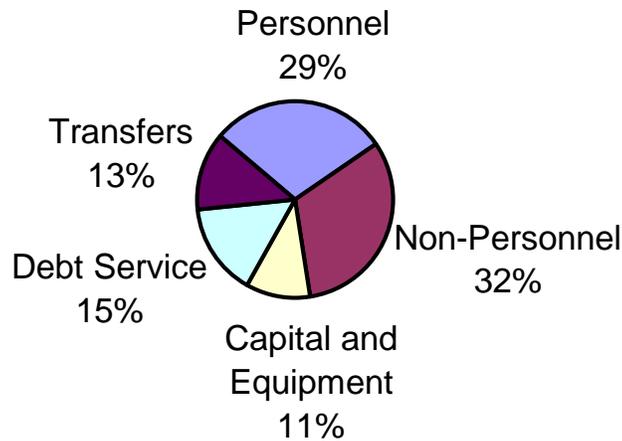
Spending by Major Categories

A significant amount of the City's budget is spent on personnel, \$374 million or nearly 30 percent of the total budget. The 2005 Council Adopted Budget includes a decrease of 69 budgeted full-time equivalent positions; this represents a 1.25 percent reduction. The independent boards are included in these figures.

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

	2004 Adopted Budget	2005 Adopted Budget
Full Time Equivalent Positions	5,569	5,500
Expenditures:		
Personnel	\$362.5	\$373.9
Non-Personnel	\$389.3	\$405.9
Capital and Equipment	\$162.7	\$136.3
Debt Service	\$142.3	\$193.3
Transfers	\$184.8	\$161.6
Total Expenditures	\$1,241.6	\$1,270.9

City of Minneapolis Total City Budget - Expenditures by Category 2005 Adopted Budget \$1.27 Billion



Major Budget Pressures: City Council Funds

➤ Growth in personnel costs

Salary and Wages. The 2005 Adopted Budget includes an increase in total personnel expenditures from \$362.5 million to \$373.9 million; this represents a 3 percent increase from the 2004 Adopted Budget. For City positions, not including the Park and Library Boards, growth in salary and wages are budgeted at 2 percent for bargaining units without settled labor contracts.

Benefits. Health and dental insurance expenditures are budgeted to increase by 12 percent from the 2004 adopted budget, from \$32.3 million to \$36.2 million. This change reflects both changes in premium expense (estimated at 19% for health and 4% for dental) and changes in coverage, for example changes between family and single coverage.

➤ Funding for Internal Services Funds workout plans

The 2005 budget includes an additional \$3.9 million in funding for internal city services: self insurance, equipment services, and information technology services (i.e., workers compensation, general liability, squad cars, fire trucks, and computers).

During the 1990's, due to other external demands, the revenue to support these internal services did not keep pace with the growth in expenditures. Significant negative cash balances resulted because of annual expenses exceeding revenues. At year-end 2003, the City's Internal Services Funds had combined negative net assets of \$34 million, as compared to a negative \$30.2 million in 2002, and a negative retained earnings of \$32.2 million in 2001. While the balance is still negative, the position of the funds is showing marked improvement over the 2000 net asset deficit of \$54 million. The major reason for the decrease in net assets during 2003 was a correction involving the capital assets of one of the six internal service funds. This correction had the impact of decreasing that fund's net assets by approximately \$8 million.

The adopted financial workout plans for the Internal Services Funds will result in positive net assets and cash balances for these funds over the next few years. The 2005 Adopted Budget will meet the financial goals of the three adopted plans.

➤ Parking Fund Financial Plan

The Council Adopted budget reduces the General Fund transfer from the City's Municipal Parking Fund by \$1 million. This decrease is in line with the adopted Parking Fund financial plan, which was developed to address the cash deficits within the fund.

➤ Funding for Physical Infrastructure

Transportation Infrastructure

In January 2003, the Mayor and Council adopted a five-year plan for the property tax supported funds; this plan was updated in March of 2004. One of the many results of this plan is a reduction in the funding available for maintenance and construction of transportation-related physical infrastructure, as managed by the Public Works Department. The City made the decision that forecasted resource levels would not support the previously adopted planned growth in spending, neither capital nor maintenance. This was based on the Mayor and Council's decisions on how the limited growth in resources would be allocated. Police and Fire were the top priorities for funding.

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

Park Board Infrastructure

The 2005 Council Adopted budget includes \$2.4 million in property tax supported funding for Park Board capital and \$1.0 million earmarked for Parkway Street Lighting Systems improvements. The amounts for Park Board capital improvements include a Park Board capital levy, which has been increasing by \$215,000 each year since 2003. This levy, as adopted, will grow to reach \$1.5 million in 2009.

Utilities (Sewer and Water)

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

➤ Funding for increasing pension liabilities

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

Minneapolis Employee's Retirement Fund (MERF): While the City and MERF members have been making the annual amount of contributions mandated by the State, MERF members have been retiring at a faster pace and at higher costs than originally forecasted by MERF actuaries.⁴ The City began issuing general obligation (pension) bonds in December of

⁴ The actuarial assumptions used by MERF are specified by state statute. These actuarial assumptions used have not materialized and as a result have not reflected the actual number and cost of retirements.

2002 to cover the estimated cost of retirements and continued to do so in 2003; additional bonds will have to be issued to cover these costs in 2005 and in the future.

The 2005 budget will include the funds necessary to make the debt service payments associated with these bonds. MERF debt service has been allocated to departments and agencies with employees in the MERF retirement plan.

Minneapolis Police Relief Association: The increase in the City's contribution for the MPRA is directly related to an increase in the Association's unfunded liability. In the past few years, the fund's unfunded liability has more than doubled, due primarily to the negative performance of the equity markets. This has increased the fund's unfunded liability from \$56 million in 2000 to \$165 million in 2003⁵, an increase of \$109 million. The incremental increase in the City's contribution to MPRA is funded through bond proceeds in order to meet the Mayor and City Council's adopted tax policy, as was done with the 2003 and 2004 adopted budgets.

Minneapolis Fire Relief Association: Starting in 2005 the City will again make a contribution to the MFRA. Another of the City's closed pension funds, the MFRA was previously 100 percent funded, which meant that the City did not need to make annual contributions. Poor investment performance reduced the funding level for the MFRA and, as a result, the City will make a contribution of approximately \$5 million to the MFRA in 2005. This contribution will be funded through the issuance of bonds, similar to the MPRA and MERF. The debt service associated with these bonds will be paid through the property tax levy.

➤ **Funding for debt obligations for voter-approved Central Library and community library improvements**

The first of several years of major increases in the property tax levy to fund the new central library and community libraries, as approved by the voters, began in 2003. For 2005, the property tax levy amount will be approximately \$3 million and will increase annually by \$3.0 million for years 2005 through 2007 until the base annual property tax levy for payment on the referendum bonds reaches \$12.5 million.

Major Changes in the 2005 Council Adopted Budget

The Council Adopted Budget recommends the following major changes:

- Reductions in accordance with the five year plan for the following departments: City Attorney (\$290,000), Emergency Communications (\$180,000), Finance (\$320,000), Human Resources (\$102,000), Civil Rights (\$200,000), Community Planning and Economic Development (\$80,000), and Fire (\$251,000).

⁵ The City's municipal contribution is based on the most recent completed actuarial valuation. The City's 2005 contribution is based upon the 2003 actuarial valuation.

- Reduction of \$75,000 to Regulatory Services and increase to the Police Department of \$75,000
- Reduction of \$75,000 to the City Coordinator's department and increase to the Police Department of \$75,000.
- Reductions less than the five year plan for the Police department (\$2.2 million in reductions)
- Transfer of \$5 million for the Year 2004 General Fund reserve for the purpose of paying principal and interest on \$5 million of bonds that funded a portion of the City's 2005 pension obligations. This will reduce current debt service by an annual amount of \$500,000. Increase the Police Department budget by \$500,000 in 2005.
- Reduction of \$125,000 to the Art in Public Places capital project and addition of \$125,000 to the Park Board capital projects (over the five years of the plan).
- Reductions less than the five year plan for the Health and Family Support Department (\$650,000 in reductions)
- Reductions less than the five year plan for the Public Works department as a result of slower growth than anticipated (\$1.2 million in reductions)
- An additional position to the Communications department for Community Engagement (\$65,000)
- Additional \$75,000 to Health and Family Support to fund on a one-time basis the Minnesota Visiting Nurses Association (MVNA) services with daycare providers (reduces the Health and Family Support reduction as shown above.
- Additional resources to intergovernmental relations for enhanced federal and state efforts (\$65,000)
- One-time funding to address the Civilian Review Authority Backlog (\$70,000)
- Shifting the New Arrivals and Native American Advocate from the Department of Health and Family Support to the Civil Rights department. (\$235,000 plus CDBG funding)
- An additional position in Community Planning and Economic Development to support enterprise job creation and career laddering (\$77,000)
- One-time funding for a Police Department Retirement Incentive (\$350,000)--any positions vacated as a result of the incentive will be eliminated
- A reduction in the planned debt service support for pensions as the result of more detailed actuarial analysis (\$1.5 million)

- Reductions in the City Attorney's office related to declines in Local Law Enforcement Block Grant and Hennepin County reimbursement
- Shifting the Real Estate function in Public Works to Community Planning and Economic Development (\$200,000 and a position); shifting the Property Management functions in Community Planning and Economic Development to Public Works Property Services (\$830,000 and seven positions)
- The Council did not accept the Mayor's recommendation regarding reducing the Greater Minneapolis Convention and Visitor's Bureau's allocation by \$100,000. The Council also did not adopt the \$350,000 allocation from within the GMCVA's funding for downtown policing. The adopted budget includes redirecting the \$100,000 previously used for the Minneapolis Unwrapped and Riverfront Marketing programs to a Request for Proposal process from Neighborhood groups for neighborhood tourism related marketing
- One-time funding in the Public Works Solid Waste and Recycling budget for a study of options on the South and Pacific transfer facilities (\$150,000)
- Addition of \$40,000 to the Residential Parking planning fund in the Public Works Operating Budget. This reduces the Parking Fund balance.
- One-time funding in the permanent improvement fund of a study of the Midtown Greenway Street car, including the study of the bridges (\$200,000 funded from property sales by Public Works to date)
- CDGB dollars for problem properties are allocated in the following manner: \$75,000 to the Police Department; \$25,000 and .25 FTE position to Fire; \$50,000 and .5 FTE position to the City Attorney \$50,000 and 1 FTE position to Regulatory Services.
- A project was added to CPED to address the City's commitment to acquire the Lao Lutheran Church within three years, with staff directed to return with potential funding mechanisms.
- Allocation of \$200,000 from within business finance funding for Neighborhood Business Associations, within current CPED funds.
- Application of existing financial policies to the Sewer/Stormwater fund reorganization; existing policies allow for accounting changes to implement the Council's intent, including creation of new fund, agencies and position allocations.
- Addition of \$100,000 in additional workhouse costs, based on 2003 and 2004 year to date expenditures, with a reduction in contingency by a like amount.
- Direction to licensing staff to work with the City Attorney and prepare a recommendation regarding the strategy of charging business licensees the cost of providing added police services to business owners, with a report to Public Safety and Regulatory Services Committee by February 2nd, 2005.

- Implementation of the General Fund Overhead Rate model, which charges City departments outside the General Fund for management services they receive from General Fund departments. The departmental shifts in expenses and revenues are shown in the chart below.

General Fund Overhead Rate Model			
Department	Expense Increase	Revenue Increase	Revenue Decrease
Miscellaneous City-wide Revenue		\$14,151,641	
Finance-Cash Mgmt (Utility Billing)			\$4,488,391
Finance-Controller	\$3,985,607		\$45,000
Finance-Community Planning and Economic Development - Development Finance			\$2,305,807
Transfers from Community Planning and Economic Development			\$871,500
Payments from IBA			\$1,100,000
Human Resources - Enterprise Funds	\$924,645		
Civil Rights - Community Planning and Economic Development Payment			\$245,000
Water Fund Increase	\$601,004		
Total	\$5,511,256	\$14,151,641	\$9,055,698

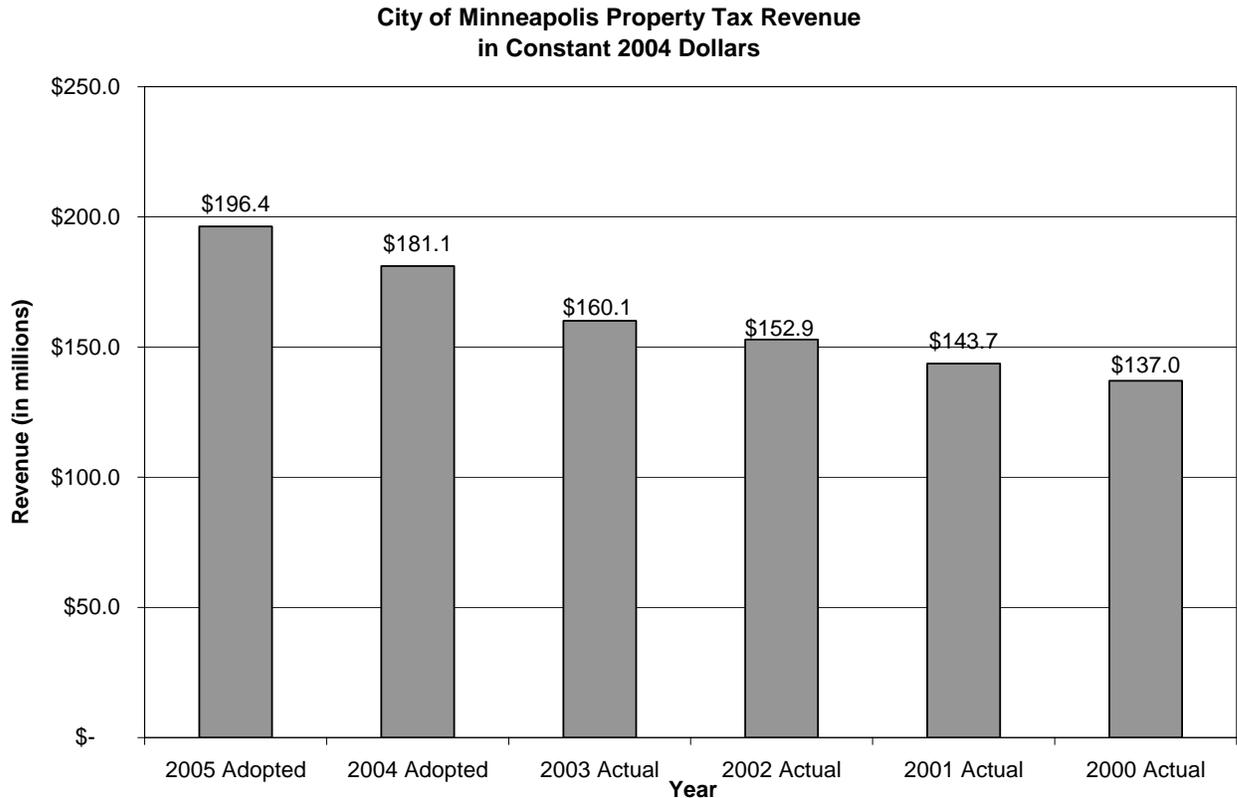
Property Tax and Fee Changes

➤ Property Tax Revenue

The 2005 budget includes a property tax rate estimated at 62.999 percent. This tax rate will provide an additional \$11.4 million in property tax revenue, which is a 6 percent increase over 2004. Total (tax capacity based) property tax revenue will increase from \$176 million to \$187 million. The City's net tax capacity (after reductions for tax increment and fiscal disparities) is projected to increase by 11 percent for taxes payable 2005, from \$268 million to \$296 million.

In addition to the \$11.4 million in property tax revenue increase that is spread over the City's tax capacity, the City will also need to increase property tax revenue by another \$3 million due to the voter approved library referendum bonds that have been issued for a new central library and improvements to the City's community libraries.

In total, property tax revenue for the City and its independent boards will increase by 8 percent from 2004 to 2005 or by \$14.4 million, based on the 2005 budget. This increase is consistent with the City Council's adopted property tax policy.



*The amounts shown in this table represent property tax and fiscal disparities revenue.

➤ **Sewer and Water Utility Fees**

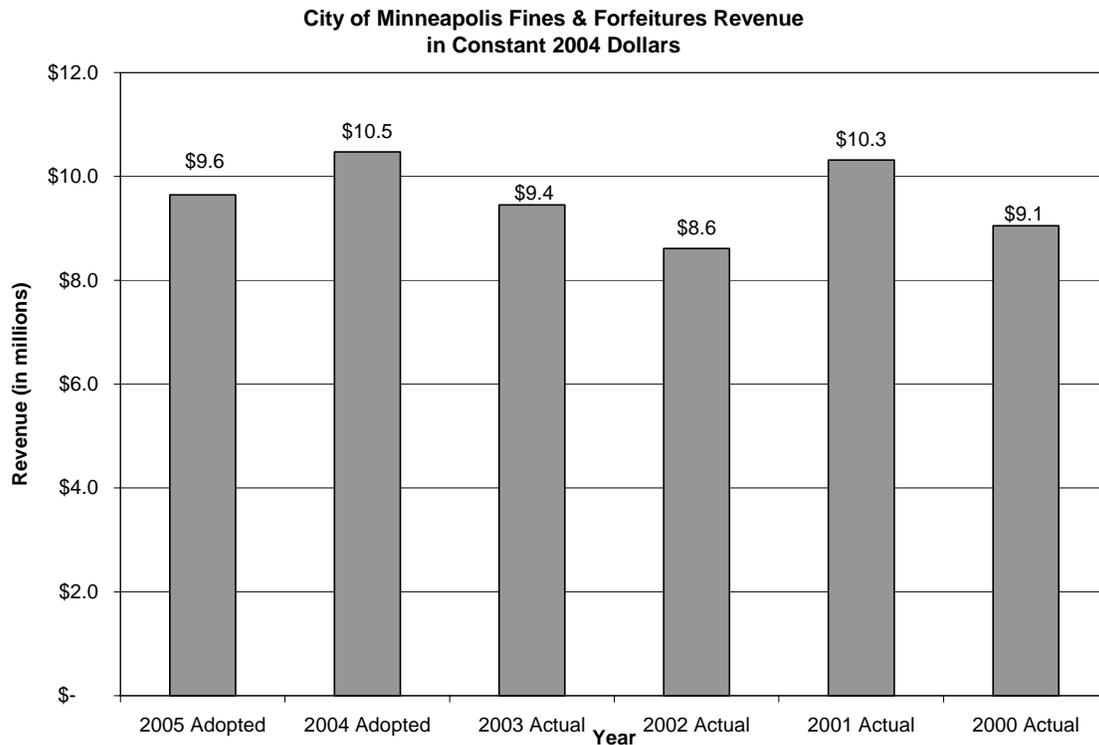
To fund investments for the City’s sewer, flood mitigation, storm water management, and water treatment and distribution systems, the 2005 budget includes an increase in utility rates of \$0.12 for water and \$0.21 for storm water/sewer/flood mitigation (SWSFM). This represents a 5.0 percent increase for water and a 6.1 percent increase for SWSFM.

➤ **Solid Waste and Recycling Fee**

The Council did not increase solid waste and recycling fees for 2005. The five-year rate schedule for solid waste and recycling fees did include a planned 75-cent increase in the per dwelling unit monthly rate, but that increase is not necessary due to stronger than anticipated financial performance of this fund. Strong management control has resulted in several years of positive net income above the planned level.

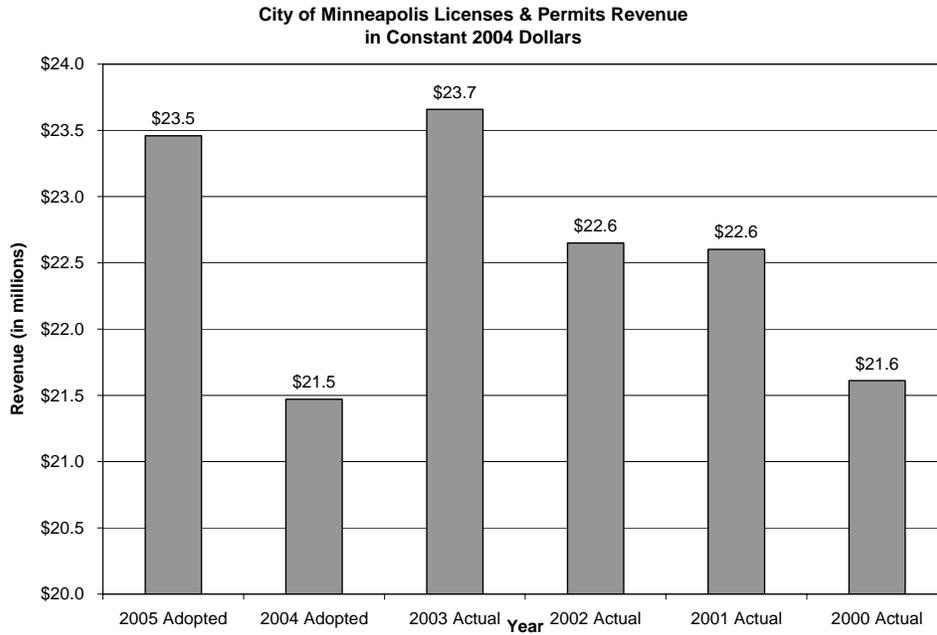
➤ **Franchise Fees**

The 2005 Council Adopted Budget includes a \$1.2 million decrease in franchise fee revenues related to the City’s franchise agreement with Xcel Energy. This decrease was anticipated and relates to the structure of the agreement’s fee schedule.



➤ **Other Fee Changes**

The licenses and inspections fees will be adjusted by an inflationary factor, as already approved by the Council in some cases. The 2005 Council Adopted Budget is structured so as to prevent the property taxpayers from having to subsidize fee-based services.



➤ **State Aid**

The State of Minnesota cut aid to Minneapolis by \$37 million (on an annual basis) -- Local Government Aid (LGA) from the State will be \$80.3 million in year 2005 as compared to an original 2003 budget amount of \$117.5 million.

