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**City of Minneapolis
FY 2006 Budget
Financial Management Policies**

The City of Minneapolis' Financial Management Policies provide a framework for the fiscal management of the City. These policies cover the following areas:

- ◆ Operating Budgeting
- ◆ Revenue
- ◆ Reserve
- ◆ Debt
- ◆ Capital Budget
- ◆ Accounting
- ◆ Investment
- ◆ Development Finance
- ◆ Public Participation
- ◆ Administrative
- ◆ Transfers

OPERATING BUDGETING POLICIES

The objective of the operating budget policies is to provide adequate levels of essential City services at reasonable costs.

Balanced Budget. The operating budget for the City shall be balanced. For each fund, ongoing costs are not to exceed ongoing revenues plus available fund balances used in accordance with reserve policies.

Self-supporting Enterprises. All enterprise activities of the City shall be self-supporting to the greatest extent possible, including those activities contained within the Internal Service Funds.

Service Levels. Performance measurement and productivity indicators for services shall be integrated into the annual budgeting process. Changes in service levels shall be governed by the following:

Budget Process. The annual budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints. Requests for new programs made outside the annual budget process shall be discouraged. New initiatives should be financed by reallocating existing City resources to the services with the highest priorities.

Personnel Expenses. Additional personnel should be requested only after service needs have been thoroughly documented or after it is substantiated that

the new employees will result in increased revenue or enhanced operating efficiencies.

Grant Funded Programs. Programs financed with grant monies shall be budgeted in special revenue funds, and the service program shall be adjusted to reflect the level of available grant funding. Individual grant budgets are controlled in the financial system at the cost category level. In the event of reduced grant funding, City funding sources shall be substituted only after all competing program priorities are considered during the annual budget process.

Basis of Budgeting. Except as noted below, the basis of budgeting and basis of accounting are the same. The budgets of all governmental and agency funds are created using the modified accrual basis. Their revenues are budgeted if they are measurable and available as net current assets. Major revenues that are determined to be susceptible to accrual include property taxes, special assessments, grants-in-aid, intergovernmental revenues, rentals, franchise fees, and intra-City charges. Interest on investments, short-term notes and loans receivable are accrued; interest on special assessments receivable is not accrued or budgeted. Major revenues that are determined not to be susceptible to accrual because they are not available soon enough to pay liabilities of the current period or are not objectively measurable include delinquent property taxes and assessments, licenses, permits, fines and forfeitures. Delinquent property taxes are not budgeted, while the other categories are budgeted.

In the governmental and agency funds, expenditures are generally budgeted when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized when due. Compensated absences, which include accumulated unpaid vacation, compensatory time and severance pay, are not payable from expendable available financial resources, except for available resources in the Self-Insurance Internal Service Fund for vested severance pay. Compensated absences are considered expenditures when paid to employees. Salary expenditures are budgeted based on full time equivalents (FTE's), regardless of the type of pay.

Proprietary funds use the accrual basis. Revenues are budgeted as they are anticipated to be earned. Unbilled utility service receivables are recorded at year-end. Utility Service revenue estimates are based on the number of users, without a factor for delinquencies. Compensated absences are considered expenses when they are incurred.

Budgetary Controls. The legal level of budgetary control is at the department level within a fund. The City Coordinator's Office, the Public Works Department and the City Clerk/Elections areas are considered to be legal levels of budgetary control within a fund even though budgetary data is presented at lower levels. Budgetary amendments at the department/fund level must be approved by the City Council. Appropriations lapse at year-end.

Purchase orders, contracts, and other commitments are recorded as encumbrances, which reserve appropriation authority. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not represent generally accepted accounting principles (GAAP) expenditures.

Five-Year Financial Direction. City departments will prepare business plans with a five-year planning horizon which reflect the allocation of general City revenues and property tax revenue. This financial direction is based upon the City's adopted tax policy, which established an 8-percent maximum annual increase in property tax levy. This direction also reflects the Council-adopted wage policy of a 2-percent annual increase.

REVENUE POLICIES

The objective of the revenue policies is to ensure that funding is derived from a fair, equitable, and adequate resource base, while minimizing tax differential burdens.

Revenue Structure and Sources. The City will maintain a stable and diverse revenue system to shelter programs and services from short-term fluctuations in any single revenue source. Services having a city-wide benefit shall be financed with revenue sources generated from a broad base, such as property taxes and state aids. Services where the customer determines the use shall be financed with user fees, charges and assessments related to the level of service provided.

Tax Base Capacity. In July 2002, the Mayor and City Council approved a resolution that set the maximum increase in the total property tax levy collected by the City, including independent boards and special levies, at no more than 8-percent from the previous years' amount from year 2003 forward. This resolution serves as a guideline for preparing tax revenue forecasts.

User Fees. The City shall implement user charges in lieu of general revenue sources for identified services where the costs are related to the level of service.

Cost of Service. The City shall establish user charges and fees at a level that reflects the service costs. Components of the user charges shall include operating and capital costs, as well as the direct and indirect costs of providing the service. Full cost charges shall be imposed unless it is determined that policy, legal or market factors require lower fees.

Policy and Market Considerations. The City shall consider policy objectives, market rates and charges levied by other public and private organizations for similar services when City fees and charges are established.

Non-Resident Charges. User fees and other appropriate charges shall be levied for City activities, services or facilities in which non-residents participate,

whenever practical. Non-resident fees shall be set at market levels to minimize the tax burden on City residents.

Enterprise Service Fees. User charges for Enterprise Services, such as water, sewer and solid waste collection, shall be set at rates sufficient to finance all direct and indirect operating, capital, and debt service costs. Overhead expenses and general government services provided to the enterprise activities shall be included as indirect costs. Rates will be set such that these enterprise funds are never in a cash deficit during the year. The City shall maintain a minimum cash balance in its Enterprise Funds equal to approximately three months of operating expense.

Code Enforcement and License Fees. These activities shall be funded through user charges that reflect the cost of the services provided, including direct and indirect expenses, to the extent legally allowable.

Internal Service Fees. When interdepartmental charges are used to finance internal service functions, the charges shall reflect full costs, including all direct and indirect expenses. Costs for services will be allocated to departments using a rate model.

Administrative Fees. Administrative fees shall be assessed on all non-General Fund supported capital projects. These fees allocate the proportionate share of general government services to those projects so that the General Fund is not required to subsidize infrastructure or economic development projects.

Parking Fees. Hourly, daily, and monthly contract rates for City-owned parking facilities shall be adjusted at least annually to reflect market prices of privately owned parking facilities. Fee adjustments shall also consider downtown objectives, such as development incentives, space availability, business promotion, traffic control, and mass transit patronage.

Fines. Levels of fines shall be set according to legal guidelines, deterrent effect, administrative costs and revenue potential.

Convention Center. The Convention Center will develop a profit and loss statement for each event. The Center shall be managed so that operating costs are financed through user charges to the greatest extent possible within the overall mission of the Convention Center.

Dedicated Revenues. Except where required by law or generally accepted accounting principles (GAAP), no revenues shall be dedicated for specific purposes. All non-restricted revenues shall be deposited in the General Fund and appropriated by the annual budget process.

Private Revenues. All private money donated, contributed or lent to the City shall be subject to grant solicitation and acceptance procedures, and shall be deposited in the appropriate City fund and accounted for as public money through the City's budget process and accounting system.

Special Assessments [New for 2006]

Types of Assessments. The City Council has the authority to levy special assessments for approximately 65 different types of projects.

There are four main areas of assessments:

1. Public Works: Most common types of assessments are for sidewalks, street improvements, water and sewer line repairs and Nicollet Mall. (Assessments for unpaid utilities are directed by the City's Finance Department.)
2. Inspections: Most common types are for rubbish removal, trees, grass and brush cutting inspection fees for inoperable vehicles towed from private property, re-inspection fees, administrative citations, vacant building registration fee and inspections and Police boarding.
3. Park Board: Most common types of assessments are for tree removal and parkway and sidewalk reconstruction.
4. Minneapolis Public Housing Authority: Assessments involve repairs for tenants (*i.e.*, sidewalk).

This policy covers City administered special assessments only.

Method of Payment (Public Improvement Assessments). Owners of benefiting properties shall have the option of paying their assessment all at once or in installments as part of their annual real estate taxes. The City Council shall determine the number of equal annual installments, not to exceed twenty, in which assessments may be paid. The City Council shall determine the interest rate to be paid annually on all unpaid installments; this rate shall not exceed the maximum rate of interest as provided for in MN Statutes, Section 429.061, Subdivision 2. The first installment shall be payable in the year following completion of the project and in the same manner as real estate taxes.

Capital Improvements Fund. The Capital Improvements Fund is a special revenue fund of the City, which shall contain the proceeds of any levy or bonds issued for public infrastructure projects. Any project costs that are not assessed¹ shall be paid from this fund. If the amount of money raised through special assessments is insufficient to pay the maximum amount specified for the project, the balance needed shall be taken from the Capital Improvements Fund. Offsetting revenue and City Council approval is required in order for the Capital Improvements Fund to coverage insufficiencies.

Uniform Assessment Rate. The Uniform Assessment Rate is a standardized rate applied in street construction and street renovation projects. This rate shall be applied

¹ Except project costs associated with water mains

to the square footage per parcel in the project area to arrive at an assessment cost for each benefited property. The goal of the rate is to ensure an equitable distribution of costs between projects and to assess approximately 25% of project costs. The Uniform Assessment shall be calculated annually and submitted to the City Council's Transportation and Public Works Committee for approval. Separate rates must be established based on the project (construction or renovation), funding category (local or other) and benefited parcel category (non-residential or residential).

Tax-Forfeited Properties. A portion of nuisance abatement special assessments may be cancelled for tax-forfeited properties.

(a) *Tax-forfeited properties sold to the general public –*

- (1) The portion of a property's post-forfeiture special assessments, pending assessments and charges in excess of fair market value shall be cancelled if Hennepin County has not sold the property within 90 days of the property's first offering to the public; and
- (2) The City will waive its right to assess or reassess pre-forfeiture and post-forfeiture special assessments, pending assessments and charges related nuisance abatement activities under Chapter 227, 249 and similar provisions of the Minneapolis Code of Ordinances.

(b) *Tax-forfeited properties located in targeted neighborhoods and purchased by CPED for redevelopment purposes –*

- (1) The portion of a property's post-forfeiture special assessments, pending assessments and charges in excess of fair market value shall be cancelled; and
- (2) The City will waive its right to assess or reassess pre-forfeiture and post-forfeiture special assessments, pending assessments and charges related nuisance abatement activities under Chapters 227, 249 and similar provisions of the Minneapolis Code of Ordinances.

RESERVE POLICIES

The objective of the reserve policies is to provide adequate working capital for cash flow and contingency purposes, while maintaining reasonable tax rates.

Cash Flow and Contingency. The City shall maintain a minimum unallocated fund balance of 10 percent of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs. Until such time that the aggregate internal service funds net asset position is positive, the City shall maintain a 15 percent fund balance in the General Fund. To the extent that unusual contingencies exist as a result of state or federal aid uncertainties, or other highly variable factors, a balance larger than this minimum amount shall be maintained.

Appropriate operating contingency reserves shall be maintained in enterprise funds to provide for business interruption costs and other unanticipated expenditures of a non-recurring nature. Appropriate capital fund reserves shall also be maintained for emergency improvements relating to new regulations, or emergency needs for capital repair or replacement.

For all other funds, appropriate balances shall be maintained reflecting the nature of the accounts, such as:

Special Assessment Funds. The appropriate balance shall be the amount needed for revolving fund cash flow purposes.

Enterprise Funds. The appropriate balance shall be maintained to ensure adequate maintenance reserves, cash flow balancing requirements and legal restrictions. For most funds, the City will maintain a three-month operating cash balance. Where cost-effective access to capital markets is available and debt financing is regularly used, replacement balances shall not be maintained so current consumers are not required to pay for future facilities.

Use of Fund Balances. Available fund balances shall not be used for on-going operating expenditures, unless a determination has been made that available balances are in excess of required guidelines and that plans have been established to address any future operating budget shortfalls. Emphasis shall be placed on one-time uses that achieve future operating cost reductions. Fund Balance is the cumulative years' excess or deficit of all revenues and expense. In the case of proprietary funds, this is termed unrestricted net assets. For the purposes of the budget document, revenue and expense activity includes bond proceeds and debt service.

DEBT POLICIES

The objective of the debt management policies is to maintain the City's ability to incur present and future debt at minimal interest rates for infrastructure and economic development, without endangering essential City services. In addition to these general policies, specific guidelines have been adopted by the City Council and Board of Estimate and Taxation to manage Minneapolis debt practices.

General Obligation Bonds, Property Tax Supported. The City uses general obligation, property tax supported bonding to finance only those capital improvements and long term assets that have been determined to be essential to the maintenance or development of the City.

Tax Increment Bonds. The City uses tax increment bonds only where projects can be shown to be self-liquidating from tax increments arising in sufficient amounts, or where secured guarantees are provided for potential shortfalls, and with appropriate timing to avoid, to the maximum extent possible, the use of city-wide property tax revenues and where maximum allowable guarantees are obtained. The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, and the taxable development that will generate the tax increment is either fully constructed or is underway and subject to the terms and conditions of a development agreement with the City. (The City maintains a Tax Increment Financing (TIF) Policy, separate from these Financial Management Policies.)

- A. Alternatives, such as “pay as you go” financing and reimbursing front-end public redevelopment costs with tax increment revenues, are preferable to bond financing and are to be considered and used when appropriate. The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, and the taxable development that will generate the tax increment used to pay all or a portion of the debt service on the bonds is either fully constructed and assessed by the City Assessor or is underway and subject to the terms and conditions of a development agreement with the City.

Special Obligation Revenue Bonds. Special obligation revenue bonds, those bonds for which the City incurs no financial or moral obligation, are issued only if the associated development projects can be shown to be financially feasible and contributing substantially to the welfare and/or economic development of the City and its inhabitants.

Variable Rate Debt. The City may elect to issue bonds as variable rate instruments to provide flexibility and/or attempt to achieve interest savings.

Debt Management. City Financial Management Policies shall be designed to maintain a balanced relationship between debt service requirements and current operating costs,

encourage growth of the tax base, actively seek alternative funding sources, minimize interest costs and maximize investment returns. The City limits the issuance of new bonded debt so as to maintain or make improvements in key financial trend lines over time.

Bond Term. The City shall issue bonds with terms no longer than the economic useful life of the project. For self-supporting bonds, maturities and associated debt service shall not exceed projected revenue streams.

Feasibility. The City shall obtain secured guarantees for self-supporting and tax increment supported bonds to the extent possible. The City shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds.

CAPITAL BUDGET POLICIES

The objective of the capital budget policies is to ensure maintenance of the Minneapolis public infrastructure in the most cost-efficient manner.

Capital Improvement Program. The City prepares and adopts a five-year Capital Improvement Program (CIP) that details each capital project, the estimated cost and funding source. An adopted priority system is used to rank and recommend projects.

Operating Budget Impacts. Operating expenditures must include the cost of implementing the CIP and reflect estimates of all personnel expenses and operating costs attributable to the capital outlays. Departments receiving capital funds should account for increased operating costs resulting from capital projects.

Repair and Replacement. The City strives to maintain its physical assets at a level that protects the City's capital investments and minimizes future maintenance and replacement costs. Where possible, the capital budget shall provide for the adequate maintenance, repair and replacement of the capital plant and equipment from current revenues.

ACCOUNTING POLICIES

The objective of the accounting policies is to ensure that all financial transactions of the City of Minneapolis and its boards, commissions, and agencies conform to the City Charter, Minnesota statutes, grant requirements, the principles of sound financial management and generally accepted accounting principles.

Accounting Standards. The City shall establish and maintain accounting systems according to the generally accepted accounting principles (GAAP), which are set by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). The central system shall be used for financial transactions of all City departments, boards, and independent agencies.

Disclosure and Monitoring. Full disclosure is provided in all financial statements and bond representations. Financial systems are maintained to monitor expenditures and revenues on a daily, monthly, and year end basis. At year-end a Comprehensive Annual Financial Report (CAFR) is published by the City.

INVESTMENT POLICIES

The objective of the investment policies is to ensure that revenues received by the City of Minneapolis are promptly recorded and deposited in designated depositories. If not immediately required for the payment of obligations, revenues shall be placed in authorized investments. Funds shall be deposited only in the types of investment instruments authorized by the City's Financial Management Policies, Minnesota Statutes chapter 118A, or City Council resolutions. Investments by the City shall conform to the following investment principles:

Safety. Safety of principal is the City's foremost objective. Each investment transaction shall seek to first ensure that capital losses are avoided, whether from securities defaults or from erosion of market value.

Liquidity. The City's investments shall be structured to provide liquidity to meet its obligations in a timely manner without loss of principal.

Yield. The investment portfolio shall be designed to attain a market-average rate of return through budgetary and economic cycles, taking into account the City's investment risk constraints, cash flow characteristics, and safety of principal.

Diversification. The City shall diversify its investments to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

Maintaining the Public Trust. The investment program shall be designed and managed with professionalism worthy of the public trust. The best investment vehicles for the City's objectives shall be sought through competitive processes. Investment officials shall avoid any transaction that might impair public confidence in the City of Minneapolis government.

Prudence. The "prudent person" standard shall be applied in managing the investment portfolio. Investment officers, acting in accordance with fiduciary standards and written procedures, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported timely and appropriate action is taken to control adverse developments.

Internal Controls and Safekeeping. The City Finance Officer shall establish a written system of internal controls. To protect against potential fraud and embezzlement, assets of the City of Minneapolis shall be secured through third party custody and other safekeeping procedures. Bearer instruments shall be held only through third party institutions. Investment officials shall be bonded.

DEVELOPMENT FINANCE POLICIES

The objective of the development finance policies is to provide public assistance to community development efforts in a manner that balances costs against benefits. In addition to the City's Financial Management Policies, detailed guidelines have been adopted by the City to manage specific development resources and programs.

To the greatest extent possible, all development activities shall be self-supporting. Sufficient public and private resources shall be identified at the time a project is approved to ensure feasible completion and operation of the project. All development financing proposals shall be reviewed to ensure that the proposed financial plan is reasonable, balanced, and the best means by which to achieve City objectives, while adequately protecting City-wide financial interests.

General Guidelines. A. The City of Minneapolis will recapture the public subsidy to the maximum extent feasible after allowing the developer a reasonable return.

B. Only those public improvements and public redevelopment costs directly associated with or needed to service the proposed development plan or project should be financed through tax increment.

[Additional guidelines on the use of tax increment financing are found in the City's Tax Increment Policy.]

PUBLIC PARTICIPATION POLICIES

The objective of the public participation policies is to enhance the City's ability to meet financial and policy challenges by promoting a well-informed community and by encouraging public input in the decision-making process.

Financial and Performance Measurement Reports. Information regarding the City budget, financial statements and performance measurement shall be provided to citizens

Budget and Service Priorities. Various methods shall be used to ensure public input into the budgeting process, such as informational hearings, surveys, resident-based review committees and community meetings.

ADMINISTRATIVE FINANCIAL POLICIES

The following policies are ongoing and administrative in nature. In the past, these policies had been included annually as footnotes in the budget resolutions. This section is now included by reference in the resolutions. There are two sections – one for operating budget administrative policies, and another for capital and debt related administrative policies.

Section One - Operating Budget Policies

Revenue Related

General Fund Rate Model. The City will recover costs within the General Fund related to services it provides to non-General Fund departments. The allocation of those costs will be based on a fair and consistent methodology, applied enterprise-wide and developed and administered by the Finance Department.

Work for Others and Grant Funding In all cases where tax funds and non-tax supported funds have appropriations which are based on or include work for others or on income from the Special Independent School District No. 1, or County, State or Federal Governments or any other grants, donations and contracts, expenditures shall be limited to the amounts which can be supported by billings against parties, agencies or funds for which work is to be done, or for which grants or aids are provided and the proper city officials shall treat such billings, actual and prospective, as revenues only to the extent such billings are collectible or such grants and aids are authoritatively assured.

Pension Related

Authorizing the City Pension employer deductions. The proper City Officials are directed to charge all funds under the City Council jurisdiction a percentage of covered payroll to reflect the costs to the Minneapolis Employees Retirement Fund (MERF), to charge the appropriate bi-weekly amounts, as provided for in state law, for each member of the Minneapolis Police Relief Association (MPRA) and Minneapolis Fire Department Relief Association (MFDRA).

MERF unfunded liability. These liability amounts are included in the departmental appropriations and will be billed to the affected departments. Reinsurance amounts will be paid to a self-insurance pool funded through premiums paid by departments and tracked by department.

Department Related

Benefit Charge Authorization. The proper City Officials are directed to charge all funds under the City Council jurisdiction for the employer's cost of employee health and welfare benefits.

Overtime Limitation. The policy approved by the Mayor and Council that limits all departmental overtime to 5% of personnel budgets is effective for this budget.

Elected Official Budgets. A year-end deficit will be allowed for each ward and the Mayor's office budget with the exception of the final year of term (but not for two consecutive years). The deficit will be paid by March 31 or the Council Member or Mayor's office budget for the current year will be reduced at mid-year. If there is savings in a ward or Mayor's budget, these savings can be reappropriated from one year to the next, but cannot be reappropriated the final year of the term.

Fire Department Staffing Authorization. The Fire Chief is authorized the discretion to maintain up to a daily staffing of 109 Fire Fighters, Fire Motor Operators and Fire Captains on fire suppression and emergency medical duty within the overall constraints of the Fire department budget. The Fire Department shall be authorized to exceed its authorized strength for firefighters for training purposes provided that the average strength for the year is at or below the total authorized and the department does not exceed its legal spending authority.

Police Department Staffing Authorization. The Police Department shall be authorized to exceed its authorized strength sworn officers in order to achieve a higher strength in the summer months provided that the average monthly strength for the year is at or below the authorized strength and the department does not exceed its legal spending authority.

MECC Staffing Authorization. The Minneapolis Emergency Communications Center shall be authorized to exceed its authorized strength in order to achieve a higher strength in the summer months provided that the average monthly strength for the year is at or below the authorized strength and the department does not exceed its legal spending authority.

Inspections Staffing Authorization. The Inspections Division of Operations and Regulatory Services shall be authorized to exceed its authorized number of Housing Inspectors to minimize service disruption to residents provided the department does not exceed its legal spending authority.

Authority of the Finance Officer

The Finance Officer or his/her designee has the following authority to approve technical changes:

- To make **temporary loans** to cover any cash deficits as of December 31, 2006.
- To adjust appropriations in any fund to facilitate **transfers for debt service** which may be required, and to make all appropriate transfers and payments.
- To amend appropriations related to **technical accounting treatment** changes.
- To adjust **re-appropriations for grant funds** within cost centers as appropriate

- To allocate the **State Insurance Aid** payments received from the state for pension costs between the city and the Police and Fire Relief Associations. The City's allocation shall be for cost of Police and Fire PERA and shall be credited to the proper revenue account in the fund incurring the cost with the balance being allocated to the Relief Associations.
- To adjust the appropriations of the special revenue funds for **payments to various pension organizations** as may be required: Pension Fund (0990).
- To establish or adjust appropriations, transfer balances, or make payments to **carry out the intent** of any action or resolution Passed and Approved, or any legal agreement Passed, Approved and Executed, with respect to any inter-fund loans, advances, residual equity transfers, or operating transfers, or the repayment thereof.
- To make the necessary project and line item budget adjustments to periodically balance budgets and expenses between national objectives within given programs and within normal **CDBG program** constraints.
- To make any necessary appropriation adjustments to allow departments to receive and spend **NRP funds** consistent with Council-approved NRP Action Plans, Early Access requests, and First Step Plans.
- To appropriate available **grant balances** from the following grants:
 - (i) HUD Rental Rehab grant to Fund FG0
 - (ii) HUD HOME grant funds to Fund FG0
 - (iii) Federal Transit Administration (Trolley) grant funds to either Fund FG0 or City Fund 0300 for use by the Greater GMCVA
 - (iv) Eligible UDAG recapture funds to fund FNA
 - (v) State Economic Recovery Grants to fund SMN
 - (vi) HUD Special Purpose Grant MN47SPG507(TCOIC) funds to the Non-departmental Agency in the Fund (0400-1230)
- To make appropriation adjustments to **correct any errors**, omissions or misstatements to accurately reflect the intent of the City Council in adopting the Operating Budget.
- To adjust the December Local Government Aid (LGA) payments to the Park Board and Library Board if payment is not received from these independent boards for the **management support fees** included in the adopted budget (\$330,000 from the Library Board and \$828,252 from the Park Board).
- To transfer appropriations between parking funds upon request by the department. Such transfers shall not change the fund and Agency level totals as approved by the City Council and Mayor and shall not constitute approval of any policy change.
- To appropriate and transfer revenue within the Tax Increment and other special revenue funds consistent with the management of the City's tax increment districts, Common Project, Development Accounts and Preliminary Planning Fund:

CAZ (Common Project Uncertified),
 CLC (Local Contribution),
 CPP (Preliminary Planning Fund),
 CPZ (Common Project Reserve),
 CNR (NRP),
 SAD (NRP Planning & Implementation),

SDA (Development Account), FNA (Neighborhood Development Account) and SPH (Community Development Revenue)

- To establish or amend appropriations related to technical accounting treatment changes and is authorized to establish and adjust accounts and appropriations, make payments and transfers, process transactions as necessary for the purpose of cash management of revenues and facilitate any technical corrections, adjustments and completions authorized for the following project/s:

-Target Center Finance Plan as adopted on March 10, 1995 and detailed in resolutions 95R-058, 95R-059, 95R-060 and Council action of August 22, 2003 so as to prevent situations that would require a market disclosure.

- To establish or adjust appropriations in Fund STH (Theatres) to the extent permitted by the original bond resolutions, as necessary to facilitate Trustee activity and the required transfers to and from the Theatre Operating Account as described in the "Management Agreement, Orpheum and State and Pantages Theatres."

Appropriation and Reappropriation

Reappropriation in grant funds. The balances of 2005 appropriations for the following grant funds are hereby re-appropriated in the year 2006:

0300 Grants - Federal
0400 CDBG/UDAG Fund
0600 Grants – Other
FBG0 CDBG (CPED)
FG00 HOME (CPED)
FEZ0 Enterprise Zone (CPED)
SMN State Grants (CPED)

The balances of 2005 appropriations for administration in the CDBG/UDAG Grant fund (0400) shall be re-appropriated to the Non-Departmental Agency in 2006, except for the administrative portion of Way to Grow in Health.

NRP carryover authorization. With the exception of NRP Administration, the balance of the 2005 appropriations for NRP projects within Fund CNR (NRP) are hereby appropriated for said purposes in 2006. Specific amounts re-appropriated will be determined after the close of the 2005 fiscal year and upon review and approval of the Finance Officer.

Operating Budget Reappropriation. The Ways and Means committee will receive a list of requests, prepared by the Finance Department, to increase 2006 appropriation for goods and services encumbered in 2005 but not yet paid for that meet the following criteria:

1. a valid encumbrance;
2. one-time expenditure (not recurring budget item);
3. purpose is consistent with the department's business plan;
4. 2005 appropriation balance available for the encumbered item; and
5. financial position of the fund (status of the fund relative to work out plans; whether the fund's spending in 2005 had expense in excess of revenue).

Local Government Aid

Allocation. The allocation of Local Government Aid to Minneapolis from the State of Minnesota is to be distributed to the General Fund (0100), Municipal Building Commission (1100), Library Board (1800) and Park Board (1500 & 1700) as indicated in the Council adopted tax policy. In 2006, this allocation is as follows:

City General Fund	\$75,007,000
Park Board	\$11,088,000
Library Board	\$7,570,000
<u>Building Commission</u>	<u>\$283,000</u>
Total	\$93,948,000

Library Nicollet Mall Assessment. The Local Government Aid funding for the Library Board is reduced by \$46,355 to fund the Board's share of Nicollet Mall Maintenance.

Hilton Fund

Investment. Notwithstanding prior direction, the proper City and CPED officials are authorized to take actions necessary to re-invest Fund SPH (Community Development), the balance of the invested proceeds from the sale of the CPED's and City's interests in the Hilton Hotel. The status of the fund, expenditures and balances are to be reported annually as part of the City's budget process.

Use for Pension Obligations. The Finance Officer is directed to transfer \$12.5 million (market value) of investments in the Hilton Legacy Fund to an escrow account for the purpose of paying principal and interest on \$12.5 million of bonds that funded a portion of the City's 2005 pension obligations (Pension Bonds). Investments held in the escrow account will not be available for any other purpose. The Finance Officer is authorized to redeem the remaining Pension Bonds when the Finance Officer determines that the interest rate on the Pension Bonds is expected to exceed the rate of return on the escrow investments for the remaining term of the Pension Bonds.

Investments in the escrow account will be returned to the Hilton Legacy Fund after the Pension Bonds are fully paid.

Gift Acceptance [New for 2006]

Any gifts with a value of \$1,000 or less can be received by individual City departments with written notice to the Finance Officer or his/her designee. The Finance Department shall submit a quarterly gift report to the City Council's Ways and Means Committee for approval. Consistent with Minnesota Statutes, section 465.03, the department may not use the gift until it has been approved by a two-thirds vote of the City Council.

The quarterly gift report shall contain the following information on each donation:

1. Name of recipient department
2. Name of entity making gift
3. Description of gift (including value of gift, date received and special designations on gift, if any)
4. Funding strings for revenue and expense appropriation increases

For any gifts with a value exceeding \$1,000, the recipient department shall submit a request for authorization to accept the gift to the City Council's Ways & Means Committee directly.

Section Two - Capital & Debt Management Resolution Policies

Appropriation and Reappropriation

Approvals for Bond Issuance. The amounts appropriated in any City fund to be financed by bond proceeds are contingent upon the necessary approvals for issuance. The Finance Officer is authorized to establish or adjust any bond-financed appropriations when the necessary approvals for issuance of bonds are obtained. Further, the Finance Officer is authorized and directed to adjust assessment appropriations set forth in this resolution to reflect the actual amount to be assessed. Total amounts assessed will be established by a future Council action approving the assessment public hearing and the amount assessed for the project.

Creation of Appropriations. The Finance Officer is authorized to create or adjust certain appropriations subsequent to the sale of bonds, including all appropriate fund transfers and payments necessary to comply with arbitrage rebate and reporting to the federal government required under the Tax Reform Act of 1986.

Reduction of Appropriations if revenues do not materialize. The amounts appropriated in the various funds to be financed from various revenue sources are now hereby appropriated contingent only upon the reasonable expectation of the receipt of the required financing. The Finance Officer is authorized and directed to

reduce any capital appropriation whenever a revenue source is determined to be not collectible for whatever reason.

Capital Project Closure. The Finance Officer is authorized to approve the closure of non-bond funded capital projects and the adjustment of said appropriations as identified and requested by the City Engineer for those projects under Public Works.

Independent Boards: Appropriations and Capital Advances. The Finance Officer is authorized to establish or adjust appropriations, make payments and transfers, and process transactions as necessary for the purpose of providing Departments, Boards and Commissions an internal financing alternative to lease/purchase agreements with external vendors. The Finance Officer may provide capital advances from individual funds to the extent funds are actually available. The Finance Officer shall establish the term and interest rate applicable to the capital advance. The principal amount of the capital advance can be transferred to the fund of the Department, Board or Commission after the purchase of the asset and execution of an Internal Lease/Purchase Agreement, signed between the Department, Board or Commission and the Finance Officer. Prior to issuing the capital advance, the Finance Officer shall determine that the Department, Board or Commission has made a commitment in their annual budgets to provide the funds necessary to repay the advance, with interest, over the term of the agreement.

Reappropriation of Capital Projects. The Finance Officer is authorized to adjust re-appropriations to capital project funds as appropriate. The balances of prior year appropriations in Capital funds are hereby re-appropriated with the following exceptions:

Fund	Project or Operating Organization
4100 City-Capital Impr Fund	PW Engineering Services (4100-6025)
4100 City-Capital Impr Fund	Sidewalk Inspection (4100-6076)
4100 City-Capital Impr Fund	Reimbursable Paving (4100-9372)
4100 City-Capital Impr Fund	Reimbursable Transportation (4100-9440)

Balances of capital projects in the following funds 6100, 6200, 6400, 7300, 7400 and 7500 are also hereby re-appropriated with the exception of Reimbursable Sewer Projects (7300-9322) and Reimbursable Water Projects (7400-9545).

Expiration of Capital Project funding for certain projects. For certain capital projects, the funding is replenished annually due to the source of funding and/or recurring major maintenance nature of the projects. For these projects, the expenditures are to be paid from funds of the appropriation year in which the work occurs. These projects will not have their appropriations carried forward since they are replenished annually. If bonds are issued for these programs, the appropriations will carry over. The projects are as follows:

SWK01 Defective Hazardous Sidewalks – Assessed portion

SW001	Storm and Sanitary Tunnel & Sewer Rehabilitation
SW002	Miscellaneous Storm Drains
SW004	Implementation of US EPA Storm Water Regulations
SW007	Park Board Capital Storm Drain
WTR12	Water Distribution Improvements
RMP03	Bicycle Parking

Accounting Adjustments. The Finance Officer is authorized to approve adjustments to Capital Appropriations between different agency and organization levels within the same fund and revenue source. Such budget transfers shall not constitute approvals of any policy change.

Adjustments Related to Cost of Bond Issuance and Maintenance Fees. The Finance Officer is authorized to establish or adjust appropriations to pay all costs associated with authorized City of Minneapolis bond sales including costs of issuance and annual bond maintenance fees from the Bond Redemption Fund (5250) with the expenditures then being allocated to other funds as appropriate.

Funding of Capital Models and Studies. The Finance Officer is authorized to fund from investment earnings generated from capital project balances studies related to long-term financial planning models and related debt management activity.

Authorization of Transfers for Bond Proceeds and Investment Income. The Finance Officer is authorized to establish and adjust appropriations to provide for the transfer of funds to include bond proceeds and investment income for capital projects.

Correction of Errors. The Finance Officer is authorized to make corrections for errors of omission and misstatements in order to accurately reflect the current budget year of the adopted Five-Year Capital Program.

Appropriation of Debt Service. There is hereby appropriated in the various Debt Service Funds sufficient funds to pay debt service requirements.

Arbitrage, Internal Revenue Service Regulations and Related Policies

Use of Investment Earnings. The investment earnings from unspent bond proceeds shall be accounted for in separate arbitrage funds and will be allocated to debt service on net debt bond issues and shall be transferred on the scheduled debt service payment dates. The exception to this is that investment earnings on unspent tax increment bonds are to be used only for tax increment eligible purposes related to that specific tax increment bond issue.

Tax exempt bonds. The Capital budget resolution constitutes an official declaration pursuant to IRS Treasury Regulations Section 1.150-2 that the City intends to reimburse expenditures which may be made for those projects

designated herein to be funded with bond proceeds by incurring tax exempt debt of the City. The expenditures to be reimbursed include all preliminary expenses for planning, design, legal, consulting services and staff costs reasonably allocated to the project as well as costs incurred and paid for the design and construction of the projects after approval of the capital budget. The projects are more fully described in the Capital Budget Request forms on file in the office of the Director of Capital and Debt Management. The reasonably expected source of funds to pay debt service on the tax-exempt bonds to be issued by the City consists of the following according to the designated bond type:

Bond Type	Source
Net Debt, Library Referendum, Public Safety, Equipment	Property taxes and Internal User Fees
Sewer	Sewer Fund revenues, Fund 7300
Water	Water Fund revenues, Fund 7400
Parking	Parking Fund revenues, Fund 7500
Assessment	Special assessments
Tax Increment	Tax increment revenues

Reimbursement Intent. The Finance Office is authorized to make further declarations of official reimbursement intent in connection with the projects described herein pursuant to IRS Treasury Regulations Section 1.150-2 on behalf of the City consistent with budgetary and financial circumstances. Copies of any such further declarations shall be filed with the Ways & Means/Budget Committee (W&M) and the Board of Estimate and Taxation.

Direction to Staff Regarding Capital Budget Process

Completion of Major Repair Items in Public Facilities. Public Works - Property Services is directed to provide CLIC a one page summary of major repair items completed in the prior year as part of their PSD01 Facilities Repair and Improvements capital program. This document should accompany the annual capital submittal for this program.

Status of Art in Public Places Program. Staff responsible for the Art in Public Places capital program are directed to provide CLIC a report on the status of projects currently in the planning phase or under construction as part of their annual capital submittal.

Park Board Request. Park Board is requested to provide CLIC a report showing where capital expenditures were incurred by project for the prior year and details of what projects are planned by year and by funding source as part of the Park Board capital submittal.

Planning Direction Provided. The adoption of the Five Year Capital Program is to assist in planning and provide direction for City departments including Public Works -

Engineering Services, but it does not establish permanent Council commitment to the out-year projects either in scope or timeline of construction.

Library Board Request. The Library Board is requested to provide CLIC with an updated progress report and cost estimate of infrastructure needs by facility as part of the Library Board Capital submittal.

Capital Projects Status Report/Bond Authorization [New for 2006]

Annual Capital Projects Status Report. (a) Once a year, no later than April 30th, the Finance Department will report to the City Council's Ways & Means Committee on the status of capital projects. This annual capital projects status report shall contain the following information by project and capital program year:

1. A list of all capital projects for which bonds or City funding sources have been authorized but have not been closed;
2. The amount of revenue received to date;
3. The current, expended and remaining appropriations;
4. The balance of project shortfalls or funds available for reprogramming; and
5. A list of outstanding capital projects with the amount of bond authorization and appropriation that will be considered for expiration in the following year.

(b) The Finance Department shall also report on fund appropriations for capital projects, bond authorizations and proceeds balances that may be cancelled because projects have been completed or otherwise concluded, or because the purposes for which the money was appropriated or bonds were authorized or issued have been cancelled, completed, or otherwise concluded.

Expiration of capital project funding. Beginning with the 2006 City Council approved Capital Improvement Plan, the City Council authorization for bonds and appropriation for those capital projects, will expire for those projects that have not moved forward toward implementation as enumerated by meaningful financial obligation activity indicated by a minimum of 75% of appropriation expended on tangible project activities by the end of 2009 for appropriations authorized in 2006.

The expiration will take place unless a request for an extension is specifically made and reauthorized by the City Council. Projects funded with bond proceeds that expire under this section shall require City Council reauthorization. Projects with a twelve-month period of inactivity shall also be cancelled if the project has been authorized for more than three years.

TRANSFER POLICIES [*New for 2006*]

The objective of the transfer policies is to ensure the transfer of money between funds is done in a fiscally sound manner.

Municipal Parking Fund to General Fund

The Municipal Parking Fund is a City enterprise fund used to account for the operation, maintenance and construction of the City's parking facilities as well as on-street parking and the Municipal Impound Lot.

Transfer Criteria. Transfers into and out of the City's Municipal Parking Fund should meet the following criteria:

1. Be consistent with state laws, City ordinances and the City Council approved finance plans and financial policies;
2. Maintain and support favorable financial results among all affected funds;
3. Be sustainable to allow long-term financial planning.

Finance and Public Works will recommend to the Mayor and City Council the amount of the transfer based on an analysis of the financial history of the fund; this recommendation will be part of the annual presentation of the 5-Year Financial Direction.

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

Fund Descriptions

The accounts of the City are organized by fund types. A “fund” is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The operations of each fund are monitored with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equities, revenues and expenditures/expenses. Following is a listing and description of all City funds.

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Enterprise Funds - The Enterprise Funds are used to account for those activities of the City which are financed and operated in a manner similar to private business enterprises where expenses, including depreciation, are recovered principally through user charges. The City operates eight enterprise funds, including the City's Community Planning and Economic Development (CPED) department:

- ***Water Works Fund***
This fund is used to account for the operation, maintenance and construction projects related to the water delivery system. This fund also accounts for the operations related to the billings for water, sewage and solid waste fees.
- ***Sanitary Sewer Fund***
This fund will be used to account for the operation, maintenance and construction projects related to the sanitary sewer system.
- ***Stormwater Fund***
This fund will be used to account for the operation, maintenance and construction projects related to the stormwater utility system.
- ***Solid Waste and Recycling Fund***
This fund is used to account for the revenues and expenses for solid waste collection, disposal and recycling activities.
- ***Municipal Parking Fund***
This fund is used to account for the operation, maintenance and construction of the City's parking facilities as well as on-street parking and the Municipal Impound Lot.
- ***Park Operations Fund***
This fund is used to account for operation, maintenance and construction of projects related to the Park Board, especially golf courses.

➤ ***River Terminal***

This fund is used to account for the operations of the public terminal facility located on the Mississippi River.

Internal Service Funds - Internal Service Funds are similar to Enterprise Funds in that they are used to account for those City services which are financed and operated in a manner similar to private business enterprises, however, the customer is typically other City departments instead of the public. The City operates six Internal Service Funds:

➤ ***Engineering Materials and Supplies***

This fund is used to account for the operations of the City's asphalt plant and paving products laboratory. The paving products laboratory provides in-lab and on-site testing and soil boring services to ensure quality control of asphalt and soils for projects.

➤ ***Intergovernmental Services***

This fund is used to account for business information services, central mailing and printing services, and the City's telecommunication operations.

➤ ***Property Services***

This fund is used to account for the physical management and maintenance of fire stations, police precinct buildings, the Minneapolis Public Service Center, and various other City office locations, except for the City Hall/County Court House building, which is accounted for in the Municipal Building Commission Special Revenue Fund.

➤ ***Permanent Improvement Equipment***

This fund is used to account for the ownership and operation of radio communications equipment and a fleet of motorized equipment and vehicles. The fund operates as a rental agent to various departments to support the construction and maintenance of city infrastructure, fire protection services, and police services.

➤ ***Public Works Stores***

This fund is used to account for the centralized procurement, warehousing, and distribution of stocked inventory items, and the purchase of special goods and services.

➤ ***Self-Insurance***

This 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.

- **Park Self-Insurance and Internal Service Funds**
This fund is used to account for park employees' 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. The Park Board also has an internal service fund for charges within its programs.

Special Revenue Funds- Special revenue funds are used to account for the proceeds of revenue sources that are restricted by legal and regulatory provisions to finance specific activities. The City has eleven Special Revenue Funds:

- ***Arena Reserve Fund***
This fund is a holding fund for various finance plan revenues to be used for future cost relating to the acquisition and capital maintenance of the downtown sports, entertainment and health complex.
- ***Board of Estimate and Taxation Fund***
This fund is used to account for the operations of the Board of Estimate and Taxation which issues and sell bonds, and establishes the maximum levies for the City, its boards and commissions.
- ***Community Development Block Grant***
This fund is used to account for the federal grants received under the Federal Community Development Block Grant provisions.
- ***Convention Center***
This fund is used to account for the ownership, maintenance, and operation of the Minneapolis Convention Center, and the proceeds of the local sales and use tax.
- ***Convention Facilities Reserve***
This fund is a holding fund for parking and sales tax revenues to be used for future capital maintenance needs of the existing Convention Center.
- ***Employee Retirement***
This fund is used to account for the tax levy proceeds and other sources of revenue for the Minneapolis Employee Retirement Fund (MERF), Minneapolis Firefighters' Relief Association (MFRA), and Minneapolis Police Relief Association (MPRA) retirement programs for some city employees.
- ***Grants - Federal***
This fund is used to account for all federal grants, except for the Community Development Block Grant (CDBG), which is accounted for in a separate fund.

- **Grants - Other**
This fund is used to account for grants received from the State of Minnesota, Hennepin County, local government units, and private funds.
- **Municipal Building Commission**
This fund is used to account for the cost of operating and maintaining the City Hall/County Court House building.
- **Police Special Revenue**
This fund is used to account for the revenues and expenditures related to federal and state administrative forfeitures and the revenues and expenditures related to the regulation of lawful gambling in the City.
- **Park Operating Fund**
This fund is used to account for revenue and expenditures related to the cost of operating and maintaining the Minneapolis Parks system.
- **Library Operating Fund**
This fund is used to account for the revenue and expenditures related to the cost of operating and maintaining the Minneapolis Public Library system.

Capital Projects Funds- The Capital Projects Fund is used to account for financial resources and expenditures applied to the construction of capital facilities and major purchased items for governmental fund types.

- **Community Planning and Economic Development**
This fund is used to account for the capital project activities of the department of Community Planning and Economic Development.
- **Municipal Building Commission (MBC) Capital Fund**
This fund is used to account for the capital project activities of the MBC, a component unit of the City of Minneapolis.
- **Permanent Improvement Capital Fund**
This fund is used to account for capital acquisition, construction, and improvement projects including bridge construction, sidewalk construction, street construction, energy conservation projects, infrastructure projects, and many Business and Information Services (BIS) projects.
- **Library Permanent Improvement Capital Fund**
This fund is used to account for the capital project activities of the Library Board.
- **Park Board Permanent Improvement Capital Fund**
This fund is used to account for the capital project activities of the Park Board.

Debt Service Funds - The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs. Included in the Debt Service Funds are:

- ***Community Development Agency Debt Service Fund***
This fund is used to account for the debt service activities of CPED and includes the Arena Acquisition Project (Target Center) Series A and B bonds, Tax Increment Bonds of 1990, debt of the Orpheum Theatre Project, and Tax Increment Revenue Notes.
- ***Development Debt Service Fund***
This fund is used to account for the debt of projects supported by property tax increments, transfers of sales tax revenues from the Convention Center Special Revenue Fund for related debt, and a state grant relating to the completion of the Convention Center.
- ***General Debt Service Fund***
This fund is used to account for General Obligation Bonds supported by a property tax levy, Management Information System debt supported by the City's General Fund, Great River Road Bonds, Edison Hockey, Community Health, Xcel Power- Revenue, and Section 108 HUD Revenue Notes.
- ***Special Assessment Debt Service Fund***
This fund is used to account for debt supported by special assessments with the exception of the Park Diseased Tree debt.

**City of Minneapolis
Bird's Eye View of the Relationship between Fund Types, Revenue Sources,
Expenditures and Departments/Boards**

	Fund Type:		
	General Fund	Enterprise Funds Including: Water Sewer Solid Waste Parking	Internal Service Funds Including: Engineering Materials, Intergovernmental Services, Property Services, Equipment, Stores, Self-insurance
Major Revenue Sources	Local Government Aid, Property Taxes, Franchise Fees, Licenses and Permits	Utility Charges, State Grants and Contributions, Rents	Charges for Services, Rents, Transfers from other funds
Expenditure classifications	Personnel, Operating Costs, Contractual Services, Equipment	Personnel, Operating Costs, Contractual Services, Equipment, Capital Projects and debt service related to these business lines	Personnel, Operating Costs, Contractual Services, Equipment, Capital Projects and debt service related to these business lines, liability and workers compensation claims
Major Departments	Police, Fire, Public Works, among others	Public Works	Public Works, Copy Center, City Attorney – Civil Division, Information Technology Services
	Special Revenue Funds	Capital Projects Funds	Debt Service Funds
Revenue Sources	Grants, Sales Taxes	Property Taxes, Proceeds from Long Term Liabilities, State Aid	Property Taxes, State Aid
Expenditure classifications	Personnel, Operating Costs, Contractual Services, Equipment	Capital project expenditures related to street construction and infrastructure projects	Payments of interest and principal on City's debt
Departments	Convention Center, Health and Family Support, Attorney, Fire, Police, Convention & Visitor's Association, Closed Pension Plans	Public Works	Not Applicable

**City of Minneapolis
Bird's Eye View of the Relationship between Fund Types, Revenue Sources,
Expenditures and Departments/Boards, continued**

	Fund Type:		
	Park Board Funds <i>The Park Board has enterprise, internal service and special revenue funds. The Park Board's general fund is treated as a special revenue fund.</i>	Library Board Fund <i>The Library has a general fund that is treated as a special revenue fund.</i>	
Revenue Sources	Property Taxes, Local Government Aid, Charges for Sales (golf courses, etc.), Contributions, and Grants	Property Taxes, Local Government Aid, Charges for Services	
Expenditure classifications	Personnel, Operating Costs, Contractual Services, Equipment	Personnel, Operating Costs, Contractual Services, Equipment	

The City has funds set up for other smaller boards:

- **Municipal Building Commission (funded mainly from Property Tax and State Aids)**
- **Board of Estimate and Taxation (funded from Property Tax and State Aids)**
- **Neighborhood Revitalization Program (funded from Property Tax Increment Financing)**
- **Youth Coordinating Board (a joint board funded from the City's General Fund and grants)**

More detail on these boards can be found in the Background and Independent Board sections of this book.

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

**Proposed City of Minneapolis
Financial Planning and Policy Resolution: Independent Boards**

*Mayor and Council Adopted, July 2002
Board of Estimate and Taxation Adopted, July 2002*

Whereas:

1. At the direction of the Mayor and City Council, the City has prepared a ten-year financial projection of demands on the city property-tax supported funds, a summary of which is attached as Exhibit A and incorporated herein by reference;
2. The projection demonstrates that the known demand on property tax revenues will significantly exceed reasonably foreseeable resources;
3. The Mayor and Council are developing a long-term strategy for managing the financial challenges documented in the ten-year projection and wish to engage the Independent Boards and the Board of Estimate and Taxation as partners in that strategy;
4. Recognizing that all City of Minneapolis taxing jurisdictions draw revenue from the same taxpayers, The Mayor and Council support an enterprise approach to establishing future property tax revenue projections. The Mayor and Council further support setting the maximum annual property tax levy at no more than an 8-percent annual increase for budget years' 2003 through 2010, inclusive of the levy for the Independent Boards, including the voter-approved library referendum;
5. The Mayor and Council desire to work with the Independent Boards and the Board of Estimate and Taxation to set long range financial parameters so that our joint taxpaying customers and our individual City governing boards can all make more informed business decisions about respective annual budgets.
6. The Mayor and Council desire to work with the Independent Boards in a fair and consistent manner.

Therefore Be It Resolved, That the Mayor and Council hereby adopt the following Policy Statements as provided below in Items A through E, with respect to the Independent Boards, to serve as a framework for developing the 2003 budget as well as long-term financial plans for the City and Independent Boards; and

Be It Further Resolved That the Mayor and Council submit to the Board of Estimate and Taxation recommended maximum property tax levies for taxes payable in year 2003, as

shown in Appendix A. The Mayor and Council also request the Board of Estimate and Taxation to consider adopting parallel policy statements to Policy Statements A through E, adopted by the Mayor and Council as part of this resolution.

Policy Statements (A through E):

(A) Local Government Aid (LGA) from the State of Minnesota

The Mayor and Council will remain committed to August 26, 1994, Council action which based the annual enterprise distribution of LGA revenues on a stable percentage in exchange for a cap in individual board property tax levies.¹

The Mayor and Council will allocate LGA consistent with the 1994 agreement provided the independent boards adhere to the tax levy provision outlined in the original agreement, with the one modification. The Mayor and Council hereby propose amending the policy to provide for a maximum 4-percent annual increase in property tax levy versus the 3-percent included in the original 1994 agreement.

Consistent with the 1994 adopted agreement with the Independent Boards, the Council will distribute LGA based upon the following percentage allocation, as outlined below.

	<u>% Distribution of LGA</u>
Library Board	8.05%
Park Board ²	11.79%
Municipal Building Commission	0.30%
Board of Estimate and Taxation	0.10%
City Council	79.76%
Total	100.00%

The Council policy will continue to be that the City and the Independent Boards will share any legislative reductions or increases in LGA, using the same percentages as outlined above.

In the event an Independent Board's property tax levy increase exceeds 4-percent (adjusted for any one-time shifts), the City Council will reduce the LGA payment to the board to offset the additional increase.

¹ LGA is calculated and distributed to the City by the State of Minnesota as provided for in State Statute 477A.

² The allocation of LGA to the Park Board will increase from 10.89% in budget year 2002 to 11.79% in budget year 2003, provided the Park Board reduces their base property tax levy by \$1.0 million, which will be added to the City's General Fund base levy. The allocation of LGA to the General Fund will decrease from 80.66% in budget year 2002 to 79.76% in budget year 2003. This net result will be a \$1.0 million shift in LGA distribution from the General Fund to the Park Board and a \$1.0 shift in property tax levy from the Park Board to the General Fund, from budget year 2002 to 2003.

If state legislation creates new aid programs for general city purposes, the Mayor and Council expresses the intent to negotiate with the Independent Boards an appropriate allocation basis for this revenue.

(B) Management Support Charges

The Independent Boards will be charged for the actual cost of providing management support services to the boards. The basis for allocating costs will be the same as that used for Council departments. Management support services include, but are not limited to, services provided by the following city departments: Information Technology, Finance, and Human Resources.

Management support charges, as included in the Council's adopted 2002 budget, will be capped at \$800,000 for the Park Board and \$300,000 for the Library Board for both the 2002 and 2003 budget.

Beginning with the 2004 budget, the management support charges to the Independent Boards will be based upon standard accounting practices for allocating costs. The method and procedure to calculate the pro-rated costs and collection of the charge will be finalized and communicated to the Independent Boards by December 31, 2002.

As provided for in the 2002 budget footnotes, the City Finance Officer has the authority to reduce LGA payments to the Independent Boards if payment of the management support charge is not received prior to the distribution of the December LGA payment.

(C) Adjustments to Prior Year Increases in Property Tax Levies

As stated in Item A, the Mayor and Council remain committed to the 1994 budgetary policy regarding the Independent Boards. The 1994 policy has two parts (1) a stable percent allocation of LGA and (2) a 3-percent cap in annual property tax levy increases for the Independent Boards, which will be amended to a 4-percent cap beginning with the 2003 budget. The Park and Library Boards both had increases in 2002 property tax levies above this threshold. The Mayor and Council consider the portion of property tax levy increase above the policy threshold to be one-time funds for year 2002. The baseline tax levies for both entities should return to a level that corresponds to the 1994 agreement.

(D) Infrastructure Gap Funding

The Mayor and Council will support funding infrastructure "gap" closure for the Independent Boards in a similar manner to that of Public Works.

The City's adopted 2002-2006 Capital Improvement Plan (CIP) provides for closing 27% of Public Works infrastructure "gap", supported by property taxes, by year 2009³. To achieve this goal the property tax levy will need to increase by \$1.0 million annually from 2003 to 2009.

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

The Mayor and Council support reducing the base property tax revenue for the Park Board by the amounts added in years' 2001 and 2002 for Park Board capital purposes. In years' 2001 and 2002, \$1.5 million was added each year to the Park Board base property tax levy, or \$3.0 million in total over this two-year period of time. The Park Board has received the benefit of the additional \$4.5 million collected in property tax levy over this two-year period of time.

Recommended Park Board Capital Improvement Plan:

<i>(In millions of dollars)</i>	2003	2004	2005	2006	2007	2008	2009
Base Capital Funding ⁴	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9
"Gap" Funding	\$0.2	\$0.4	\$0.6	\$0.9	\$1.1	\$1.3	\$1.5
Total Capital Funding	\$2.1	\$2.3	\$2.5	\$2.8	\$3.0	\$3.2	\$3.4

(E) Alternative Revenue Strategies

The Mayor and Council will work in cooperation with the Park Board and Library Board to develop alternative funding strategies (i.e., land trusts and expanded friends of the parks and library), other than the property tax, for raising additional funds to support program and capital needs.

The Mayor and Council will not support any new referenda for the Independent Boards because of the significant pressure a referendum would create on the already burdened property tax. The Mayor and Council will act to educate taxpayers about the financial burden any new referenda would create for taxpayers.

³ The 1997 State of the Public Works Infrastructure Report identified a \$44 million property tax supported funding gap for improving and maintaining public works infrastructure. The original plan was to fund 50% of this gap over a 10-year period time.

⁴ The 2002-2006 adopted CIP includes \$1,920,000 in net debt bond funding for the Park Board.

Adopted Amendments:

1. Amendment to add an additional Policy Item, Policy Item F

The Mayor and City Council will support annual property tax increases for the Minneapolis Public Housing Authority at the same maximum 4-percent annual increase level as that established (in Policy Statement A) by this resolution for the Park Board, Library Board, Municipal Building Commission, and Board of Estimate and Taxation.

2. Amendment to Policy Item A

Amend Policy Item A to include the following language:

In the event the City Council reduces the LGA payment to an Independent Board (as provided for in this policy statement), the City will appropriate the additional LGA to the City's General Fund and reduce the City's General Fund property tax levy by an offsetting amount. This will be done in order to ensure the maximum property tax levy increase is maintained at 8-percent on a combined basis for the City, including the Independent Boards.

APPENDIX A

Certified Gross Property Tax Levy For City Council, Independent Boards, and Special Levies						
	2001 Adopted Base Levy	2002 Adopted Base Levy	2001 to 2002 % Chg	2003 Proposed Base Levy	2002 to 2003 % Chg	2001 to 2003 % Chg
City Council Funds	63,028,212	53,632,760	-14.9%	61,495,761	14.7%	-2.4%
City Council - Internal Service Funds	4,000,000	7,200,000	80.0%	10,900,000	51.4%	172.5%
Total City Council	67,028,212	60,832,760	-9.2%	72,395,761	19.0%	8.0%
City Council Debt Service ⁵	21,877,000	28,560,040	30.5%	29,060,040	1.8%	32.8%
Park Board	27,809,943	34,796,759	25.1%	32,671,759	-6.1%	17.5%
Library Board	10,374,165	11,852,485	14.3%	11,242,485	-5.1%	8.4%
Library Referendum ⁶				450,000		n/a
Total Library	10,374,165	11,852,485	14.3%	11,692,485	-1.3%	12.7%
Municipal Building Commission ⁷	2,511,026	3,272,966	30.3%	3,502,966	7.0%	39.5%
Board of Estimate and Taxation	114,000	124,000	8.8%	128,960	4.0%	13.1%
City Council Pensions ⁸	3,492,260	7,373,000	111.1%	9,373,000	27.1%	168.4%
City Council Community Development (Special Levy)		4,000,000	n/a	4,160,000	4.0%	n/a
Minneapolis Public Housing Authority (Special Levy)	1,000,000	1,000,000	0.0%	1,040,000	4.0%	4.0%
Teachers Retirement Fund (Special Levy) ⁹	1,950,100	2,100,000	7.7%	2,250,000	7.1%	15.4%
Total	136,156,706	153,912,010	13.0%	166,274,971	8.0%	22.1%

⁵ The Debt Service Levy increased significantly from 2001 to 2002 due to the elimination of HACA.

⁶ This amount has already been set by voter approval.

⁷ The Municipal Building Commission (MBC) property tax levy for year 2002 was adjusted to reflect an error in calculation from the prior year 2001 amount. In 2001, the MBC received cash from a General Fund transfer, which was then correctly replaced with property tax levy in year 2002.

⁸ This amount is set by state law.

⁹ This amount is set by state law.

APPENDIX B

Adopted Certified Property Tax Levies Plus State Aids For City Council, Independent Boards, and Special Levies					
	1994 Adopted	2002 Adopted	2003 Proposed	Cumulative % Change from 1994 to 2002	Cumulative % Change from 1994 to 2003
City Council	105,998,100	150,818,760	165,715,346	42.3%	56.3%
City Council Debt Service	16,000,000	28,560,040	29,060,040	78.5%	81.6%
Park Board	29,354,000	46,950,759	46,465,653	59.9%	58.3%
Library Board ¹⁰	14,491,000	20,833,485	21,111,137	43.8%	45.7%
Municipal Building Commission ¹¹	3,030,000	3,607,966	3,854,241	19.1%	27.2%
Board of Estimate and Taxation	202,000	236,000	245,553	16.8%	21.6%
City Council Pensions ¹²	18,855,000	7,373,000	9,373,000	-60.9%	-50.3%
City Council Community Development (Special Levy)	n/a	4,000,000	4,160,000	n/a	n/a
Minneapolis Public Housing Authority (Special Levy)	937,000	1,000,000	1,040,000	6.7%	11.0%
Teachers Retirement Fund (Special Levy) ¹³	1,250,000	2,100,000	2,250,000	68.0%	80.0%
Total	190,117,100	265,480,010	283,274,971	39.6%	49.0%

¹⁰ This amount includes \$450,000 (year 2003) of levy for payment on bonds set by voter approval.

¹¹ The Municipal Building Commission (MBC) property tax levy for year 2002 was adjusted to reflect an error in calculation from the prior year 2001 amount. In 2001, the MBC received cash from a General Fund transfer, which was then correctly replaced with property tax levy in year 2002.

¹² This amount is set by state law.

¹³ This amount is set by state law.

INTRODUCED BY COUNCIL MEMBERS OSTROW, JOHNSON, AND LANE

**COUNCIL RESOLUTION ESTABLISHING COMMITMENT TO
BUSINESS PLANNING AND FIVE YEAR FINANCIAL DIRECTION**

Whereas:

- The Council adopted and the Mayor approved a long-term (year 2010) property tax policy, which established the maximum annual revenue to be provided for from the property tax.
- The Council and Mayor adopted budget principles, which support long-term financial planning.
- The Council and Mayor want to provide financial resource direction, within the limits of the adopted tax policy, to departments as input into developing long-term (five-year) operating plans for the businesses of the City.
- The Council and Mayor believe that departments will be able to prepare better work force plans, and communicate anticipated service activity levels if they have better information on what to anticipate with respect to future resources.

Now Therefore Be It Resolved as Follows by the City Council:

- The City departments will prepare business plans with a five-year planning horizon. In connection with the 2004 budget, all departments will have a plan completed by year-end 2003. Each of these plans will be presented to the Mayor and Council for review and approval by no later than the end of First Quarter 2004.
- The Mayor, Council President, and Chair of Ways and Means/Budget Committee, and the Ways and Means/Budget Committee will provide specific direction to the departments concerning process, form, and time-line for completion of business plans.
- The City departments' business plans will reflect the allocation of general city revenues and property tax revenue provided for in the financial schedules included as an integral attachment to this resolution.

**COUNCIL RESOLUTION ESTABLISHING COMMITMENT TO
BUSINESS PLANNING AND FIVE YEAR FINANCIAL DIRECTION**

[Please reference the financial direction updated for 2007-2011 in the financial overview section of this book for the most recent estimates]

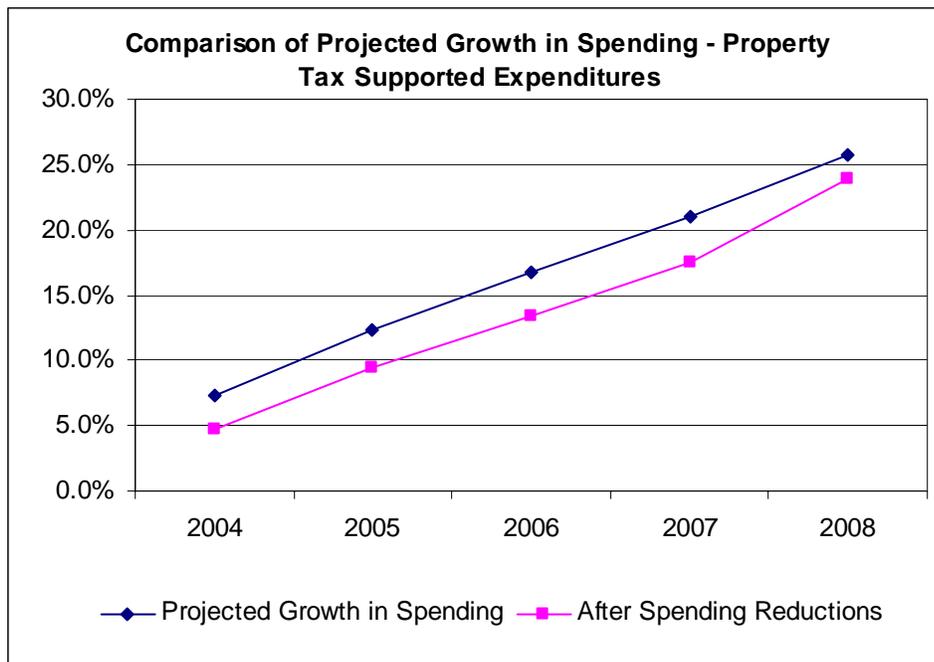
- This resolution and attachments do not include resource direction for all City revenue sources. In addition to using the financial information included in the attachment to this resolution to inform department business planning, departments shall also use other previously and/or separately adopted rate schedules (i.e., utility fees) to plan for future resource levels. Where departments do not have specific Mayor and Council direction on resource levels, the departments shall work with the Finance Department to prepare future revenue estimates.
- The Finance Department, working with city departments, shall determine when additional Mayor and Council direction is needed regarding other revenue sources not covered by this resolution and attachments.
- The Finance Department has authority to amend department specific revenue estimates and corresponding future spending levels (as included in the attachment), after a more thorough and in-depth analysis of revenue estimates is completed. The Finance Department does not have authority to amend the allocation of general city revenues and property tax revenue as established by this resolution.
- The City Council supports the following key policy choices, which are reflected in the financial details included in the attached schedules to this resolution, but because of their significance are called out with specific language below (Please reference the financial direction updated for 2006-2010 in the financial overview section of this book for the most recent estimates):
 - The Council understands all financial plans will be based upon its adopted tax policy, which established an 8-percent maximum annual increase in property tax levy.
 - The Council is committed to not spending the principal from the proceeds received from the sale of the City's interest in the Hilton Hotel, which occurred in 2000, and all financial plans will be based on that assumption.
 - This resolution establishes the pool of resources for community development activities. This resolution does not establish how these resources will be allocated in the future to specific areas such as the Neighborhood Revitalization Program (NRP), including NRP administration, and other citywide community development activities.

**SUMMARY POINTS OF FINANCIAL SCHEDULES
PROJECTIONS FOR YEARS' 2004 TO 2008**

[Please reference the financial direction updated for 2007-2011 in the financial overview section of this book for the most recent estimates]

- **7-percent average annual projected growth in spending**, including wage/salary increases and other contractual obligations (inflationary pressures), projected rising health insurance premiums, internal service fund obligations, and infrastructure "gap" closure plans.

- **3-percent average annual reduction to this growth in spending** will be needed to balance the budget within the adopted tax policy. (The City has averaged 3.0-percent annual reductions to growth in spending over the past seven years.) The adjusted average annual growth to spending will be 4.2-percent, after spending reductions are implemented. This includes funding for debt, both internal and external obligations.



- **1-percent average annual growth in non-property tax revenues**, including direct department revenue, general city revenues (received in the General Fund), and Local Government Aid. Local Government Aid is assumed to remain at a constant (year 2002) level for projections purposes.

- **8-percent average annual growth in property tax revenue** for all City funds, including the independent boards. The average annual growth in property tax revenue for the City's General Fund, Permanent Improvement, Debt Service, Community Development, and Pension Funds is 8.2% over the five-year period. This is slightly greater than the overall growth in property tax revenue, because of the impact of the changes in property tax revenue for the Pension Funds.

ASSUMPTIONS INCLUDED IN FINANCIAL SCHEDULES

[Please reference the financial direction updated for 2007-2011 in the financial overview section of this book for the most recent estimates]

2003 Expense

The 2003 Expense figures are based on the Mayor's Recommended 2003 budget.

Projected Growth in Spending

Projected growth in spending reflects the assumptions that were included in the "Ten-Year Projected Demands on the Property Tax Report", prepared by the Finance Department in 1st Quarter 2002. The assumptions cover years' 2004 to 2008, unless a different time frame is noted below:

- 4% annual growth in base expenditures, not including health insurance
- 20% annual increase in health insurance premiums
- \$800,000 annual increase in Public Works maintenance funding per the adopted infrastructure "gap" closure plan, which is reflected in the Public Works line item on the financial schedule
- \$1,000,000 annual increase in Public Works capital funding per the adopted infrastructure "gap" closure plan, which is reflected in the Debt Service line item on the financial schedule
- \$1,200,000 annual increase for Information Technology workout plan, which is reflected in the Information Technology line item in the financial schedule
- \$500,000 annual increase for Self-Insurance Fund deficit reduction plan, which is reflected in the Other Internal Service Fund line item on the financial schedule
- \$2,000,000 annual increase (in years' 2004 and 2005 only) for Equipment Services workout plan, which is reflected in the Other Internal Service Fund line item in the financial schedule
- \$300,000 annual increase for contingency funding, which is reflected in the Contingency line item in the financial schedule
- \$1,300,000 to \$3,500,000 range of annual increases for Pension levy to meet future debt obligations

Reduction to Growth in Spending

The amount of reduction to growth in spending reflects the Council and Mayor's decision on how the spending reductions are to be allocated across City departments or major spending areas.

Direct Revenue

Direct revenue is revenue that is recorded directly to a department or agency versus at the fund level. This revenue category is adjusted annually by 1.5%, except for Licenses and Inspections direct revenue, which is adjusted by 3.0% annually (an assumed inflationary level).

General City Revenues (Non-Direct)

General City revenue is revenue that is recorded at the fund level in the General Fund versus at a department or agency level. This revenue category is adjusted by 1.5% annually for all revenues included in this category. Local Government Aid is considered general city revenue, but for the purposes of this financial report it has been broken-out separately. General City Revenues have been pro-rated to each department based on the following formula:

*[Department Net Cost] divided by [Total General Fund Net Cost]
[Net cost] was calculated by subtracting direct revenue from recommended expense.*

Local Government Aid

Local Government Aid (LGA) is assumed to remain constant at the 2002 level, or \$89.9 million. LGA was allocated based on the same formula used for allocating general city revenues.

Property Tax Revenue

Total property tax revenue is based upon the Council adopted and Mayor approved tax policy, which provides for a total maximum 8-percent annual increase in property tax levy for the City and Independent Boards. In addition to establishing a maximum percent increase in annual property tax levy, the policy also established how the growth in property tax levy would be allocated between the City and the Independent Boards.

Other items:

Levy Limits

Levy limits may present a future challenge with respect to changes in special property tax levies such as the Community Development Levy, which have historically been exempt from levy limits. When the 2003 State tax bill is acted upon, it will require the City to reevaluate how the property tax levy has been allocated between funds, as well as special levies. The Finance Department and the City Attorney's Office are in the process of evaluating potential options for responding to levy limits.

**Ordinance and Resolution on Community Development Resources
Adopted August 22, 2003**

W&M/Budget - Your Committee, having under consideration the Neighborhood Revitalization Program (NRP) and the establishment of funding priorities for Phase II of the program, now recommends:

- a) Passage of the accompanying Ordinance amending Title 16, Chapter 419 of the Minneapolis Code of Ordinances relating to Planning and Development: Neighborhood Revitalization Program; and
- b) Passage of the accompanying Resolution providing funding for a Discretionary Development Funding Plan for the period of 2004-2009; and
- c) That an amendment to the Target Center Finance Plan to remove the entertainment tax from the approved plan and transfer said funds to the City's General Fund, subject to any previous agreement that pledges the entertainment tax to any outstanding bonds of the City, be **forwarded without recommendation**.

Johnson moved to substitute the following report for the above report. Seconded.
Adopted by unanimous consent.

W&M/Budget - Your Committee, having under consideration the Neighborhood Revitalization Program (NRP) and the establishment of funding priorities for Phase II of the program, now recommends:

- a) Passage of the accompanying Ordinance amending Title 16, Chapter 419 of the Minneapolis Code of Ordinances relating to Planning and Development: Neighborhood Revitalization Program; and
- b) Passage of the accompanying Resolution providing funding for a Discretionary Development Funding Plan for the period of 2004-2009; and
- c) Approval of a Target Center Finance Plan Direction to Staff as follows:
 - 1. Direct staff to amend the Target Center Finance Plan to add Common Project tax increment in an amount necessary to meet the debt service shortfall in the current Finance Plan and up to \$14 million for near term capital improvements as outlined in Patrick Born's August 20, 2003 memorandum to the City Council and Mayor and as described in the Finance Department's June 4, 2003 "Base Case plus Target Center non-CP revenues" analysis (Petn No 269013);
 - 2. Authorize the City Coordinator, the Community Planning and Economic Development (CPED) Director and/or their designees to negotiate with the Timberwolves and Clear Channel:
 - (a) the amount and nature of capital improvements to be financed from the amended finance plan for the Target Center; and
 - (b) the methods and sources to finance the long term capital improvement needs of the Target Center.

Niziolek moved to divide the report so as to consider separately paragraphs A, B and C.
Seconded.

Adopted. Yeas, 10; Nays, 3 as follows:

Yeas - Johnson Lee, Niziolek, Benson, Goodman, Lane, Johnson, Colvin Roy, Schiff, Zerby, Ostrow.

Nays - Lilligren, Samuels, Zimmermann.

W&M/Budget - Your Committee, having under consideration the Neighborhood Revitalization Program (NRP) and the establishment of funding priorities for Phase II of the program, now recommend passage of the accompanying Ordinance amending Title 16, Chapter 419 of the

Minneapolis Code of Ordinances relating to Planning and Development: Neighborhood Revitalization Program.

Johnson moved to amend Section 419.55 of the ordinance as follows:

- a) Amend Section 419.55
- (b) by adding a subsection 5 to read “(5) If a strategy in an approved neighborhood action plan has not expended 50% of the allocated dollars in three (3) years, the neighborhood must verify that the strategy remains appropriate or the strategy must be changed or the dollars will be reallocated to the NRP program.”;
- b) Amend Section 419.55 (b) by adding a new subsection 6 to read “(6) No more than 20% of the program dollars expended (on an annual basis) may be used for administrative costs, both in central administration and at neighborhood level.” Seconded.

Johnson’s motion was adopted upon a voice vote.

Goodman moved to amend Section 419.30 of the Ordinance by adding a new subdivision (c) to read as follows:

“ (c) To achieve the chapter 604 requirement that at least 52.5 percent of the funds reserved for neighborhood revitalization be expended on housing programs and related purposes, the policy board shall take the following actions:

(1) Commission an independent audit of compliance with the chapter 604 requirement for neighborhood revitalization program funds under contract or expended through June 30, 2003. The audit shall allocate contracted and actual expenditures for housing programs and related purposes among the following cost categories:

- a. creation of new rental housing units affordable to persons whose annual incomes do not exceed (i) thirty percent of and (ii) fifty percent of the median family income;
- b. rehabilitation or preservation of existing rental housing units affordable to persons whose annual incomes do not exceed (i) thirty percent of and (ii) fifty percent of the median family income;
- c. provision of affordable ownership housing opportunities, including first-time home buyers’ mortgages (with income qualifications);
- d. rehabilitation of existing housing units through housing loan and grant programs with income qualifications;
- e. rehabilitation of existing housing units through housing loan and grant programs without income qualifications; and
- f. administrative costs associated with the operation of housing projects, programs, services and activities.

The policy board shall complete the audit by October 15, 2003.

(2) Develop a plan to make up any deficiency identified by the audit using existing phase I fund balances and/or phase II funds. The plan shall include a timeframe and measurable outcomes that are consistent with city housing plans and policies as well as neighborhood action plans. The policy board shall submit the plan to the city council by October 22, 2003, for consideration consistent with section 419.70.

(3) Prepare and transmit by July 1 of each year to the governmental bodies represented on the policy board an annual recommended budget and five year plan for use of the phase II funds and any other funds made available to the policy board consistent with city goals, plans and policies, approved neighborhood action plans and applicable laws, ordinances and resolutions. The policy board submission will constitute its recommendations to the mayor and other appropriate parties for consideration in the budget deliberations for the upcoming year.” Seconded.

Colvin Roy moved to amend the Goodman motion by amending subsection (c), paragraph (2)

by adding after "October 22, 2003" the language "and each October to the end of the program" and moving that language to the end of the sentence. Seconded.
Adopted upon a voice vote
Goodman's motion, as amended, was adopted upon a voice vote.
The report, as amended, was adopted 8/22/03.

Ordinance 2003-Or-111 amending Title 16, Chapter 419 of the Minneapolis Code of Ordinances relating to Planning and Development: Neighborhood Revitalization Program, establishing funding priorities for Phase II of the Neighborhood Revitalization Program and related amendments, was passed 8/22/03 by the City Council. A complete copy of this ordinance is available for public inspection in the office of the City Clerk.
The following is the complete text of the unpublished summarized resolution.

ORDINANCE 2003-Or-111
By Lane, Ostrow, Goodman, Benson and Zerby
Intro & 1st Reading: 3/21/03
Ref to: Comm Dev & W&M/Budget
2nd Reading: 8/22/03
Amending Title 16, Chapter 419 of the Minneapolis Code of Ordinances relating to
Planning and Development: Neighborhood Revitalization Program.

The City Council of The City of Minneapolis do ordain as follows:
Section 1. That Section 419.20(a) of the above-entitled ordinance be amended by adding thereto the following definitions in alphabetical sequence to read as follows:

419.20. Definitions and general guidelines. (a) In this chapter, unless a different meaning clearly appears from the context:

Agency means the Minneapolis Community Development Agency, its successors or assigns.
Discretionary development funding plan means that certain resolution adopted by the city council on August 22, 2003, providing funding for discretionary development activities from 2004 through 2009.

Neighborhood action plan means the plan developed with the participation of neighborhood residents under subdivision 6 of the neighborhood revitalization program law.

Phase I means the first phase of the neighborhood revitalization program (1990-2000), funded by the Phase I funds.

Phase I funds means the city neighborhood revitalization program funds reserved from 1990 through 2000.

Phase II means the second phase of the neighborhood revitalization program (2001-2009), funded by the Phase II funds.

Phase II funds means twenty million dollars (\$20,000,000.00) in 2001, eleven million dollars (\$11,000,000.00) in 2002 and, for 2003 through 2009, the funds required to be reserved for neighborhood revitalization under chapter 604, subject to the priorities stated in section 419.35.

Sources of securities and repayment shall have the meaning set forth in the discretionary development funding plan.

Tax increment act means Minnesota Statutes, Sections 469.174-469.1799, as amended, which establishes the powers relating to use of tax increment.

Section 2. That Section 419.30 of the above-entitled ordinance be amended by adding thereto a new subdivision (c) to read as follows:

419.30. Neighborhood revitalization program.

(c) To achieve the chapter 604 requirement that at least 52.5 percent of the funds reserved for neighborhood revitalization be expended on housing programs and related purposes, the policy board shall take the following actions:

(1) Commission an independent audit of compliance with the chapter 604 requirement for neighborhood revitalization program funds under contract or expended through June

30, 2003. The audit shall allocate contracted and actual expenditures for housing programs and related purposes among the following cost categories:

- a. Creation of new rental housing units affordable to persons whose annual incomes do not exceed (i) thirty percent of and (ii) fifty percent of the median family income.
- b. Rehabilitation or preservation of existing rental housing units affordable to persons whose annual incomes do not exceed (i) thirty percent of and (ii) fifty percent of the median family income.
- c. Provision of affordable ownership housing opportunities, including first-time homebuyers' mortgages (with income qualifications).
- d. Rehabilitation of existing housing units through housing loan and grant programs with income qualifications.
- e. Rehabilitation of existing housing units through housing loan and grant programs without income qualifications.
- f. Administrative costs associated with the operation of housing projects, programs, services and activities.

The policy board shall complete the audit by October 15, 2003.

(2) Develop a plan to make up any deficiency identified by the audit using existing phase I fund balances and/or phase II funds. The plan shall include a timeframe and measurable outcomes that are consistent with city housing plans and policies as well as neighborhood action plans. The policy board shall submit the plan to the city council for consideration consistent with section 419.70 by October 22, 2003 and each October to the end of the program.

(3) Prepare and transmit by July 1 of each year to the governmental bodies represented on the policy board an annual recommended budget and five (5) year plan for use of the phase II funds and any other funds made available to the policy board consistent with city goals, plans and policies, approved neighborhood action plans and applicable laws, ordinances and resolutions. The policy board submission will constitute its recommendations to the mayor and other appropriate parties for consideration in the budget deliberations for the upcoming year.

Section 3. That a new Section 419.35 be added to the above-entitled ordinance to read as follows:

419.35. Common project priorities for phase II. (a) Tax increment and other revenues generated from the common project, but excluding the sources of security and repayment, shall, for purposes of phase II, be applied in accordance with the following priorities in order given.

- (1) Payment or reservation for payment of any debt obligations, contractual obligations or other obligations incurred by the agency or the city from time to time with respect to the common project;
 - (2) Payment of tax increment administration costs related to the common project as permitted pursuant to the tax increment act;
 - (3) Reservation of phase II funds pursuant to this chapter, except that no more than \$20,000,000 shall be reserved for neighborhood revitalization in any fiscal year; and
 - (4) General development purposes, as permitted by law.
- (b) The sources of security and repayment shall be applied in accordance with the discretionary development funding plan.
- (c) The revenues identified in that certain target center finance plan adopted by the city council in 1995, as amended through August 22, 2003, including revenues not generated by the common project, shall be applied to offset target center obligations.

Section 4. That Section 419.40 of the above-entitled ordinance be amended to read as follows:

419.40. Commitment of city neighborhood revitalization program funds. (a) *Phase I.* In furtherance of the goals stated in section 419.30 (a), the city hereby commits to provide the city

neighborhood revitalization program phase I funds, commencing in 1990 through and including 2000, for phase 1 of the neighborhood revitalization program.

(b) *Phase II.* In furtherance of the goals stated in section 419.30(b), and subject to the priorities established by section 419.35, the city hereby commits to reserve the phase II funds for phase II neighborhood action plans, commencing in 2001 through and including 2009, to the extent that such funds are available pursuant to section 419.35. The difference, if any, between the total phase II funds reserved in any fiscal year and the twenty million dollar (\$20,000,000.00) cap shall not be carried forward to any subsequent fiscal year.

Section 5. That Chapter 419 of the Minneapolis Code of Ordinances be amended by adding thereto a new Section 419.55 to read as follows:

419.55. Phase II neighborhood revitalization program process. The provisions of section 419.50 shall apply only to phase I of the neighborhood revitalization program. The following provisions apply to phase II of the neighborhood revitalization program.

(a) *Purposes; qualifying costs.* Neighborhood action plans may provide for expenditure of phase II funds for the following purposes:

- (1) To eliminate blighting influences by acquiring and clearing or rehabilitating properties that the city finds have caused or will cause a decline in the value of properties in the area or will increase the probability that properties in the area will be allowed to physically deteriorate.
- (2) To assist in the development of industrial properties that provide employment opportunities paying a livable income to the residents of the neighborhood and that will not adversely affect the overall character of the neighborhood.
- (3) To acquire, develop, construct, physically maintain, rehabilitate, renovate, or replace neighborhood commercial and retail facilities necessary to maintain neighborhood vitality.
- (4) To eliminate health hazards through the removal of hazardous waste and pollution and return of land to productive use, if the responsible party is unavailable or unable to pay for the cost.
- (5) To rehabilitate existing housing and encourage homeownership.
- (6) To construct new housing, where appropriate.
- (7) To rehabilitate and construct new low-income, affordable rental housing.
- (8) To remove vacant and boarded up houses.
- (9) To rehabilitate or construct community-based nonprofit and public facilities necessary to carry out the purpose of the neighborhood revitalization program.

(b) *Phase II funds; distribution and restrictions.*

(1) Phase II funds may only be expended in accordance with the neighborhood revitalization program

- (i) for a purpose listed in section 419.55(a); or
- (ii) as provided in subdivision 4 of the neighborhood revitalization program law, including the promotion of neighborhood safety and stability through community crime prevention programs and activities such as neighborhood block and police patrols, block clubs and community outreach; or
- (iii) to cover administrative costs attached to implementation of strategies contained in approved neighborhood action plans.

(2) Phase II funds may not be used in those project areas of the city where the city determines that private investment will be sufficient to provide for development and redevelopment of the project area without public sector assistance, except in cases where phase II funds are being used to remove or rehabilitate structurally substandard or obsolete buildings in a manner consistent with the neighborhoods' priorities as reflected in an approved neighborhood action plan.

(3) Except as provided in the neighborhood revitalization program law, revenues derived from tax increments may only be expended for the purposes otherwise permitted by law.

(4) A minimum of 52.5 percent of the phase II funds must be expended on housing programs and related purposes. Compliance with this provision shall be measured annually. The phase II target for housing programs and related purposes shall be adjusted to accommodate for any shortfall in expenditures in phase I such that the total expended in

phase I and phase II for housing programs and related purposes shall be no less than 52.5 percent.

(5) If a strategy in an approved neighborhood action plan has not expended 50% of the allocated dollars in three (3) years, the neighborhood must verify that the strategy remains appropriate or the strategy must be changed or the dollars will be reallocated to the NRP program.

(6) No more than 20% of the program dollars expended (on an annual basis) may be used for administrative costs, both in central administration and at neighborhood level.

(c) *General principles.* Phase II of the neighborhood revitalization program must be developed based on the following general principles:

(1) The social needs of neighborhood residents, particularly lower income residents, must be addressed to provide a safe and healthy environment for neighborhood residents, provide for the self-sufficiency of families, and increase the economic and social stability of neighborhoods.

(2) The children residing in the neighborhoods must be given the opportunity for a quality education and the needs of each neighborhood must be addressed individually wherever possible.

(3) The physical structure of the neighborhoods must be enhanced by providing safe and suitable housing and infrastructure to increase the desirability of neighborhoods as places to live.

(d) *Required program elements.* Phase II of the neighborhood revitalization program must include the following:

(1) The identification of the neighborhoods that require assistance through the program.

(2) A strategy of the citizen participation required under this chapter.

(3) The neighborhood action plans required under this chapter.

(4) The activities of participating organizations undertaken to address the general principles.

(5) An evaluation of the success of the neighborhood action plans.

(e) *Neighborhood action plans.* Phase II of the neighborhood revitalization program must include the preparation and implementation of neighborhood action plans. The city must organize neighborhoods to prepare and implement the neighborhood action plans. The neighborhoods must include the participation of, whenever possible, all populations and interests in each neighborhood including renters, homeowners, people of color, business owners, representatives of neighborhood institutions, youth, and the elderly. Each neighborhood action plan must be submitted to the policy board established under this chapter and the neighborhood revitalization program law. The city will provide available resources, information, and technical assistance to prepare the neighborhood action plans.

(f) *Approval.* The policy board shall review, modify where appropriate, and approve, in whole or in part, the neighborhood action plans and forward its recommendations for final action to the governing bodies represented on the policy board. The city council shall review, modify where appropriate, and give final approval, in whole or in part, to those actions over which it has programmatic jurisdiction.

Section 6. That Section 419.70 of the above-entitled ordinance be amended to read as follows:

419.70. Program recommendations. (a) The mayor and the city council will use the following criteria in considering neighborhood action plan strategies for use of city neighborhood revitalization

program phase I funds and phase II funds:

(1) Demonstrated public purpose of the strategies.

(2) Demonstrated need for the strategies.

(3) Short-term or long-term needs of the neighborhood.

(4) Benefiting population.

(5) Ability of the strategies to provide a return on the investment.

(6) Coordination with programming elements or providers.

(7) Availability of operating or maintenance funds.

(8) Lack of alternative sources of revenue.

- (9) One-time or ongoing capital requirement.
 - (10) Multijurisdictional benefits of the strategies.
 - (11) Neighborhood revitalization benefits of the strategies.
 - (12) Demonstrated ability of the neighborhood revitalization program as a whole to meet the 52.5 percent funding requirement for housing programs and related purposes.
 - (13) The extent to which the strategies leverage existing city programs and funds to accomplish city housing and development objectives in the neighborhoods that carry out the purposes of the neighborhood revitalization program.
- (b) Concurrent with approval of each neighborhood action plan, the city council will appropriate reserve city neighborhood revitalization program phase I or phase II funds of the Minneapolis Community Development Agency, as appropriate, for appropriation and expenditure consistent with such action plan.
- (c) Because of the acknowledged substantial unmet need and severe lack of resources available for disadvantaged youth in the City of Minneapolis, beginning in 1990 and continuing through 2003, the city council, at the request of the policy board, shall appropriate two hundred thousand dollars (\$200,000.00) of the city neighborhood revitalization program funds each year to the multi-jurisdictional youth coordinating board from non-tax increment sources.
- (d) With respect to phase I only, The amounts made available during the first phase of the neighborhood revitalization program to Special School District No. 1 and to Hennepin County for education programs and services and for social services, respectively, must be expended as part of an approved neighborhood action plan, as required by subdivision 4 of the neighborhood revitalization program law. The boards of Special School District No. 1 and Hennepin County shall each approve appropriations from the funds available to them from the neighborhood revitalization program and shall forward proposed strategies to the policy board for approval.

Adopted 8/22/03.

W&M/Budget - Your Committee, having under consideration the Neighborhood Revitalization Program (NRP) and the establishment of funding priorities for Phase II of the program, now recommends passage of the accompanying Resolution providing funding for a Discretionary Development Funding Plan for the period of 2004-2009.

Goodman moved to amend the resolution as follows:

- a) Amend Section 2.05 by striking the amount "\$3,330,000.00" and inserting in lieu thereof the amount "\$3,679,000.00"; and
- b) Striking Section 3.03 in its entirety. Seconded.

Adopted upon a voice vote.

The report, as amended, was adopted 8/22/03. Yeas, 12; Nays, 1 as follows:

Yeas - Lilligren, Johnson Lee, Benson, Goodman, Lane, Samuels, Johnson, Colvin Roy, Zimmermann, Schiff, Zerby, Ostrow.

Nays - Niziolek.

Resolution 2003R-404, providing funding for a Discretionary Development Funding Plan for the period of 2004-2009, was passed 8/22/03 by the City Council. A complete copy of this resolution is available for public inspection in the office of the City Clerk.

The following is the complete text of the unpublished summarized resolution.

RESOLUTION 2003R-404
By Lane, Ostrow, Goodman, Benson and Zerby
Providing funding for Discretionary Development Activities from 2004-2009.

Resolved by the City Council of the City of Minneapolis:

Section 1. Title. This resolution shall be known as the Discretionary Development Funding Plan.

Section 2. Definitions.

2.01. "Legacy Fund" means that certain investment trust account containing the proceeds of the 1999 sale of the MCDA's interest in the Hilton Hotel property.

2.02. "Sources of Security and Repayment" means the proceeds of any repayment or other receipt of funds relative to the Brookfield Loan and the proceeds of any sale or other disposition of the MCDA's interest in the Saks Parcel, including net income from operation of the Saks Parcel, if any.

2.03. "Brookfield Loan" means that certain MCDA loan for the Gaviidae II project to BCED Minnesota, Inc. in the original principal amount of \$15,000,000 maturing December 19, 2008, unless extended one year by the borrower pursuant to an option in the loan documents.

2.04. "Discretionary Development Activities" means such discretionary development activities as the City Council and/or the MCDA Board of Commissioners may from time to time direct through their budgeting and business planning processes.

2.05. "Installment Amount" means an amount not to exceed Three Million Six Hundred Seventy Nine Thousand and No/100 Dollars (\$3,679,000.00) in any calendar year.

2.06. "Loan" means the loan authorized by Section 3.01 of this resolution (inclusive of principal and interest accrued hereunder).

2.07. "MCDA" means the Minneapolis Community Development Agency, its successors and assigns.

2.08. "Loan Amount Due" means the total principal amount and accrued interest outstanding under this resolution at any given point in time.

2.09. "Saks Parcel" means that portion of the Gaviidae I project currently owned by MCDA, subject to certain legal claims by Brookfield Market, Inc., and leased to Saks and M & I Bank.

Section 3. Loan Authorization.

3.01. Loan. In calendar years 2004 through and including 2009, the MCDA or its successor in interest may borrow up to Twenty-Two Million and No/100 Dollars (\$22,000,000.00) from the Legacy Fund for Discretionary Development Activities as provided herein.

3.02. Installments. The Loan may be drawn down in an annual amount not to exceed the Installment Amount by action of the Mayor and City Council and/or the MCDA Board of Commissioners, as appropriate, in accordance with the process set forth in Section 5.01 below.

Section 4. Loan Repayment.

4.01. Repayment and Security. The Loan shall be secured with and repaid from the Sources of Security and Repayment and such other funds as the City Council may direct, if any.

4.02. Repayment Priority. Repayment of the Loan shall have first priority with respect to the Sources of Security and Repayment. No money from the Sources of Security and Repayment shall be allocated, reserved, pledged, expended or otherwise encumbered to or for any other use while there remains an amount due on the Loan.

4.03. Time of Repayment. Money from the Sources of Security and Repayment shall be applied to repay the Loan and credited to the Legacy Fund at the time they are received.

4.04. Excess Sources of Security and Repayment. In the event that the money received from the Sources of Security and Repayment exceeds the Loan Amount Due at the time when the money is received, the balance in excess of the Loan Amount Due shall be reserved for Discretionary Development Activities. Any such balance must be drawn down under this resolution for Discretionary Development Activities, up to an annual maximum of the Installment Amount, before additional money may be drawn down under the Loan. In the event that the outstanding balance is less than the Installment Amount in any calendar year eligible for a loan installment, the Loan may be drawn down so that the total of the outstanding balance and the loan installment do not exceed the Installment Amount.

Section 5. Further Actions.

5.01. Annual Process. Subject to Section 4.04 above, the Mayor and City Council and/or the MCDA Board of Commissioners, as appropriate, shall act annually as part of their budget process to set the amount of the annual installment and shall direct staff to transfer funds from the Legacy Fund to the appropriate City or MCDA fund as part of the adopted budget.

5.02. Status. As part of the annual budget process or as may otherwise be deemed reasonable or necessary by the Finance Officer, staff shall present to the Mayor and City Council and/or the MCDA Board of Commissioners, as appropriate, the status of the Loan and the Sources of Security and Repayment.

5.03. Authority to Pay. Staff shall make repayments hereunder as Sources of Security and Repayment become available for repayment at such time and in such manner as the Finance Officer may direct without the need for further action by the Mayor and City Council and/or the MCDA Board of Commissioners.

Adopted 8/22/03. Yeas, 12; Nays, 1 as follows:

Yeas - Lilligren, Johnson Lee, Benson, Goodman, Lane, Samuels, Johnson, Colvin Roy, Zimmermann, Schiff, Zerby, Ostrow.

Nays - Niziolek.

W&M/Budget - Your Committee, having under consideration the Neighborhood Revitalization Program (NRP) and the establishment of funding priorities for Phase II of the program, now recommends approval of a Target Center Finance Plan Direction to Staff as follows:

1. Direct staff to amend the Target Center Finance Plan to add Common Project tax increment in an amount necessary to meet the debt service shortfall in the current Finance Plan and up to \$14 million for near term capital improvements as outlined in Patrick Born's August 20, 2003 memorandum to the City Council and Mayor and as described in the Finance Department's June 4, 2003 "Base Case plus Target Center non-CP revenues" analysis (Petn No 269013);
2. Authorize the City Coordinator, the Community Planning and Economic Development (CPED) Director and/or their designees to negotiate with the Timberwolves and Clear Channel: (a) the amount and nature of capital improvements to be financed from the amended finance plan for the Target Center; and (b) the methods and sources to finance the long term capital improvement needs of the Target Center.

Niziolek moved to amend the substituted report, as amended, by adding to the Target Center Finance Plan Direction to Staff a new Item 3 to read as follows:

"3. Approval of an amendment to the Target Center Finance Plan to remove the entertainment tax from the approved plan and transfer said funds to the City's General Fund, subject to any previous agreement that pledges the entertainment tax to any outstanding bonds of the City."
Seconded.

Lost upon a voice vote.

The report was adopted 8/22/03.

Your Committee further recommends passage of the accompanying resolution vacating said right-of-way.

Adopted 8/22/03.

Resolution 2003R-405, vacating part of the public alley adjacent to 1931 W Broadway, between Newton and Oliver Aves, was passed 8/22/03 by the City Council. A complete copy of this resolution

is available for public inspection in the office of the City Clerk.

The following is the complete text of the unpublished summarized resolution.