

**City of Minneapolis
2013 Budget
Financial Plan**

Fleet Services Division Fund

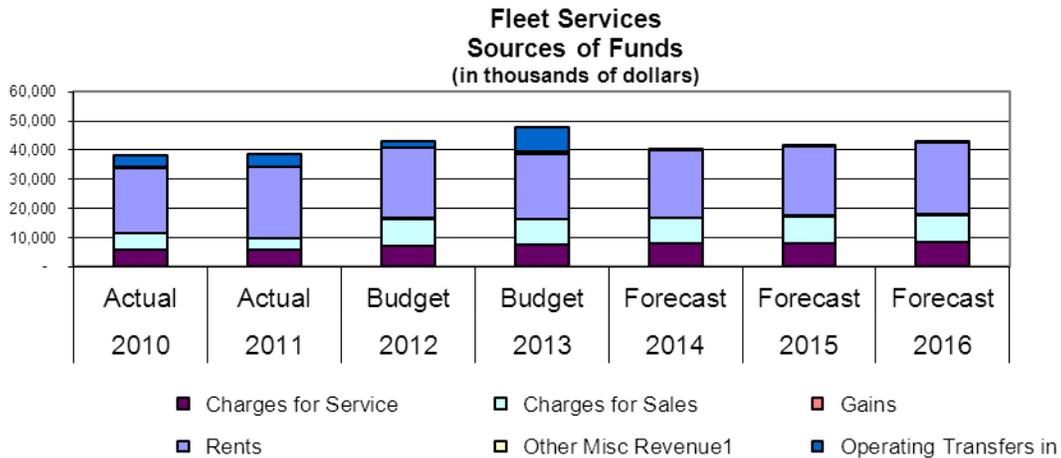
Background

The Fleet Services Division Fund manages the acquisition, maintenance and fueling, and disposal of 1300 units of equipment, primarily the City's fleet of vehicles, including police cars, fire trucks, snow plows, sedans and pickup trucks along with off-road equipment. This fund provides technicians to maintain the equipment as well as the drivers and operators for the equipment that is used in construction and snow removal. In addition, the fund manages the dispatch of City-owned and contractual equipment. The City's fleet of vehicles and equipment has an acquisition value of \$66.8 million and accounts for 47.5% of the net value of the long-term assets in this fund.

Historical Financial Performance

In 2000, the fund had a deficit cash position of \$17.8 million due to costs of operation exceeding revenues collected from City departments. A long-term financial plan was developed in 2001 to generate sufficient revenue to cover the full cost of operations. The fund maintained a positive cash balance through 2011 with the exception of the year ending 2008 when the cash balance was a deficit of \$(49,000). At the end of 2011, the cash balance was \$12.3 million, which exceeded the target cash reserve by \$9.5 million.

The original long-term financial plan financed fleet purchases by issuing general obligation bonds. Upgrading the fleet reduced the average age of the fleet, reducing maintenance costs in the fund. Historically, the fund continues to follow the plan to maintain a positive cash balance, increase net assets, and end its reliance on bonds to fund the fleet purchases. In 2006, the practice of issuing bonds to finance fleet replacement was discontinued.

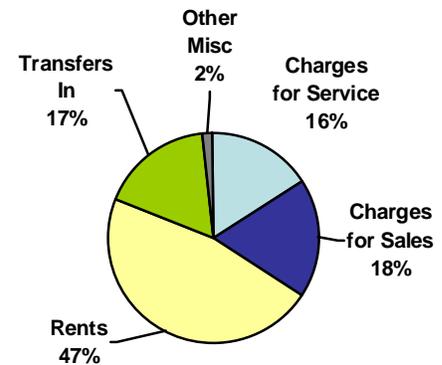


2013 Budget

Revenue

The Fleet Services Division uses activity-based costing to bill internal customers for use of vehicles. This method establishes a fleet rental charge that covers the replacement cost of the vehicle or piece of equipment at the end of its useful life. Maintenance, repairs and fuel costs of the fleet are charged separately. These costs are billed out at a level that allows Fleet to recover its costs and match revenue to expense. Total revenues for 2013 are budgeted at \$47.8 million, an increase of 9.1% from the 2012 projected revenue of \$43.8 million. The increase in projected revenue is due primarily to a \$6.4 million increase in the general fund transfer scheduled as part of a previously adopted financial plan. This is offset by a \$2.0 million reduction in lease revenues largely due to a planned reduction in fleet replacement.

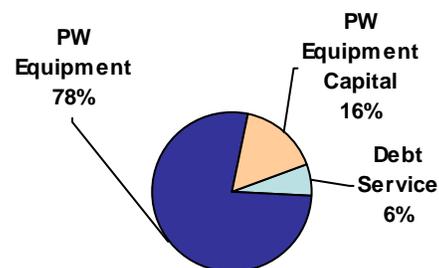
Source of Revenue (\$47.8 million)



Expense

The 2013 expense budget is \$45.9 million which represents a decrease of 6.6% from the 2012 projected expense of \$49.1 million. The decrease in expense is primarily due to a projected decrease in capital spending for fleet replacement, from \$9.9 million in 2012 to \$7.4 million in 2013. In 2012, Fleet expects to expend \$9.9 million for the purchase of vehicles, approximately \$2.0 million more than budgeted. Funding for the additional purchases will come from fund (net asset) balance which was built up in 2010 and 2011 when Fleet Services purchased fewer vehicles than planned.

Use of Funds (\$45.9 million)



Transfers

The transfer out from this fund for debt service related to the Minneapolis Employees Retirement Fund (MERF) unfunded liability ended with a final \$2.2 million payment in 2012 to retire bonds related to this debt service. Fleet Services is using fund balance as a revenue source for this payment and will recover the cost of the payment through the Fleet allocation model in years 2012 through 2014.

In 2013, the fund will receive a transfer from the general fund of \$8.3 million as determined by the long term financial plan, an increase from the \$1.9 million general fund transfer in 2012. This additional funding will be used to assist with debt service payments. The fund is not scheduled to receive transfers from the general fund after 2013.

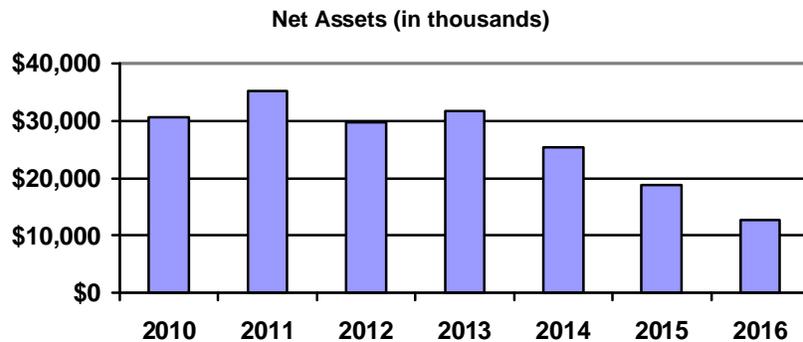
Debt Service

As part of the fleet modernization effort that began in 1997, the City issued bonds to finance fleet upgrades and to build new maintenance facilities. In 2010, the City issued \$22.3 million of

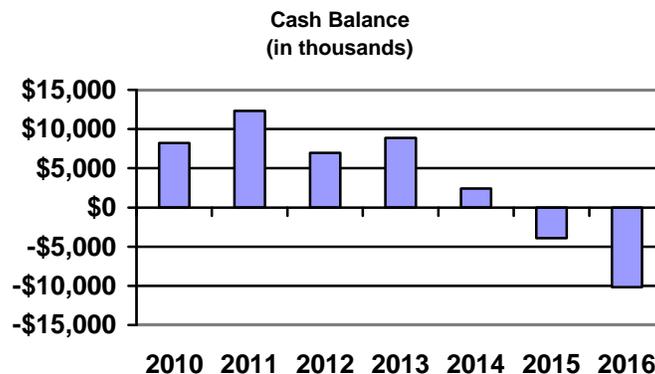
refunding bonds to refinance current debt at a lower interest rate. Principal and interest payments totaling \$2.9 million are due in 2013 related to these bonds.

Net Assets and Cash Balance

A primary objective of the long-term financial plan was to increase the fund's net assets and cash balances from the deficit balances in 2002. The fund has steadily increased its net asset balance since 2003 when the financial plan was first implemented. The net asset balance at year-end 2011 was \$35.2 million, an increase of \$4.5 million from the 2010 ending balance of \$30.6 million. The financial policy related to net asset balance for Fleet Services states that the value of net assets should not fall below two times the annual depreciation amount. The annual depreciation for Fleet Services in 2011 was \$6.5 million. The 2011 net asset balance of \$35.2 million is \$22.2 million greater than the benchmark amount of \$13 million. The net asset balance is projected to be \$29.8 million at the end of 2012 and budgeted to be \$31.8 million at the end of 2013 and should exceed the benchmark in each of those years.



The 2011 ending cash balance of \$12.3 million is an increase of \$4.1 million from the 2010 ending balance of \$8.2 million. The target cash balance for 2011 as determined by the cash reserve policy is \$2.8 million. The 2012 projected cash balance and 2013 budgeted cash balance of \$7.0 million and \$8.9 million respectively are both expected to exceed the target cash reserve for each year of \$2.8 million and \$4.3 million. The following chart illustrates the historical and projected cash performance of the fund:



Mayor's Recommended Budget

The Mayor recommended no changes to this fund.

**City of Minneapolis
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Fleet Services Divison - 06100

	2010 Actual	2011 Actual	2012 Budget	2012 Projected	2013 Budget	% Chg From 2012 Projected	2014 Forecast	2015 Forecast	2016 Forecast
Source of Funds:									
Charges for Service	5,850	5,863	7,346	8,500	7,656	-9.9%	7,886	8,122	8,366
Charges for Sales	5,586	4,026	9,198	8,750	8,634	-1.3%	8,893	9,160	9,435
Gains	169	36	200	200	200	0.0%	200	200	200
Rents	22,378	24,250	24,254	24,400	22,343	-8.4%	23,013	23,704	24,415
Other Misc Revenue ¹	136	179	30	30	630	2000.0%	30	30	30
Operating Transfers in	4,180	4,299	1,926	1,926	8,315	331.7%	-	-	-
Total	38,299	38,653	42,954	43,806	47,778	9.1%	40,022	41,216	42,445
Use of Funds:									
Debt Service	3,590	2,996	3,010	3,010	2,921	-2.9%	2,827	2,870	2,834
Transfers	581	923	2,222	2,222	-	-100.0%	-	-	-
PW Equipment	25,687	25,982	35,748	34,000	35,487	4.4%	36,548	37,641	38,767
PW Equipment Capital	1,687	4,912	7,906	9,900	7,425	-25.0%	7,000	7,000	7,000
Total	31,545	34,813	48,886	49,132	45,833	-6.7%	46,375	47,511	48,601
Change in Net Assets	4,060	4,549	(5,932)	(5,326)	1,945		(6,353)	(6,295)	(6,156)
Net Assets	30,608	35,157	29,225	29,831	31,776		25,423	19,128	12,972
Cash Balance	8,235	12,303	6,371	6,977	8,922		2,569	(3,726)	(9,882)
Target Cash Reserve²	2,108	2,838	3,569	2,838	4,300		4,442	4,607	4,776
Variance Cash to Target Cash Reserve	6,127	9,465	2,802	4,139	4,622		(1,873)	(8,333)	(14,658)

¹The increase of 2000.0% in miscellaneous revenue in 2013 budget is due to anticipated revenue received from City departments as reimbursement for purchase of vehicles whose cost is not recovered in the Fleet allocation model.

² The target cash reserve is in accordance with the financial reserve policy for internal service funds. The cash reserve for the Fleet Services Division should be at a minimum equal to 15% of the operating budget. The target cash for years 2010 through 2013 is a phase-in amount.

Note: The 2014-2016 forecasts for source and use of funds are calculated using a factor of 3.0% to capture increases in revenues and expense.