

**City of Minneapolis
2013 Budget
Financial Plan**

Engineering Materials and Testing Fund

Background

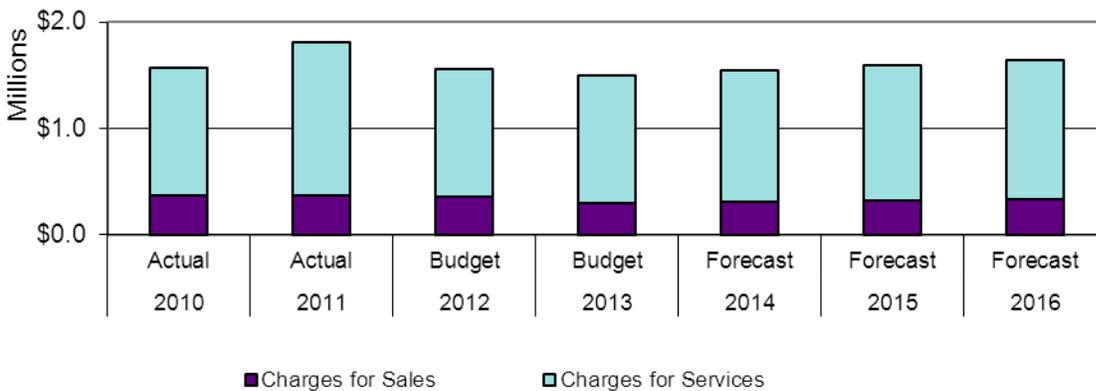
The Engineering Materials and Testing Fund accounts for City purchases of hot-mix asphalt and ready-mix concrete in order to ensure compliance with State and Federal standards and specifications, and to provide quality control of these materials. The Engineering Laboratory is a component of this fund which provides inspection and testing services and maintains a laboratory for testing construction materials, performing geotechnical evaluations, and coordinating related environmental field services.

Historical Financial Performance

The revenue sources for this fund include overhead charged on the procurement of hot-mix asphalt and ready-mix concrete materials along with fees for inspection and testing services by the Engineering Laboratory.

The decision to suspend operations at the asphalt plant at the end of 2003 resulted in a \$777,000 loss on the disposal of this asset and a decrease in net assets of \$709,000. From 2003 through 2008, this fund had a decrease in net assets of \$1.5 million of which \$777,000 is due to the loss on the disposal of the asphalt plant. In 2011, the net assets increased \$394,000 bringing the ending balance from \$735,000 in 2010 to \$1,129,000 in 2011. The cash balance increased from a balance of \$802,000 in 2010 to a balance of \$1,164,000 in 2011.

Engineering Materials and Testing Revenues



2013 Budget

Revenues

The 2013 revenue budget is \$1.5 million, a 23.3% decrease from the 2012 projected revenue of \$2.0 million. In 2012, it is projected that revenue will increase significantly over the budgeted amount due to a significant yearly increase in City road construction/overlay projects and maintenance activities. In addition to this increase in City scheduled work, the Central Corridor Light Rail project is a large project with a very tight construction schedule that has had a

significant impact on City infrastructure. There also appears to be an increase in private sector development work being done this year and this adds to the workload with regards to its impact to the City infrastructure. These factors are coupled with extremely favorable early spring weather, which resulted in the commencement of outside construction and maintenance activities earlier than historically normal.

This fund generates revenue from testing and inspection services provided by the Engineering Lab and the sale of concrete and asphalt from outside vendors to other City departments. Product types and quantities are identified for customer departments. An allocation model determines product costs to allow the fund to generate revenues that match operating expenditures. The 2013 revenue budget includes \$1.2 million earned from charges for services provided by the Engineering Lab and \$300,000 as mark up on the sale of asphalt and concrete.

Expense

The 2013 expense budget is \$1.55 million, a increase of 1.9% from the 2012 projected expense of \$1.52 million. The decrease is primarily due to the transfer out for MERF related debt that occurs in 2012 which will not recur in 2013.

The fund will have a one-time increase of \$100,000 to the expense budget for a capital purchase of a soil drilling rig to conduct soils investigation and monitor construction conditions. Currently the Lab has a very outdated soils drill rig that is well beyond its useful life. It is the Lab's intention to procure an appropriately sized drill rig to meet the current and anticipated future needs of the City.

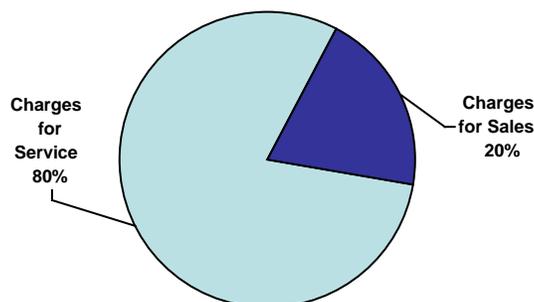
Transfers

There are no transfers scheduled in 2013 for this fund. The 2012 budget included a transfer out of \$195,000 for debt service related to the Minneapolis Employees Retirement Fund (MERF) unfunded liability. The City determined to retire bonds related to this debt service in 2012 resulting in substantial savings to the City and creating a large increase to this debt payment for the proprietary funds. The Engineering Lab and Materials Fund used fund balance as the source of funding for this payment.

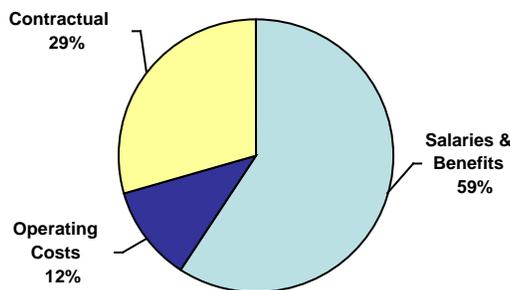
Debt Service

This fund does not have any long-term debt.

**Source of Funds
(\$1.5 million)**



**Use of Funds
(\$1.6 million)**



Net Assets and Cash Balance

The Engineering, Materials and Testing Fund has a positive net asset balance of \$1.1 million at year-end 2011, an increase of \$393,653 from the 2010 ending balance of \$0.7 million. The net asset balance is projected to be \$1.3 million at the end of 2012 and to decrease slightly to \$1.2 million in 2013. The financial policy for the net asset balance for this fund determines that the fund should maintain a net asset balance equal to 15% of the operating budget. For year ending 2011, the benchmark for net assets is \$0.2 million and the fund exceeded the benchmark by \$0.9 million. The net asset balance is projected to exceed the benchmark of \$0.2 million for both 2012 and 2013 by \$1.0 million each year.

The 2011 year-end cash balance is \$1.2 million, an increase of \$362,738 from the 2010 year-end balance of \$0.8 million. Financial reserve policies for the internal service funds determine that the cash reserve target for the Engineering, Materials and Testing fund should not be less than 15% of the operating budget, or \$0.2 million for 2011. The fund exceeded the benchmark by \$0.9 million. The cash balance is projected to be \$1.3 million and \$1.2 million in 2012 and 2013 respectively, exceeding the cash reserve benchmark each year by \$1.0 million.

Mayor's Recommended Budget

The Mayor recommended no changes.

Council Adopted Budget

Council Approved the Mayor's Recommendations

City of Minneapolis
2013 Budget
Financial Plan (in thousands of dollars)

Engineering, Materials and Testing - 06000*

	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 Services	1,194	1,438	1,200	1,435	1,200	-16.4%	1,236	1,273	1,311
Charges for Sales	371	373	352	521	300	-42.4%	309	318	328
Total	1,565	1,812	1,552	1,956	1,500	-23.3%	1,545	1,591	1,639
Use of Funds:									
Personnel Services	761	822	923	810	917	13.2%	944	972	1,002
Contractual Services	390	424	456	440	458	4.0%	472	486	500
Materials and other	102	80	82	80	180	124.9%	82	84	86
Transfers Out	57	88	195	195	-	-100.0%	-	-	-
Total	1,310	1,414	1,655	1,525	1,554	1.9%	1,496	1,541	1,586
Change in Net Assets	245	394	(103)	431	(54)		49	50	53
Net Assets	735	1,129	1,026	1,560	1,506		1,555	1,605	1,659
Cash Balance	802	1,164	1,061	1,595	1,541		1,590	1,640	1,694
Target Cash Reserve¹	210	220	248	248	234		225	232	239
Variance Cash to Target Reserve	592	944	813	1,347	1,307		1,365	1,408	1,455

* This fund includes the Public Works divisions Engineering Lab, Asphalt Distribution, and Ready-Mix Concrete.

¹The target cash reserve is in accordance with the financial reserve policy for internal service funds. The cash reserve for the Engineering, Materials and Testing Fund should be maintained at a minimum of 15% of the operating budget.

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.