City of Minneapolis
2014 Budget
Financial Plan

Fleet Services Division Fund

Background

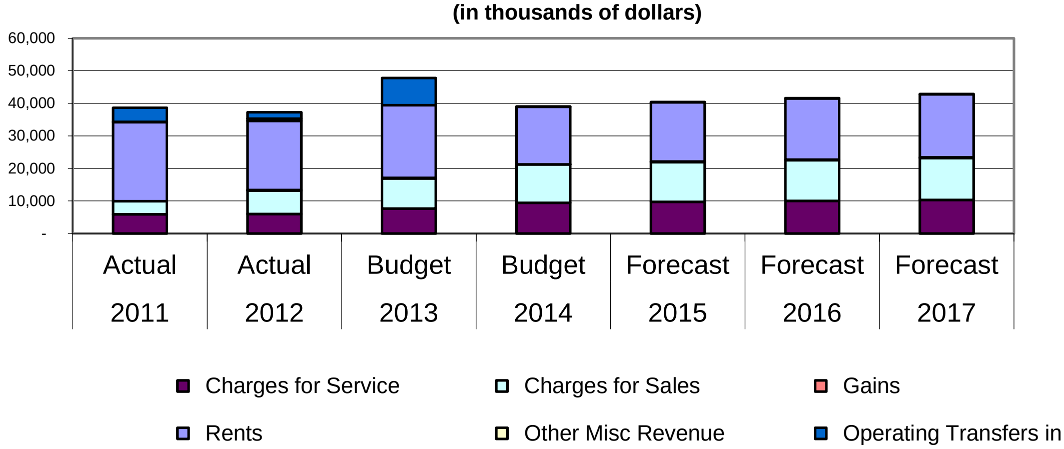
The Fleet Services Division Fund manages the acquisition, maintenance and disposal of approximately 1,300 units of equipment; primarily the City's fleet of vehicles, including police cars, fire trucks, snow plows, sedans and pickup trucks along with off road equipment. This fund provides the services of 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 $71.2 million and accounts for 49.0% 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 2012 with the exception of the year ending 2008 when the cash balance was a deficit of $49,000. At the end of 2012, the cash balance was $10.2 million. The target cash reserve balance for this fund is $4.1 million projected to be attained by year end 2013.

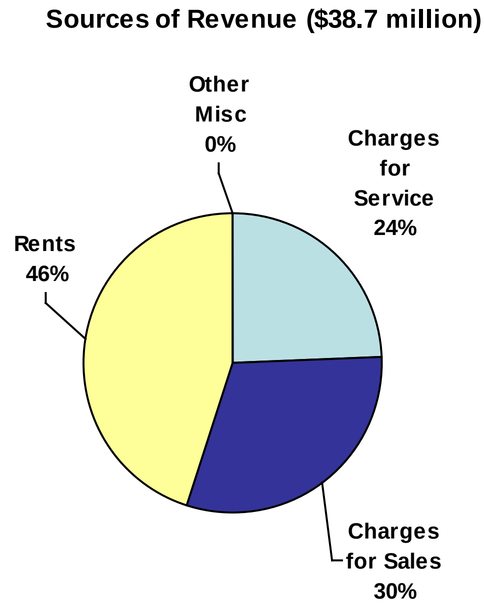
The original long-term financial plan financed fleet purchases by issuing general obligation bonds. Upgrading the fleet reduced the average age of the fleet, thereby reducing maintenance costs in the fund. Historically, the fund continues to follow the plan to maintain a positive cash balance, increase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

Fleet Services
Sources of Funds
(in thousands of dollars)

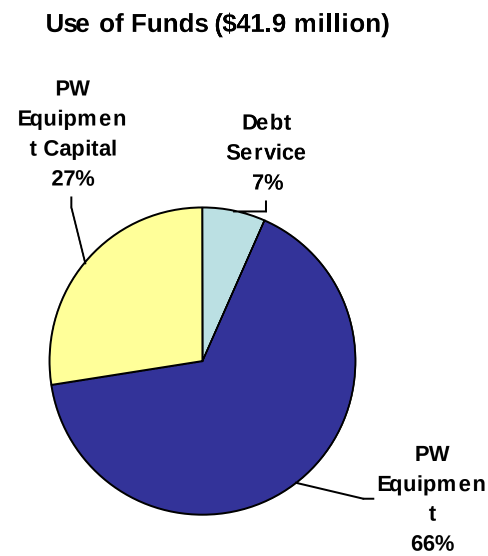


2014 Budget

Revenue
The Fleet Services Division uses activity-based costing to bill internal customers for use of vehicles. This method establishes a fleet rental rate that covers the replacement cost of the vehicles after the useful life. Maintenance, repairs and fuel costs of the fleet are charged separately. These charges are billed at a rate that allows the Fleet Services Division to match revenue to expense. Total revenues for 2014 are budgeted at $38.7 million, a decrease of 24.4% from the 2013 projected revenue of $51.2 million. The total decrease in revenue is $12.2 million which is due to two factors. The fund will not receive a transfer in for 2014 which accounts for a decrease of $8.3 million. Additionally, Fleet will no longer provide drivers and operators for equipment used by other departments and will not charge customers for them. Instead, the drivers and operators will be directly budgeted in the departments that use them.



Expense
The 2014 expense budget is $41.9 million which represents a decrease of 11.6% from the 2013 projected expense of $47.3 million. The decrease in expense is primarily due to the cost of drivers and operators being assigned to the departments outside of Fleet as noted above.

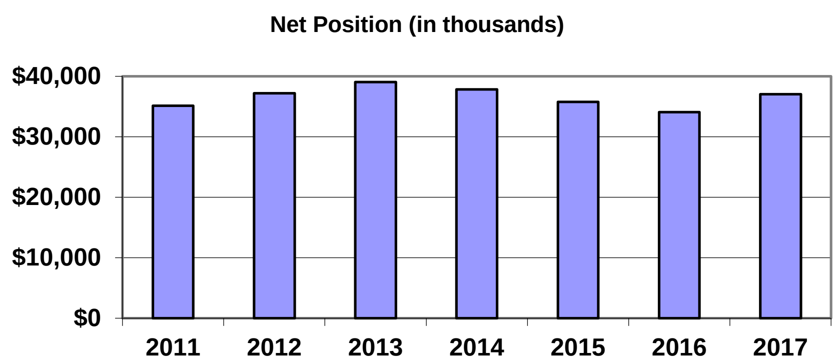


Transfers
The prior years' transfers out from this fund for debt service related to the Minneapolis Employees Retirement Fund (MERF) unfunded liability which ended with a final payment in 2012. In 2012 the transfer out was $2.3 million to retire bonds related to this debt service. The Fleet Services Division is using fund balance as a revenue source for this payment and will recover the cost of the payment through the Fleet allocation model for years 2012 through 2014.

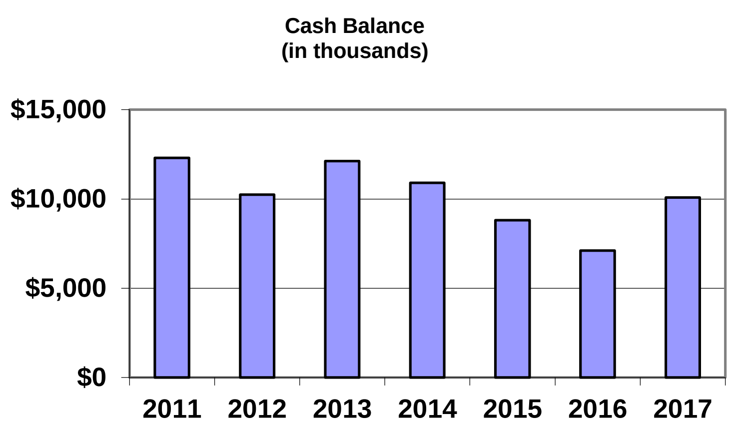
There will be no general fund transfers in or transfers out in 2014 and the years thereafter.

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. Principal and interest payments totaling $2.8 million are due in 2014 related to these bonds.

Net Assets
A primary objective of the long-term financial plan is to increase the fund's net position and the cash balance from the deficit balances in 2002. The fund has steadily increased its net assets since 2003 when the financial plan was first implemented. The net assets at year-end 2012 are $37.2 million, an increase of $2.8 million from the 2011 ending balance of $34.4 million. The financial policy related to net assets for the Fleet Services Division states that the net assets should not fall below two times the annual depreciation amount. The annual depreciation for Fleet Services in 2012 was $6.4 million. The 2012 balance of $37.2 million is $24.4 million greater than the benchmark amount. The 2013 projected net asset balance is $41.0 million.



The 2011 ending cash balance of $10.2 million is a decrease of $2.1 million from the 2011 ending balance of $12.3 million. The target cash balance for 2012 as determined by the cash reserve policy is $3.6 million. The 2013 projected balance is $14.0 million. The following chart illustrates the historical and projected cash performance of the fund:



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Fleet Services Divison - 06100

	2011 Actual	2012 Actual	2013 Budget	2013 Projected	2014 Budget	% Chg From 2013 Projected	2015 Forecast	2016 Forecast	2017 Forecast
Source of Funds:									
Charges for Service	5,863	5,981	7,656	8,341	9,482	13.7%	9,671	9,865	10,062
Charges for Sales	4,026	7,170	9,234	9,767	11,768	20.5%	12,004	12,244	12,489
Gains	36	233	200	200	10	-95.0%	200	200	200
Rents	24,250	21,226	22,343	24,499	17,394	-29.0%	17,742	18,097	18,640
Other Misc Revenue	179	680	30	30	35	16.7%	30	30	30
Operating Transfers in	4,299	1,926	8,315	8,315	-	-100.0%	-	-	-
Total	38,653	37,215	47,778	51,152	38,689	-24.4%	39,647	40,435	41,420
Use of Funds:									
Debt Service	2,996	2,775	2,916	2,916	2,827	-3.0%	2,870	2,834	2,889
Transfers	923	2,284	-	-	-	0.0%	-	-	-
PW Equipment	25,982	26,832	33,501	34,333	27,577	-19.7%	28,126	28,687	29,258
PW Equipment Capital	4,912	6,381	9,479	10,100	11,457	13.4%	10,900	10,892	6,516
Total	34,813	38,272	45,895	47,349	41,862	-11.6%	41,896	42,412	38,662
Change in Net Assets	4,549	2,844	1,882	3,803	(3,173)		(2,249)	(1,977)	2,758
Net Assets	34,400	36,443	38,325	40,246	37,073		34,824	32,847	35,605
Cash Balance	12,303	10,237	12,119	14,040	10,867		8,618	6,641	9,399
Target Cash Reserve[1]	2,838	3,569	4,061	4,061	3,213		3,296	3,381	3,468
Variance Cash to Target Cash Reserve	9,465	6,668	8,058	9,979	7,654		5,322	3,260	5,931

[1] 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 2011 and 2012 is a phase-in amount.

Note: The 2015-2017 forecasts for source and use of funds are calculated using a factor of 2.0% to capture increases in revenues and expense.