



Minneapolis
City of Lakes

Office of the Mayor

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Council President Barbara Johnson
Members of the City Council
Members of the Board of Estimate and Taxation
350 South Fifth Street
Minneapolis, Minnesota 55415

Dear Council President Johnson, Council Members and Members of the Board of Estimate and Taxation,

Every year since taking office in 2002, I have delivered my budget address along with a detailed budget document by August 15, with the exception of 2007 when the I-35W Bridge collapsed. Because of the need to respond to the May 22 North Minneapolis tornado, as well as the uncertainty caused by the prolonged State budget process and the State government shutdown this summer, I will present my full 2012 budget proposal in a speech to the City Council on Monday, September 12.

Slowing the growth of property taxes

Minneapolis property taxes are too high. Last fall, winter and spring, we heard loud and clear the voices of taxpayers who love our city and want to stay here, but were rightly concerned that property taxes are too high. This is the reason that the City Council and I worked collaboratively to reduce the proposed 2011 property-tax increase from 6.5% to 4.7%. Even as we did so, we knew that it was not enough, particularly because the 2011 budget we adopted assumed that the 2012 levy would increase by 6.7%.

That increase was unsustainable, so we have worked hard all year on a variety of fronts to slow property-tax growth. This has not been easy to do: the City's budget continues to be stressed by continued reductions in State and Federal funding, and taxpayers continue to be stressed by declines in property values, among many other factors.

I am pleased to report that I am proposing a 2012 levy that is only 2% larger than the 2011 levy. This balanced, responsible solution meets the need to hold the line on property taxes while also ensuring that City resources are focused on meeting City goals.

As the table below shows, we have significantly reduced the projected levy increase in each of the last two budgets.

2011			2012	
Projected Levy Increase	Proposed Levy Increase	Adopted Levy Increase	Projected Levy Increase	Proposed Levy Increase
9.3	6.5	4.7	6.7	2.0

All figures expressed as percentages.

Working to bring down the levy increase

In an effort to reduce the growth of property taxes, we focused on three main strategies: holding the line on spending; holding the Legislature to its promise of Local Government Aid; and reforming the closed-pension system.

Holding the line on spending. Over the last 10 years, we have controlled City spending wisely: after adjusting for inflation, the City actually spends 8% less than we did 10 years ago and has 10% fewer full-time positions than 10 years ago. This year is no exception: after implementing this year’s waterfall of cuts triggered by the Legislature’s LGA cut this year, spending in my proposed 2012 budget on basic City services will remain nearly flat compared to actual spending in the 2011 implemented budget.

Holding the Legislature to its LGA promise. As you know, the Legislature has repeatedly cut Minneapolis’ Local Government Aid over the years, for a total of \$352 million through 2011. Had the State kept its promise to Minneapolis of \$87.5 million in LGA in 2011 and maintained that level through 2012, we would have been in a position to lower the property-tax levy this year. However, the Legislature broke its promise, cutting us by \$23.4 million and leaving us with the same level of certified LGA in 2011 and 2012 that we received in 2010.

Closed-pension reform. As you know all too well, closed-pension costs in the City have been skyrocketing. (In the 2011 budget, the entire increase in the property-tax levy was due to the increase in our obligations to pensions.) In particular, the system of independent, closed pension funds maximizes risk, maximizes volatility, maximizes administrative expenses and maximizes litigation, and leaves taxpayers on the hook whenever the economy goes bad. Yet many of these flaws hurt pensioners as well, who would have been better off had they been in the State PERA system all along.

Armed with this knowledge, we successfully defended our taxpayers in court, while simultaneously seeking a permanent merger into the state system that recognized that Minneapolis taxpayers had been overcharged for years.

If the pension-reform legislation that we proposed had passed, we would have been able to significantly reduce property taxes while still providing a real benefit increase to retirees. Unfortunately, our pension-reform bill is not the bill that passed. What passed instead was a compromise that prevents huge future increases in our obligations and provides for large benefit increases to pensioners.

In short, we still have significant closed-pension bills to pay. Nevertheless, I remain an advocate for the compromise merger for two reasons: 1) those pension bills are significantly smaller than they would have been, and 2) only a merger into the state system can provide a permanent fix and protect future taxpayers from the risk and volatility inherent in the current system.

The budget I am proposing assumes the approval of the closed-pension merger by all sides: the boards and membership of the Police and Fire funds, the PERA board and the City Council.

Budget challenges we still face

- **Future cuts to Local Government Aid**

Although Minneapolis has now been certified for \$64.1 million in each year of the State's 2011–13 biennium, we know from hard experience that that number is always subject to change. As a reminder, Minneapolis' LGA will have been cut a total of \$405.7 million through 2012--assuming that our LGA is not cut any further in this biennium.

- **Funding for pension liabilities**

From 2010-2012, property-tax supported contributions for closed-pension fund costs total \$59.2 million, assuming the merger of the Minneapolis Police Relief Association (MPRA) and Minneapolis Fire Relief Association (MFRA) plans into the statewide Public Employees Retirement Association – Police & Fire fund. In 2010, Minneapolis Employees Retirement Fund merged with the statewide pension plan, allowing for a more favorable investment rate and more time to pay obligations. Given the current market volatility, another point of uncertainty is what closed-pension asset values will be by the end of 2011, when the funds merge with PERA.

- **Funding for physical infrastructure**

The state of the City’s infrastructure continues to decline. The Public Works Department is currently conducting a review of the level of funding needed for maintaining and repairing the physical infrastructure. The funding levels recommended by the Capital Long Range Improvement Committee for the five-year capital program follow:

2012	2013	2014	2015	2016
\$17,310,000	\$17,675,000	\$18,050,000	\$20,000,000	\$20,400,000

I will be reviewing these recommendations and funding levels over the next several weeks to determine whether these funding levels can be enhanced.

- **Salary growth**

Our five-year financial direction reflects no salary increases and no step increases for 2012. The City is currently negotiating with our bargaining units to achieve these savings.

- **Funding for internal services**

During the 1990s, due to other external demands, the revenue to support these internal services did not keep pace with the growth in expenditures. Significant negative cash balances resulted because annual expenses exceeded revenues — the reason stated by a rating agency for downgrading the City’s credit rating in 2001. The combined balance is no longer negative and the City’s Aaa rating was restored in 2010.

This is a significant improvement over the position of the funds since 2000, when the net asset deficit was \$61.7 million. At year-end 2010, the City’s three internal-services funds with long-term financial plans had combined net assets of a positive \$40.9 million. Additionally, all three funds had positive cash balances at 2010 year end. My budget will recommend accelerating these plans in order to mitigate future property-tax increases and to provide additional flexibility for meeting future financial challenges.

Status of Workout Plans (in millions)

	Adopted	Original Cash Deficit (2000)	Original Net Asset Deficit (2000)	2010 Year- End Net Assets	Target Date for Positive Cash Balance	2010 Year- End Cash Balance
Self-Insurance	2003	\$ (8.1)	\$ (49.5)	\$ (6.6)	2007	\$ 41.2*
Equipment	2001	(16.6)	0.0	30.6	2003	8.2
BIS	2000	(12.9)	(12.2)***	16.9	2009	8.4
Internal Service Fund						
Total		\$ (37.6)	\$ (61.7)	\$ 40.9		\$ 57.8
<hr/>						
Parking Fund**	2004	\$ (8.6)	\$ 75.7	\$148.3	2010	\$ 12.8

*Status does not include \$.835M due from other funds.

***Due to GASB 34, the net asset balance for BIS decreased from (\$12.2) in 2000 to (\$36.3) million in 2001.

Legislation to be sought in 2012 session

As always, the City will defend Minneapolis' Local Government Aid, particularly if another State revenue shortfall is projected for 2012. In addition, I will propose legislation to authorize the use of tax-increment financing to build transit projects.

Other jurisdictions' taxes

As you know, the City of Minneapolis is directly responsible only for approximately 34 cents of every property-tax dollar levied in the city. We await the proposed 2012 levies from Hennepin County and the Minneapolis Public Schools and their impact on Minneapolis property-tax payers.

Next steps

As a City, we may not continue to do everything we have done in the past, but we will continue to focus on providing high-quality, results-based services at a funding level that is sustainable over the long term. In September, I will present to you a detailed budget that is balanced over the next five years, as I have every year since 2002 — sometimes more than once a year.

As you know, we have used a different budget process this year, called priority-based budgeting. Priority-based budgeting is a reform-minded idea that moves us from traditional budgeting by individual departments, toward prioritizing services we provide and the results we want. Instead

of focusing just on what to cut, we have focused on where to invest. You will see this programmatic approach in the detailed budget documents that I will submit to you on September 12, with ample time for the Council to begin its budget-review process in late September.

Thank you for your consideration. I look forward to working closely with you throughout the 2012 budget process.

Sincerely,

A handwritten signature in black ink, consisting of several loops and a final flourish, representing Mayor R.T. Rybak.

Mayor R.T. Rybak
City of Minneapolis

Maximum property-tax impact

The recommended budget will request the certification of the following maximum property-tax levies:

2012 Mayor's Recommended Maximum Property Tax Levies

	<u>2011</u>	<u>Levy \$ Change</u>	<u>Levy % Change</u>	<u>2012</u>
Tax Capacity Based Tax Levies				
General Fund	\$173,010,000	\$7,801,000	4.51%	\$180,811,000
Permanent Improvement Fund	\$1,900,000	(\$400,000)	-21.05%	\$1,500,000
Board of Estimate and Taxation	\$170,000	\$0	0.00%	\$170,000
Municipal Building Commission	\$4,285,000	\$0	0.00%	\$4,285,000
Minneapolis Park & Recreation Board	\$47,217,000	\$0	0.00%	\$47,217,000
Bond Redemption Fund	\$18,500,000	\$250,000	1.35%	\$18,750,000
Minneapolis Employee Retirement Fund	\$2,570,000	\$14,891,000	579.42%	\$17,461,000
Fire Relief Association	\$4,880,000	(\$2,885,000)	-59.12%	\$1,995,000
Police Relief Association	\$15,525,000	(\$14,265,000)	-91.88%	\$1,260,000
Subtotal	\$268,057,000	\$5,392,000	2.01%	\$273,449,000
Market Value Based Tax Levies				
MV Tax Levy for Library Ref Debt Service	\$9,300,000	\$0	0.00%	\$9,300,000
Special Tax Levies				
Minneapolis Public Housing Authority	\$0	\$0	0.00%	\$0
Teachers' Retirement Association	\$2,250,000	\$200,000	8.89%	\$2,450,000
Subtotal	\$2,250,000	\$200,000	8.89%	\$2,450,000
Tax Levies in Total	\$279,607,000	\$5,592,000	2.00%	\$285,199,000
Note:				
Direct Pension Fund Levies from above	\$22,975,000	(\$2,259,000)	-9.83%	\$20,716,000

Financial Information Appendix

Expense and Revenue by Fund Type

(in millions of dollars)

	2011 Council Adopted*	2012 Current Service Level	Percent Change	Dollar Change
Expense:				
Capital Project	96.2	68.7	-28.5%	-27.5
Debt Service	72.6	66.5	-8.3%	-6.1
Enterprise	301.7	301.5	-0.1%	-0.2
General	369.9	383.4	3.6%	13.5
Internal Service	142.4	143.9	1.0%	1.5
Special Revenue	354.5	277.7	-21.7%	-76.8
Total	1,337.2	1,241.6	-7.1%	-95.6
Revenue:				
Capital Project	92.0	62.0	-32.6%	-29.9
Debt Service	83.3	62.6	-24.8%	-20.7
Enterprise	297.2	302.3	1.7%	5.0
General	369.9	383.4	3.6%	13.5
Internal Service	152.9	135.8	-11.2%	-17.1
Special Revenue	354.5	279.6	-21.1%	-74.9
Total	1,349.8	1,225.7	-9.2%	-124.1

*Adjusted for the Council resolution 2010R-598

Note: All amounts in the following tables and graphs reflect the current service level (CSL) budget. This information does not reflect decisions made by the Mayor to bring the budget to balance or any additional initiatives.

Due to the reprogramming of the County's tax database to reflect changes to the Market Value Homestead Credit made by the State Legislature in late July, we will not be able to have estimated tax impacts until the Mayor's recommended budget is released in September.