

City of Minneapolis 2011 Budget

Five-year Financial Direction 2012-2016 (Including detailed information on the City's General Fund)

Introduction

This plan reflects the City's ongoing commitment to long-term financial planning. The purpose of adopting a 2012-2016 financial direction is to provide guidance for departments on available resources in the City's General Fund.

The financial direction provides detailed projections for property tax supported services: the City's general fund, pensions, capital and contributions to the internal service funds. Of the \$434.8 million in the financial direction, \$392.3 million is in the City's general fund, which is the primary funding source for public safety, street paving, snow plowing and other general government services.

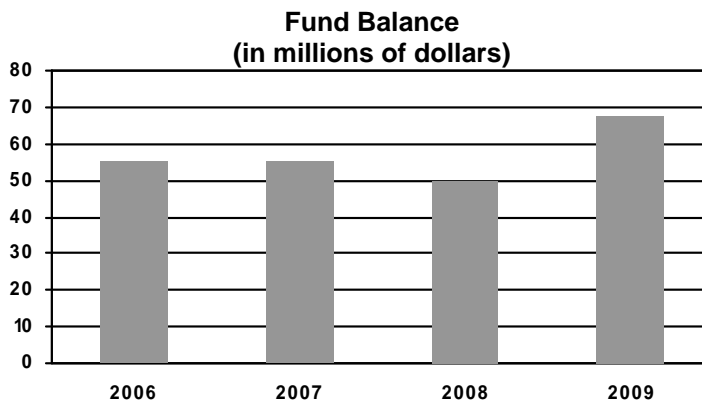
General Fund

The general fund is the general operating fund of the City. Combined, the two largest revenues (state aids and property tax) have historically accounted for approximately 60-70% of total sources of funds for the general fund. The top four sources of revenue account for more than 80% of the general fund's annual financial resources.

Historical Financial Performance

The results of the general fund's annual operations at the end of the year reflect the fund's "fund balance," or the amount of available, spendable resources contained within the fund. The balance provides the City a reserve to cushion adverse economic shocks and to meet a portion of the City's cash flow needs. The City's policy is to maintain a minimum fund balance of 15% of the following year's revenue, which is consistent with best practices for local governments. Further, the City's financial policies place a priority on debt buy-down or debt avoidance for the use of fund balance.

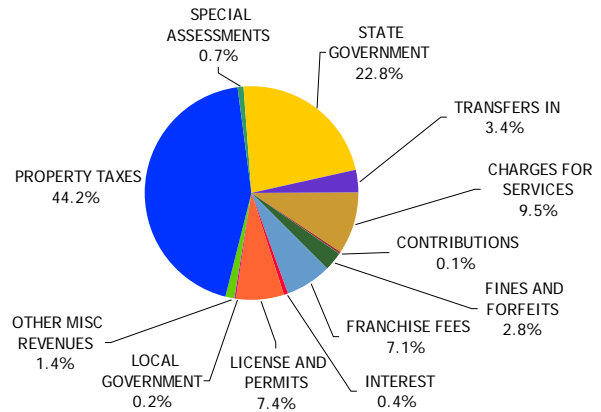
The general fund began 2009 with a fund balance of \$49.7 million. The 2009 year-end fund balance in the General Fund was \$67.3 million, which is above the stated fund balance requirement of 15% of the following years' revenue budget. Tax revenues increased by \$13.2 million or 7% due to the decertification of several Tax Increment Financing districts.



Budgeted Revenue by Source

2011 General Fund Revenue Budget

The 2011 budget includes a total of \$392.3 million of revenues for services included in the financial direction, including \$21.2 million in transfers from other funds. Budgeted revenues are 5.6% higher than 2010 budget.



Revenue Source	2009 Actual	2010 Revised Budget	2011 Council Adopted	% Chg from 2010 Revised	2010 Budget as % of Total	2011 Budget as % of Total
State Aids	84.4	67.3	89.5	33.1%	18.1%	22.8%
Property Tax	166.6	167.7	169.6	1.2%	45.1%	43.2%
Franchise Fees	28.1	29.1	27.8	-4.5%	7.8%	7.1%
Licenses and Permits	27.6	27.4	27.9	1.7%	7.4%	7.1%
Charges for Services	37.6	34.7	36.3	4.6%	9.3%	9.2%
Fund Transfers	28.0	19.9	21.2	6.2%	5.4%	5.4%
Fines & Forfeits	8.5	9.8	9.6	-1.9%	2.6%	2.5%
Misc. Revenues	6.2	15.7	10.5	-33.4%	4.2%	2.7%
Total	387.0	371.6	392.3	5.6%	100.0%	100.0%

State Aids (including Local Government Aid):

The City's local government aid (LGA) allocation increased between 2010 and 2011 by \$23.4 million. This increase is based on the certification received from the State of Minnesota in August. Typically, Minneapolis has seen LGA formula declines of about \$1.5 million each year. The major factors in the formula which lead to these typical reductions are the City's property wealth and declining motor vehicle accidents.

After 2011 the City is assumed to receive a reduction in LGA of \$0.3 million each year as a result of new state legislative provisions capping LGA formula-related reductions. This equates to \$265,000 fewer resources in the general fund annually. The adverse impact of the decertification of tax increment financing districts on the amount of the LGA received by the City is reflected beginning in 2012, and is estimated at \$5.6 million for the General Fund.

Franchise fees are paid by various utility companies for use of City rights-of-way. Franchise fees are a percentage of total utility revenues. The City's collections vary directly with the paying utility's gross revenues. There are four franchise agreements that provide revenue for the City:

- The franchise agreement with Xcel Energy for electricity requires payment of 5% of gross revenues for residential service customers, 3% of gross revenues for commercial and industrial customers, and 5% of gross revenues on small commercial and industrial customers. The residential rate will drop to 4.5% of gross revenues beginning in January 2013. This franchise agreement expires on December 31, 2014. For 2011, the City is anticipating \$15.5 million in revenues from this franchise agreement.

- The franchise agreement with Center Point Energy/Minnegasco requires payment of 4.25% of gross revenues for residential buildings with four units or less, 5% for small commercial/industrial or interruptible customers, and 3% for large-volume interruptible customers. This franchise agreement expires on December 31, 2015. For 2011, the City is anticipating \$9 million in revenues from this franchise agreement.
- The City also has two smaller franchises:
 - The bus stop advertising franchise generates approximately \$110,000 in revenues.
 - The City's cable franchise is anticipated to generate \$3.1 million in 2011.

The 2011 budget anticipates the total franchise fee revenue to be \$27.7 million.

Licenses and Permits create significant revenue for the City's General Fund. The City issues licenses and permits for a wide variety of regulated activities. Building permits are a major component of this revenue category. The 2011 budget anticipates a 1.5% increase in licenses and permit revenue.

Fines and Forfeitures are anticipated to decline by 1.9% in 2011.

2011 General Fund Expenditure Budget

The 2011 budget for services included in the financial direction is \$392.3 million, which includes \$57.2 million in transfers to other funds.

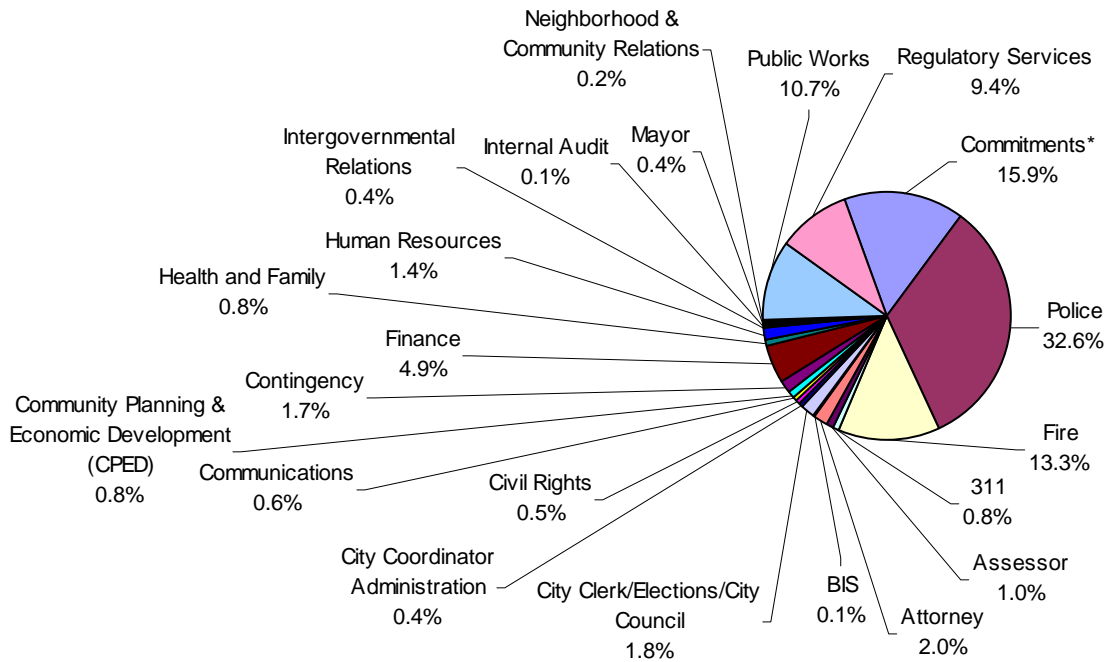
Nearly 60% of the overall expenditure budget is related to personnel costs. Council directed the Finance department to revise the five-year financial direction to reflect no increase in City salaries for a two-year period. For contracts that are settled in 2011, budgets should be adjusted in 2012 and 2013. Department budgets were revised accordingly in the financial direction. This assumption change does not affect Independent Boards.

In the General Fund, salary and wage expenditures increased 3% from \$164.5 million in 2010 to \$168.9 million in 2011. Settled contracts to date as well as recommended department reductions are reflected. The largest contract, which includes Police sworn, non-appointed positions such as officers and captains, is settled for 2011. The contract was settled at a 1.5% increase. The salary and wages expense category also includes overtime costs, contractually-obligated payments, and one-time funding.

Employer health insurance costs had no increase from 2010. The savings are left in departmental budgets to help offset reductions to growth.

Non-personnel line items increased by 1%.

Expenditures by Service Area \$392.3 million



*Commitments include: transfers to the internal service funds, pension obligations, payment to Hennepin County related to the library system, and the transfer to the capital improvement fund.,

Major Changes in the 2011 Adopted Budget

Please note that reduction amounts are based on the Current Service Level (CSL). The CSL includes inflationary adjustments from 2010, so 2011 cut amounts reflect reductions to current services that are provided by departments. The CSL included an increase of 9.7 percent in health care costs. Some of the following reductions will be offset to some extent by department savings in the City’s recent health care contract.

Citywide

The General Fund transfer to the Self-Insurance fund is reduced by \$1 million on a one-time basis. The pension management plan will be reduced by \$400,000.

311

Mayor’s Recommended Budget: The Mayor recommended a reduction to growth of \$47,000. The Mayor also recommended one-time increases of \$60,000 for the 311 Mobile Smart Phone Application and \$140,000 for the 311 Voice Recognition Interactive Voice Response (IVR) Auto Attendant.

Council Adopted Budget: The Council adopted the Mayor’s recommendations for this department.

Assessor

Mayor's Recommended Budget: The Mayor recommended no reduction to growth for this department.

Council Adopted Budget: Council adopted the Mayor's recommendations.

Attorney

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$121,000, which includes the reduction of one paralegal position. The department added one position with grant funds.

Council Adopted Budget: Council approved the Mayor's recommendation. Additionally, the City Attorney is directed to work with Finance, NCR, the NCEC and IGR departments to identify options for property tax relief for the years 2012 and 2013 should legislative authority to consolidate neighborhood programs not be achieved, and report these options to Ways & Means/Budget Committee by February 15, 2011.

BIS

Mayor's Recommended Budget: The Mayor did not recommend a reduction to growth for this department. The Mayor recommended one-time funding of \$465,000 for this department to secure Finance and Human Resources data of which \$200,000 is for data auditing, and \$265,000 is for encryption. The Mayor also recommended a reduction of 13 FTE to meet the department's long-term financial projections.

Council Adopted Budget: The Council adopted the Mayor's recommendation and directed the Department to identify a plan with assistance from the Finance Department to achieve a long-term, structurally balanced budget and report the plan to the Ways and Means/Budget Committee no later than March 1, 2011. The plan should include a recommendation for service reductions and/or additional charges to departments.

The Council also directed the Department to work with the Finance and Human Resources departments to bring forth a funding plan for the Enterprise Resource Planning System to the Ways and Means/Budget Committee by June 1, 2011.

The Council also directed the BIS Department to work with Finance and Regulatory Services to estimate the ongoing costs of the proposed Land Management System and propose an allocation to the departments for ongoing operating costs no later than July 1, 2011.

City Clerk/Elections/City Council

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$54,000. The Mayor directed this reduction to be taken by the City Clerk division of the department. The Mayor also recommended a one-time increase of \$100,000 to fund redistricting activities in the Elections Division.

Council Adopted Budget: Council approved the Mayor's recommendations, except that the Mayor's budget is amended to allow up to \$60,000 of the one-time resources for redistricting activities in 2011 to be used to offset the City Council budget reduction on a one-time basis,

allowing for restructuring of Council activities. The 2012 resources set aside for redistricting activities shall remain dedicated for that purpose.

City Coordinator Administration

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$5,000.

Council Adopted Budget: The Council adopted the Mayor's recommendations for this department.

Civil Rights

Mayor's Recommended Budget: The Mayor recommended no reductions to growth for the department.

Council Adopted Budget: Council adopted the Mayor's recommendations.

Communications

Mayor's Recommended Budget: The Mayor recommended the department be reduced by \$124,000 through non-personnel strategies. Of this amount, the allocation for MTN should be proportional to its allocation, approximately \$41,000.

Council Adopted Budget: The Council adopted the Mayor's recommendations and directed the Department to reduce the MTN contract amount no less than in the same proportion as the final appropriation reduction to the Communications Department over the duration of the Five-Year Financial Direction beginning in 2012.

Convention Center

Mayor's Recommended Budget: The Convention Center identified several areas for cost savings. This includes nearly \$2 million in continued departmental operations reductions from 2010, facilities and capital cuts of approximately \$2.5 million, and labor savings (including contracted labor) totaling around \$600,000. The Mayor recommended these changes.

Council Adopted Budget: The Council adopted the Mayor's recommendation and reduced the capital in the Target Center financial plan by \$1.1 million on a one-time basis, transferring the corresponding resources into the General Fund.

CPED

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$89,000 in the General Fund and a reduction of 4 FTE across all funds to balance the department's long-term financial projections. The Mayor also recommended one-time funding for the following programs in special revenue funds: \$150,000 to the Regional Economic Development Authority, \$50,000 to the Mississippi Riverfront Corporation, \$200,000 from the Development Account and Local Contribution Fund for Youth Employment, and \$150,000 for the Great Streets program.

Council Adopted Budget: The Council adopted the Mayor's recommendations and reduced funding for Vacant and Boarded programming from the Local Contribution Fund by \$125,000 and increased funding for the All About the Kids program by \$125,000 from the Local Contribution Fund on a one-

time basis. The Council also decreased the Year 37 allocation for CDBG for the GMHC Home Ownership Program by \$125,000 and increased the Year 37 allocation to the Vacant and Boarded Program by \$125,000.

The Council also reduced funding for Youth Employment programming by \$75,000 in CDBG resources and increased funding by \$75,000 in CDBG resources for the Domestic Abuse Project. Funding from the Local Contribution Fund is also reduced from the Vacant and Boarded Program by \$75,000 and increased by \$75,000 for Youth Employment programming on a one-time basis. The Year 37 allocation for CDBG for the GMHC Home Ownership Program is decreased by \$75,000 and the Year 37 allocation to the Vacant and Boarded Program is increased by \$75,000.

Further, the Council reduced funding for Vacant and Boarded programming from the Local Contribution Fund by \$100,000 and increased funding for Mortgage Foreclosure Prevention by \$100,000 from the Local Contribution Fund on a one-time basis. The Council also decreased the year 37 allocation for CDBG for the GMHC Home Ownership Program by \$100,000 and increased the Year 37 allocation to the Vacant and Boarded program by \$100,000.

The Council also directed the Department to develop a plan to fund ongoing development activities, including prioritizing the services CPED provides, with the assistance of the Finance Department. CPED is to report back to the Community Development and Ways and Means/Budget Committees no later than March 1, 2011.

Finance

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$287,000 including 6 FTE. The Mayor further recommended approval of the proposed revenue initiatives.

Council Adopted Budget: The Council approved the Mayor's recommendation. The Council further directed the department to work with the Neighborhood and Community Relations Department to allow neighborhoods to contract up to 50% of the un-contracted balance of their Phase II allocation (excluding Phase II allocated but not contracted reserve funds), as of City Council adoption of the 2011 budget, but not to exceed a total contracted amount of 50% of their Phase II allocation.

The Council further directed the Department to report to the Ways and Means/Budget Committee no later than February 1, 2011, with a plan to provide property tax relief in 2012 and 2013 by capturing 50% of the value of the properties in the consolidated TIF district in these two years. This report should also include impacts on Target Center funding and neighborhood funding. In addition, Finance staff, working with the Neighborhood and Community Relations Department, the NCEC, the Intergovernmental Relations Department, and the City Attorney's Office, is further directed to identify options for property tax relief for the years 2012 and 2013 should legislative authority to consolidate neighborhood programs not be achieved, and report these options to the Ways and Means/Budget Committee by February 15, 2011. This report shall also include the impacts of limiting revenue generated by the TIF district funding neighborhood programs and the Target Center debt relief to \$10 million annually, with any increment over and above \$10 million used to fund Phase II plans.

The Council further directed the Department to assist the BIS Department to identify a plan to achieve a long-term, structurally balanced budget and report the plan to the Ways and Means/Budget Committee no later than March 1, 2011. The plan should include a recommendation for service reductions and/or additional charges to departments.

The Council also directed the Department to assist CPED in developing a plan to fund ongoing development activities, including prioritizing the services CPED provides.

The Council also directed the Department to work with the Human Resources and BIS departments to bring forth a funding plan for the Enterprise Resource Planning System to the Ways and Means/Budget Committee by June 1, 2011.

The Council also directed the Department to work with Public Works to simplify the Property Services allocation model for implementation in the 2012 budget process.

The Council further directed the Department work with Regulatory Services to report on the nuisance abatement revolving account within the General Fund and develop fund balance policy recommendations for the account and report back to the Ways and Means/Budget Committee by February 1, 2011.

The Council also directed the Finance and BIS Departments to work with Regulatory Services to estimate the ongoing costs of the proposed Land Management System and propose an allocation to the departments for ongoing operating costs no later than July 1, 2011.

The Council also directed Finance staff to increase the Office of Internal Audit's allocation in the Five-Year Financial Direction based on the adjustment made for departmental salaries.

The Council also directed the Finance and Intergovernmental Relations Departments to work together to determine the impacts of not addressing the over-obligation of CDBG resources related to Block E. This information is to be presented with the City's 2010 final report to the Ways and Means/Budget Committee in the first quarter of 2011.

The Council also directed the Finance Department to amend the expense and revenue appropriations of the Fire and Regulatory Services departments to reflect the transfer of Fire Inspection activities from the Fire Department to Regulatory Services in the Five-Year Financial Direction.

Finally, the department was directed to revise the Five-Year Financial Direction to reflect no increase in City salaries for a two-year period. For contracts that are settled in 2011, budgets should be adjusted in 2012 and 2013.

Fire

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$847,000, and 32 FTE. Additionally, the Mayor recommended a one-time appropriation of \$1,100,000 in 2011 to allow the department to reduce its FTE through attrition.

Council Adopted Budget: Council approved the Mayor's recommendations. Additionally, Fire is directed to evaluate the current Council policy related to the Standard of Coverage in the context of 2011 budget resources for the department and report back to the Public Safety and Health and Ways & Means/Budget committees no later than February 15, 2011, with recommendations for any changes to that policy.

Fire's expense and revenue appropriations' reflects the transfer to Fire Inspection activities from the Fire Department to Regulatory Services. The changes are reflected in the five-year financial

direction. 13 FTE moved from Fire to Regulatory Services as part of this transfer. Additionally, the Fire Department's rent charge has been reduced by \$79,000.

Health and Family Support

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$102,000.

Council Adopted Budget: Council approved the Mayor's recommendation. Additionally, CDBG funding for the Domestic Abuse Project is increased by \$75,000.

Human Resources

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$154,000 to the General Fund, which is partially offset by health care savings.

Council Adopted Budget: The Council adopted the Mayor's recommendations and directed the Department to work with the Finance and BIS departments to bring forth a funding plan for the Enterprise Resource Planning System to the Ways and Means/Budget Committee by June 1, 2011.

Intergovernmental Relations

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$5,000 and increased funding by \$30,000 for national association membership costs.

Council Adopted Budget: The Council adopted the Mayor's recommendation and directed IGR staff to report to the Intergovernmental Relations Subcommittee and Committee of the Whole on January 13, 2011, to pass an amendment to the City's State Legislative Agenda on either January 14 or 28 that includes a proposed strategy to seek legislation consolidating neighborhood programs and eliminating the need for the Joint Powers Board.

The Council also directed the Department to work with Finance staff, the Neighborhood and Community Relations Department, the NCEC, and the City Attorney's Office, to identify options for property tax relief for the years 2012 and 2013 should legislative authority to consolidate neighborhood programs not be achieved, and report these options to the Ways and Means/Budget Committee by February 15, 2011. This report shall also include the impacts of limiting revenue generated by the TIF district funding neighborhood programs and the Target Center debt relief to \$10 million annually, with any increment over and above \$10 million used to fund Phase II plans.

The Council also directed the Finance and Intergovernmental Relations Departments to work together to determine the impacts of not addressing the over-obligation of CDBG resources related to Block E. This information is to be presented with the City's 2010 final report to the Ways and Means/Budget Committee in the first quarter of 2011.

Mayor

Mayor's Recommended Budget: The Mayor did not recommend a reduction for the department.

Council Adopted Budget: Council adopted the Mayor's recommendations.

