

**City of Minneapolis
2011 Budget**

Financial Overview

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City of Minneapolis 2011 Budget

Financial Overview Prepared by the Minneapolis Finance Department

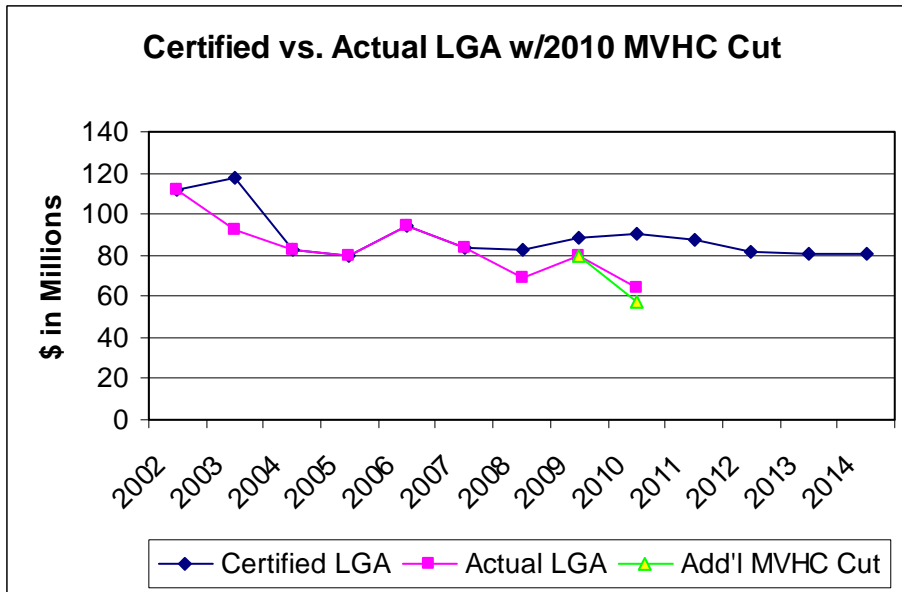
The 2011 Council Adopted Budget for all City funds increases to \$1.362 billion, a \$79 million increase from the 2010 Revised Budget. The Council adopted a tax levy increase of 4.7% over the 2010 level.

2009 and 2010 Unallotments and Legislative Reductions

In June 2009, the City's Local Government Aid (LGA) allocation was reduced through the State's unallotment process by \$8.5 million in 2009 and \$21.3 million in 2010. The Legislature affirmed the 2010 LGA cut and further reduced LGA and Market Value Homestead Credit (MVHC) funding to cities. Additional cuts to Minneapolis in 2010 included \$4.7 million LGA cut and \$6.2 million in MVHC. This combined additional \$10.9 million cut forced the City to revise its 2010 Council Adopted Budget, in April of 2010. These cuts negatively impacted the City's General Fund, which represents 29% of the 2011 Council Adopted Budget based on the certified LGA amount, and is the primary sources of funding for public safety and general government services.

2011 Local Government Aid

In August 2010, the Minnesota Department of Revenue certified that Minneapolis would receive \$87.5 million in LGA in 2011, which is reflected in the 2011 Council Adopted Budget. The following table shows the historical LGA appropriations, both the certified and actual LGA amounts, including the reductions to LGA and MVHC, as well as projected 2011-2014 LGA levels based on the formula in current law:



*2012 and out years are projected numbers for certified amounts.

The following table shows the approximate distribution of LGA between the City's general fund and the independent boards:

City and Independent Boards: 2011 LGA Distribution

	<u>2010 Final LGA</u>	<u>2011 Certified LGA</u>	<u>Difference</u>
General Fund	\$56,552,226	\$76,945,034	\$20,392,808
Park Board	\$7,443,763	\$10,331,471	\$2,887,708
MBC	\$146,279	\$263,495	\$117,216
Totals	\$64,142,268	\$87,540,435	\$23,398,167

Major Highlights

The 2011 Council Adopted Budget includes significant changes to methods for addressing future financial challenges. It is important to be aware of these major changes when making comparisons between budget years.

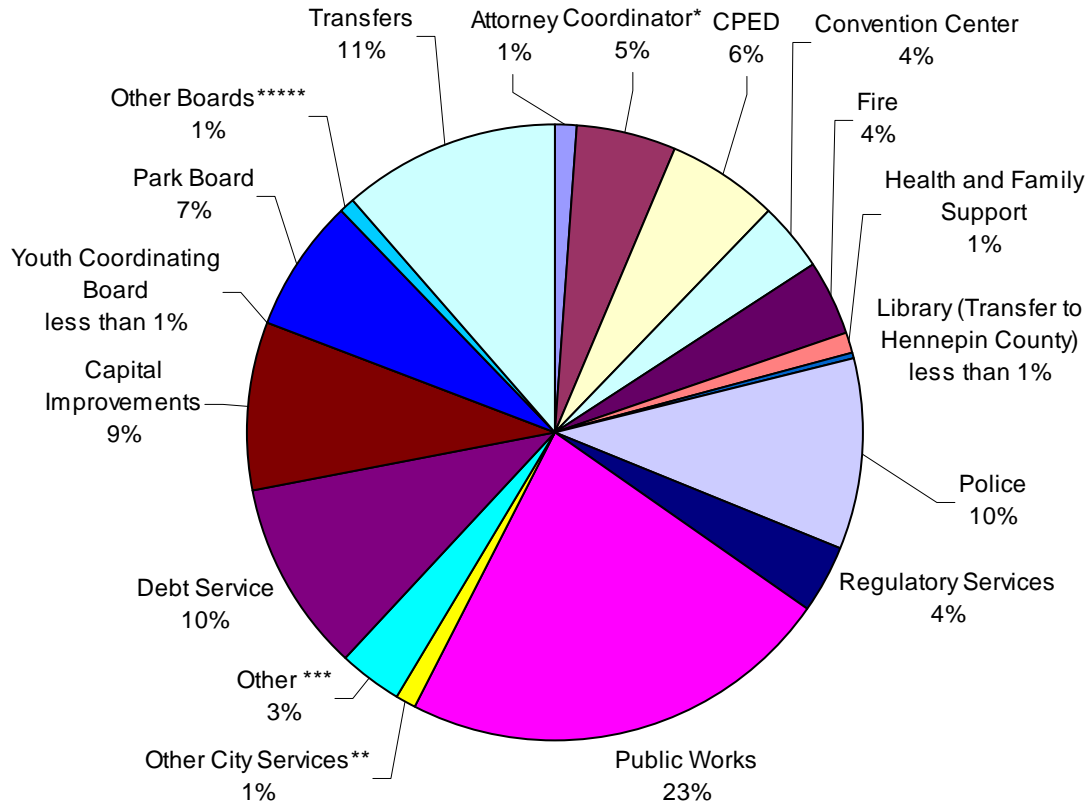
The major changes include:

- This budget reduces spending for City departments by \$14 million in 2011, inclusive of cuts necessary to reach the current service level as well as those cuts adopted by the Council. In addition, the Council directed that department budgets be reduced for two years to reflect no increase in salaries for a two-year period.
- In order to reduce the proposed property tax levy, the Council reduced the capital in the Target Center plan by \$1.1M on a one-time basis and transferred the corresponding resources to the General Fund; eliminated the \$1.4 million property tax levy for the Minneapolis Public Housing Agency for two years; reduced the City's portion of the Municipal Building Commission's budget by \$250,000; cut the 2011 pension management plan by \$400,000; and reduced allocations to the independent boards consistent with the adopted City financial policies.
- In the 2010 Council Adopted Budget, the Council replaced the previous 8% tax revenue policy with a policy of shared revenue distribution. This approach improved transparency and better aligned revenue changes among the City and the independent boards, while addressing shared financial challenges. This approach is intended to allow for consideration of the tax impact on taxpayers with anticipated changes to the City's tax base, LGA unallotments and other General Fund revenues. This policy continues in the 2011 Council Adopted Budget and future years. For 2011, the adopted tax levy increase is 4.7%.
- Future challenges that the 2011 budget plans for include the impacts of the 2009 TIF district decertification, rising pension obligations, and continuing growth in the cost of providing City services.

City Spending

Below is a summary of the 2011 Council Adopted Budget by major spending categories, including transfers between funds and the independent boards.

Total Expense Budget – Use of Funds 2011 Council Adopted Budget \$1.36 Billion



*Includes Human Resources, Finance, 311, Intergovernmental Relations, Communications, Internal Audit, Neighborhood and Community Relations and BIS

**Includes Assessor, City Clerk/Elections/Council, Civil Rights & Mayor

***Includes Non-departmental, Health and Welfare, Workers' Compensation, Liability, Contingency and Pensions

****Does not include debt service paid directly from proprietary funds or by independent boards

***** Includes the Neighborhood Revitalization Program, Board of Estimate and Taxation, Municipal Building Commission, and the City allocation to the Minneapolis Public Housing Authority.

Note: See "City Council Operating Departments" and "Independent Boards and Agencies" sections in the budget document for further explanation of changes between years.

Expenditures by Service (In Millions of Dollars)

	2010 Revised Budget	2011 Council Adopted
Attorney	14.4	14.5
Coordinator	65.6	71.8
CPED	86.5	81.9
Convention Center	43.7	48.5
Fire	54.4	52.9
Health and Family Support	12.2	13.4
Library (Transfer to Hennepin County)	6.7	5.9
Police	133.6	136.3
Regulatory Services	49.5	48.3
Subtotal	\$466.6	\$473.3
PW - Administrative Services	2.7	2.8
PW - Eng. Materials & Testing	0.7	0.7
PW - Fleet	43.1	40.4
PW - Property Services	21.1	22.3
PW - Solid Waste	33.5	33.8
PW - Traffic & Parking	53.3	54.8
PW - Transportation Maintenance and Repair	32.9	39.1
PW - Transportation Planning & Engineering	11.4	12.1
PW - Water Treatment & Distribution	48.4	48.4
PW - Surface Water and Sewer - Stormwater	14.1	13.7
PW - Surface Water and Sewer - Sanitary Sewer	41.8	42.3
Public Works Subtotal	\$303.1	\$310.3
Other City Services**	16.5	16.2
Other ***	43.4	46.4
Debt Service	126.2	133.2
Total Capital Improvement	94.3	122.4
Subtotal	\$280.5	\$318.2
Youth Coordinating Board	1.5	1.4
Park Board	91.6	93.9
Other Boards*****	10.3	9.8
Independent Board Subtotal	\$103.4	\$105.1
Total Expenditures Without Transfers	1,153.6	1,208.3
Transfers	129.7	155.5
Total	\$1,283.3	\$1,362.4

*Includes Human Resources, Finance, 311, Intergovernmental Relations, Communications, Internal Audit, Neighborhood and Community Relations and BIS

**Includes Assessor, City Clerk/Elections/Council, Civil Rights & Mayor

***Includes Non-departmental, Health and Welfare, Workers' Compensation, Liability, Contingency and Pensions

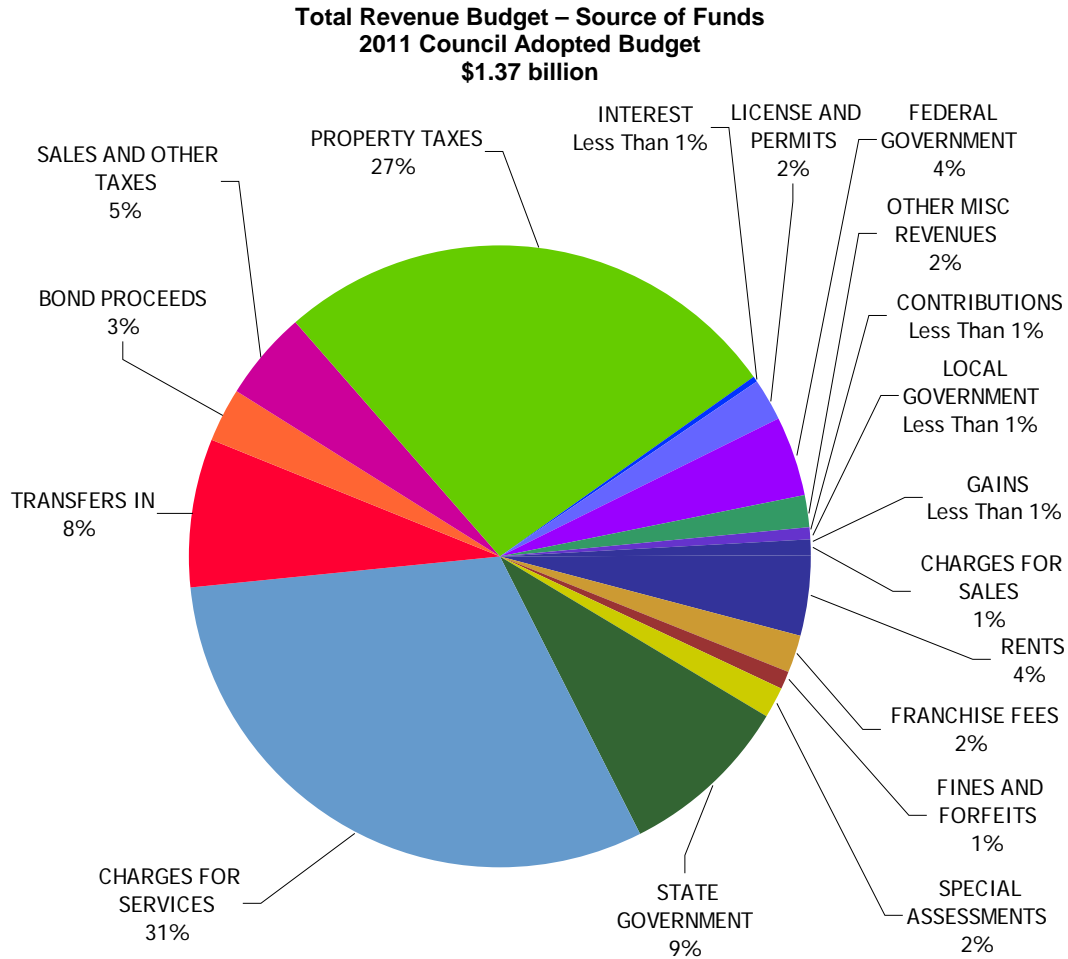
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Note: See "City Council Operating Departments" and "Independent Boards and Agencies" sections in the budget document for further explanation of changes between years.

City Sources of Revenue

Below is a summary of the 2011 Council Adopted Budget revenues by major category.



In 2011, the City forecasts \$1.37 billion in revenue from a variety of sources. Many of the City's revenue sources are restricted, meaning they are required to be spent in defined areas or on specific programs or projects. This limits the City's ability to apply the revenue to other departments or programs. The City charges fees for services such as water, sewer and garbage pickup, but State law requires that these fees be no higher than the cost of providing the services. For example, the City cannot raise water bills to pay for citywide police services.

Grants and transfers from the Federal Government and other units of government are usually designated for specific needs and purposes. If the City does not spend such grants for their designated purpose, the City will not receive the grants. Some cities increase revenues through assessments for current services, which are also tied to specific purposes like street or sidewalk maintenance. Bond proceeds must go to purposes for which the debt was incurred. Sales tax revenue is dedicated to the Convention Center and Convention Center-related facilities by State law. Like many Minnesota cities, Minneapolis pays for core City services (police, fire, streets, parks, etc.) with property taxes and LGA.

	2010 Revised Budget	2011 Council Adopted
Charges for Sales	15.1	11.6
Charges for Service	374.3	388.6
Contributions	2.3	2.1
Federal Government	54.5	55.6
Fines and Forfeits	11.0	10.9
Franchise Fees	29.1	27.8
Gains	0.3	0.2
Interest	3.1	2.6
License and Permits	30.7	31.4
Local Government	9.3	7.5
Bond Proceeds	35.3	34.1
Other Misc Revenues	29.5	24.7
Property Taxes	317.0	347.1
Rents	55.2	54.6
Sales and Other Taxes	62.6	59.6
Special Assessments	13.6	21.7
State Government	101.8	130.9
Transfers In	133.9	161.6
Total Revenues	\$1,278.6	\$1,372.7

LGA is reflected in the State Government line.

The property taxes category shows a greater change than the levy increase due to increased tax increment property tax revenue because of the recertification of parcels totaling 50.8% of the net tax capacity of the pre-1979 districts [Common Project districts] in addition to the 4.7% general property tax levy increase.

Franchise Fees

Utility companies pay the City franchise fees for their use of the public right-of-way. Franchise fees are calculated as a percentage of each company's total utility revenues, so the amounts paid to the City vary. The 2011 Council Adopted Budget anticipates the total franchise fee revenue will decrease by \$1.3 million from the 2010 Revised Budget, from \$29.1 million in 2010 to \$27.8 million in 2011. The decline in revenue is due to declining usage of natural gas.

There are four franchise agreements that provide revenue for the City. The franchise agreement with Xcel Energy for electricity requires the company to pay the City 5% of its gross revenues for Minneapolis residential service customers, 3% of gross revenues for Minneapolis commercial/industrial customers, and 5% of gross revenues for Minneapolis small commercial/industrial customers. The residential rate will drop to 4.5% of gross revenues beginning in January 2013. This franchise agreement expires on Dec. 31, 2014. Xcel does not provide natural gas services in Minneapolis. For 2011, the Council Adopted Budget anticipates Xcel will pay the City \$15.5 million from this agreement.

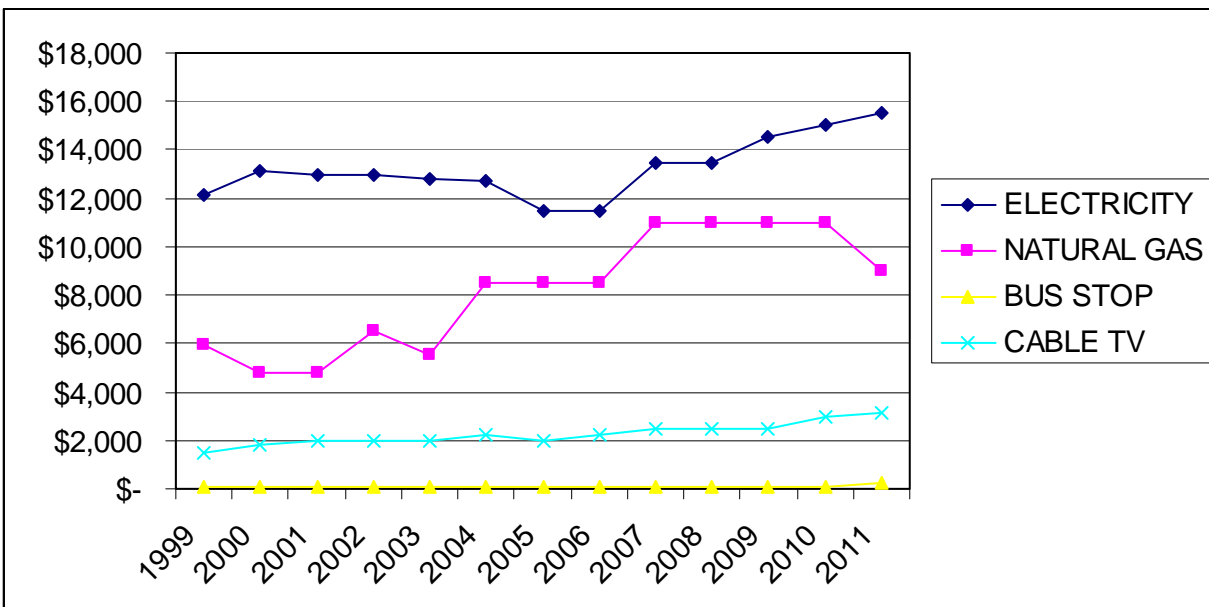
The franchise agreement with CenterPoint Energy for natural gas requires the company to pay the City 4.25% of gross revenues for Minneapolis residential buildings with four units or less, 5% for small commercial/industrial/firm or "interruptible" customers (customers who have agreements to allow their service to be interrupted, generally during peak loads), and 3% for large volume interruptible customers. This franchise agreement expires on Dec. 31, 2015. For

2011, the Council Adopted Budget anticipates CenterPoint Energy will pay the City \$9 million from this agreement, a decrease of \$2 million from the 2010 amount.

The city also has two smaller franchises. The bus stop advertising franchise will generate approximately \$210,000 in revenues for the City in 2011, and the City's cable television franchise is anticipated to generate \$3.1 million for the City in 2011. Comcast collects this fee from subscribers to help fund public services such as police, fire and public works as they relate to maintenance and regulation of the City's rights-of-way. Comcast also collects an "access fee" from subscribers to support public, educational and government (PEG) access programming. It is estimated Comcast will collect \$400,000 from subscribers for the access fee in 2011. There are ten PEG channels in the City of Minneapolis: four public, three educational and three government channels.

Recent rules issued by the Federal Communications Commission governing the way cities award cable TV franchises may impact this revenue source in the future. Keeping the franchise authority at a local level will ensure that the provider fairly compensates the City for the private use of public rights-of-way, provides access to cable services for all residents, ensures proper repair of streets and roadways after cable installations, provides continuous availability of PEG access channels and protects consumer rights.

**Franchise Fee Revenue 1999-2011
(in thousands)**



Budget by Fund

The City uses different “funds” to account for expense and revenue associated with the various services provided. The **General Fund**, where the City accounts for most property tax supported services, represents 29% of the 2011 Council Adopted Budget.

Enterprise Funds include services that the City provides that operate like a “business.” Charges for services are expected to recover operating costs, indirect costs, capital investments, and interest expense. Enterprise services of the City include sanitary sewer services, stormwater management and flood mitigation, water treatment and distribution, solid waste and recycling, and parking.

Internal Services Funds are similar to Enterprise Funds in that they are used to account for business-like services that the City provides to City departments. Internal services include information technology, equipment rental (e.g. police squad cars and fire equipment), property services, tort claims, and workers compensation claims.

Capital Project Funds include permanent improvement and arbitrage funds and are used for the construction of infrastructure projects.

Special Revenue Funds are used for personnel costs, operating costs, contractual services and equipment. These funds support the convention center, health and family support, public safety, Federal, State and local grants and ongoing support of closed pension funds.

Debt Service Funds are used to pay interest and principal on City debt.

The following tables reflect the expenditures and revenues for these funds:

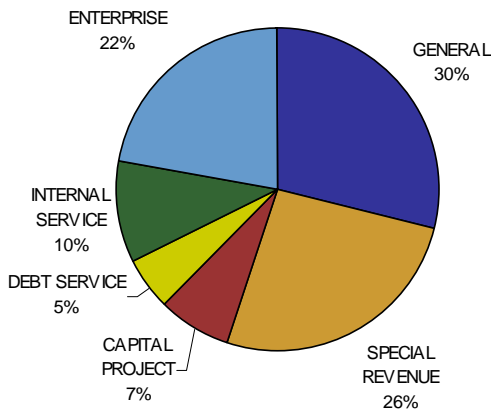
Expense and Revenue by Fund Type (in millions of dollars)

Expense:	2010 Revised Budget	2011 Council Adopted	Pct Increase	\$ Change
GENERAL	371.6	392.3	5.6%	20.8
SPECIAL REVENUE	331.6	357.3	7.7%	25.5
CAPITAL PROJECT	70.2	96.2	37.0%	26.0
DEBT SERVICE	70.7	72.6	2.7%	1.9
INTERNAL SERVICE	153.5	142.3	-7.3%	(11.2)
ENTERPRISE	285.7	301.7	5.6%	16.0
Total	\$1,283.3	\$1,362.4	6.2%	\$78.9

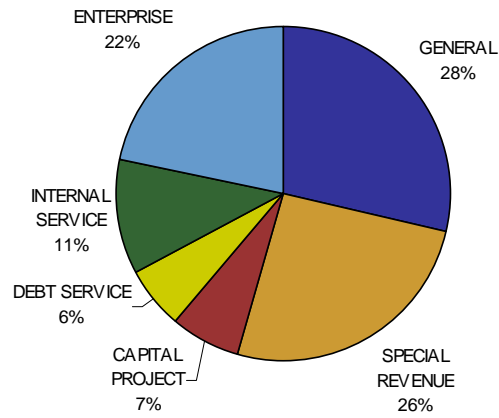
Revenue:	2010 Revised Budget	2011 Council Adopted	Pct Increase	\$ Change
GENERAL	371.6	392.3	5.6%	20.8
SPECIAL REVENUE	324.1	354.9	9.5%	30.8
CAPITAL PROJECT	65.1	92.0	41.3%	26.9
DEBT SERVICE	73.3	83.3	13.6%	10.0
INTERNAL SERVICE	166.9	152.9	-8.4%	-13.9
ENTERPRISE	280.5	297.2	6.0%	16.8
Total	\$1,281.4	\$1,372.7	7.1%	\$91.3

Capital Projects will see the most significant change in funding level between 2010 and 2011. The reason for this increase is primarily due to the \$9 million increased funding for the City's street infrastructure.

**Total City Expense Budget by Fund
2011 Council Adopted Budget
\$1.36 Billion**



**Total City Revenue Budget by Fund
2011 Council Adopted Budget
\$1.37 Billion**

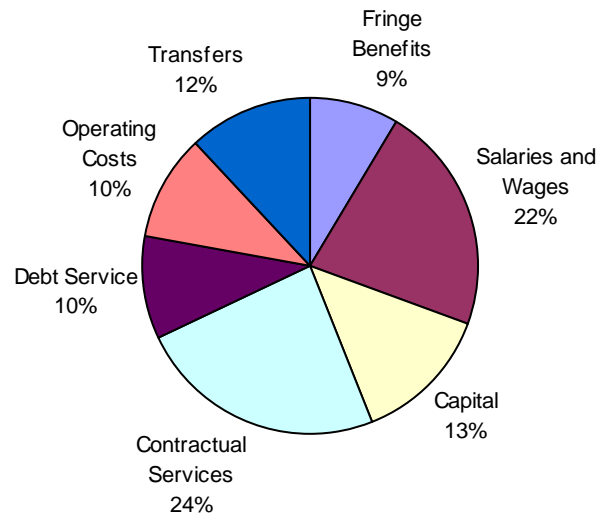


A significant amount of the City's budget is spent on personnel, \$415 million or 30% of the total budget. The 2011 Council Adopted Budget includes an overall decrease of 106 budgeted full-time equivalent positions, inclusive of independent boards.

Spending by Major Categories
(in millions of dollars)

	2010 Revised Budget	2011 Council Adopted	% Change	\$ Change
Fringe Benefits	118.8	117.7	-0.9%	-1.1
Salaries and Wages	294.1	297.2	1.0%	3.1
Capital	159.5	182.8	14.6%	23.3
Contractual Services	314.2	329.4	4.8%	15.2
Debt Service	126.8	133.3	5.1%	6.5
Operating Costs	126.1	138.5	9.9%	12.4
Transfers	143.8	163.5	13.7%	19.7
Total	\$1,283.3	\$1,362.4	6.2%	\$79.1

**Total City Budget – Expenditures by Category
2011 Council Adopted Budget
\$1.36 billion**



Major Budget Pressures:

➤ **Funding for physical infrastructure**

Five-Year Capital Program Totals: For 2011 – 2015, the five-year capital program for City departments, independent boards and commissions totals \$593.67 million including all funding sources. The 2011 portion of this program is \$113.94 million. Property tax supported net debt bonds (NDB) help to leverage many funding sources in the five-year plan.

Infrastructure Acceleration Program (IAP): In addition to the net debt bond funding indicated below, this budget continues the infrastructure acceleration program with \$16.11 million over the next three years to provide additional investment in paving projects, City street lighting, pavement and bikeway maintenance and park infrastructure improvements. Funding for this accelerated program is coming from the use of one-time trust funds and general fund transfers – see complete funding details for the affected projects in the Capital Section of this document.

	2011	2012	2013	Totals
Paving Programs	\$2.70	\$2.85	\$3.05	\$8.60
Major Pavement Maintenance	\$0.61	\$1.00	\$.80	\$2.41
City Street Lighting	\$0.90	\$1.05	\$1.05	\$3.00
Bike Trail Maintenance	\$0.10	\$0.10	\$0.10	\$0.30
Park Infrastructure	\$0.80	\$0.50	\$0.50	\$1.80
Total IAP Program	\$5.11	\$5.50	\$5.50	\$16.11

Property Tax Supported – Public Works: The 2011 budget includes \$9.86 million in property tax supported (NDB) funding for Public Works projects. Below is a summary of the 2011 - 2015 NDB allocation for the Public Works infrastructure program.

	2011	2012	2013	2014	2015	Totals
Net Debt Bond funding	\$9.86	\$12.83	\$10.70	\$12.36	\$13.68	\$59.43

Expanded Resources for Capital Improvements: To improve the City’s street infrastructure, this budget provides significant additional resources from the general fund to four key paving programs as detailed below. These additional resources are combined with net debt bonds, municipal state aid, special assessments and IAP funds. The total funding for these projects can be found in the Capital Program section of this document in the Capital Budget Detail for Funded Projects report.

	2011	2012	2013	2014	2015	Totals
Alley Renovation Program	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$4.00
Asphalt Resurfacing Program	\$4.20	\$4.20	\$3.50	\$4.20	\$4.20	\$20.30
Major Pavement Maintenance	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$10.00
High Volume Corridor Reconditioning	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$10.00
Total Expanded Paving Programs	\$9.00	\$9.00	\$8.30	\$9.00	\$9.00	\$44.30

Neighborhood Parks Infrastructure Funding: The 2011 budget includes \$4.00 million for Park improvements including \$2.0 million of net debt bonds, \$1.5 million of Park capital levy and \$.50 million of infrastructure acceleration funding. Below is a summary of the total 2011 –2015 funding for park board capital improvements.

	2011	2012	2013	2014	2015	Totals
Net Debt Bond funding	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$10.00
Park Capital Levy	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$7.50
Infrastructure Acceleration funding	\$0.50	\$0.50	\$0.50	\$0.00	\$0.00	\$1.50
Total Park Board Capital funding	\$4.00	\$4.00	\$4.00	\$3.50	\$3.50	\$19.00

Property Tax Supported – Miscellaneous and BIS Technology Projects: The 2011 budget includes \$2.48 million in property tax supported funding for these categories. Projects include public art, technology related improvements and physical building, office space and security improvements for Police, Fire and other City buildings. Capital spending in these areas impacts the City’s capacity to maintain and improve the transportation network. These categories use 12.82% of the available net debt bond funds in the five-year plan. Below is a summary of the 2011 - 2015 net debt funding for miscellaneous and technology projects.

	2011	2012	2013	2014	2015	Totals
Net Debt Bond funding	\$2.48	\$1.75	\$1.85	\$1.86	\$3.53	\$11.47

Utility Fee Supported Capital: The 2011 - 2015 budget includes funding for additional water and sewer related infrastructure expenditures. The utility rates proposed for 2011 – 2015 are the same as last year’s adopted plan except for Stormwater Rates for 2012 which were increased an extra 0.5% due to a program increase requested for the Storm Drains and Tunnels Rehabilitation Program of \$20.8 million from 2011 to 2015. The additional revenue will allow for more timely upgrades to the storm tunnel infrastructure in the next five years. Rate details for the Sewer and Water funds can be found in the Capital Program section of this document.

Relationship between the Capital and Operating Budgets: As part of each capital budget request, departments and independent boards identify whether the capital request will result in an increase or decrease in annual operating costs. The Capital Long-Range Improvement Committee (CLIC) ranking process provides for adding or subtracting up to 30 points out of 300 for operating cost implications. Proposals indicating an increase in operating costs without a clear definition of how the costs will be funded stand to lose points and those that reduce annual operating costs or have a responsible strategy to pay the increased costs may receive extra rating points.

➤ **Financing Assistance for the Target Center and Neighborhoods**

Background

Established in 1990, the twenty-year Neighborhood Revitalization Program and its funding ended in 2009. The City and neighborhood groups had been planning this major turning point for almost 10 years. The City's purchase in 1995 of the Target Center increased long-term demand for resources.

During the 2008 Legislative Session, the Minnesota Legislature authorized the City to establish a non-contiguous redevelopment tax increment financing (TIF) district which would be comprised of properties that were located in "pre-1979" TIF districts, which returned to the tax base in 2009. The earliest year the tax increment revenue could be realized from the new district allowed under the special legislation is 2011. If not put into a new district, the value within those pre-1979 TIF would remain in the general tax base after the initial de-certification impacting 2010. This additional value increased the overall size of the tax base, effectively resulting in property tax relief for all property owners in 2010.

Under the special legislation, tax increment from the recertified district could only be used to pay principal and interest on Target Center bonds or for "neighborhood revitalization purposes." The legislation also explicitly stated that the certification of the district would not impact the City's "property wealth" factors in the Local Government Aid program. A \$6.4 million drop in the City's LGA will occur in 2012, whether or not the City used the special legislation. Much of that impact is anticipated in the general fund (\$5.6 million). This loss in these amounts will occur whether or not the City uses the special legislation to create a new district because the legislation requires the additional tax capacity to be included in the calculation of LGA, even if the value is re-certified in a new district.

Council Adopted Plan

The City Council approved the Consolidated TIF plan, as amended, on December 18, 2009. The District, as adopted, is comprised of portions of five of the former pre-1979 TIF districts. It represents 50.8% of the total net tax capacity of all of the former pre-1979 TIF districts and contains 51 percent of the parcels. The District represents the most diverse and stable subset of pre-1979 TIF districts that achieves the 50% target, a goal of the City Council. The tax increment received each year shall first be used to 1) make the necessary reimbursement payments to Hennepin County required under the Special Legislation, and 2) pay for the City and County costs of administering the District. The remaining "Net Tax Increment" is allocated as follows:

- 50% for Target Center Debt Service and
- 50% for Neighborhood Revitalization Purposes

This allocation methodology means that these activities would share equally in the upside and downside. Upside resulting from actual increment being greater than projected and downside stemming from actual increment being less than projected in a given year.

The ten-year Consolidated TIF budget projects an estimated cumulative total Net Tax Increment of \$53.65 million being available for both Target Center Debt and Neighborhood Revitalization purposes, for a total of approximately \$107.3 million net tax increment for both activities generated over the ten-year life of the District. The corresponding projected annual Net Tax Increment to become available for both Target Center Debt and Neighborhood Revitalization Purposes reflected in the TIF plan ranges from approximately \$5.0 million (low end) to approximately \$5.6 million (high end) during the life of the district.

➤ **Funding for Pension Liabilities**

The City's payments to its pension funds continue to increase. Much of the increased costs can be attributed to three of the City's "closed" plans, meaning new members are no longer accepted into the plans. From 2009-2011, property-tax supported contributions to three closed funds total \$45.6 million. For the Minneapolis Police Relief Association (MPRA) and Minneapolis Fire Relief Association (MFRA), the City makes up for market underperformance as compared to State law assumptions (6% investment return), increasing the unfunded liabilities by millions of dollars during economic downturns. In these two plans, the respective market returns for 2008 were -30% and -29%, reflecting the overall 2008 market performance; in 2009 they both had gains of 27%.

Combined with legislatively approved changes, City payments provided from property taxes will increase from \$15.5 million in 2010 to \$23.0 million in 2011 for the three closed pension plans. The City is currently in litigation over benefit payments with the MPRA and MFRA.

Minneapolis Employee's Retirement Fund (MERF), a closed fund:

The 2011 payment to MERF is \$4.5 million, of which \$2.5 million is financed through the property tax levy and \$2.0 million financed through non-tax funds. The 2011 budget allocates funds necessary for the debt service on \$61 million in bonds issued during 2002-03. Debt service in 2011 is \$3.2 million, of which \$2.0 million is financed through tax funds and \$1.2 million in nontax funds.

Due to poor market returns in 2008, MERF was only 56% funded as of June 30, 2009. This placed MERF's funding status in a serious negative position that required immediate attention. During the 2009-2010 legislative session, legislation was approved that merged MERF into a statewide plan in July, 2010, with annual funding commitments from the City from 2012 – 2032 in the range of \$20-\$23 million per year. If the consolidated MERF plan does not meet actuarial assumptions for its investment returns, the City, State and other MERF employers could see additional costs associated with MERF.

Minneapolis Police Relief Association (MPRA), a closed fund:

Legislation passed during the 2005 legislative session extended the amount of time the City has to fully fund this plan's liabilities by ten years to 2020. The result was a lower upfront annual City contribution that increases over time and extends for a longer period. The City's 2010 contribution to MPRA from the tax levy was \$11.8 million.

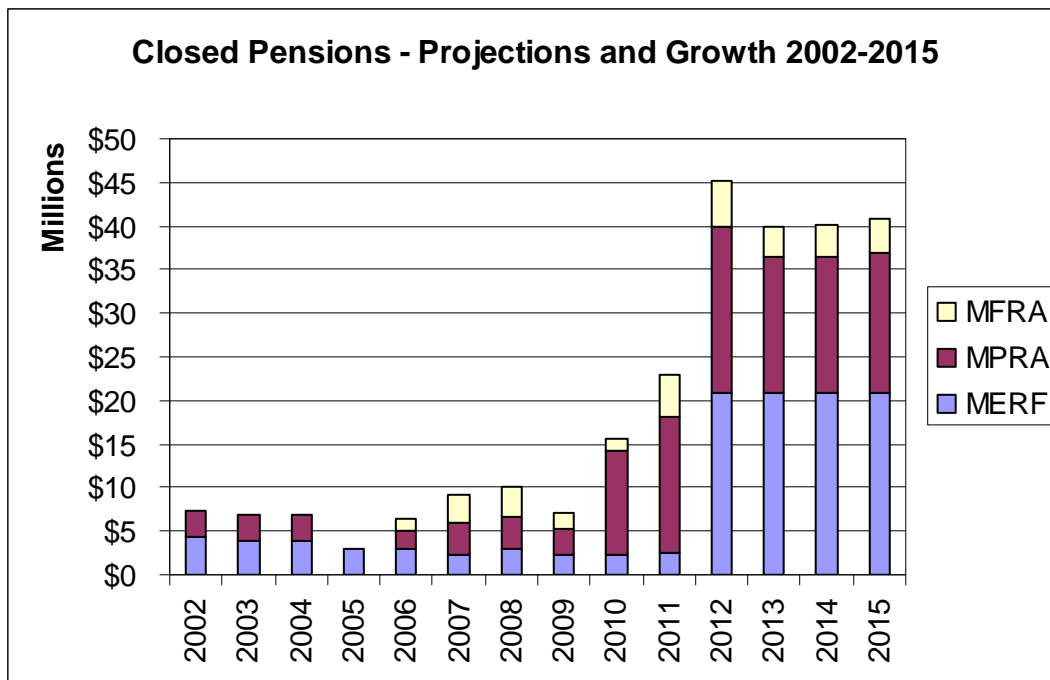
In 2011, the contribution increases to \$15.5 million, though this number would have been greater if the City had not prevailed in a lawsuit against the fund. Investment gains or losses as compared to the State's assumed 6% are phased in over a three-year timeframe. As a result, the 2008 negative investment performance resulted in increases in 2010, 2011 and 2012 unless offset by gains above the 6% assumptions in 2010 and 2011. Current projections call for estimated contributions increasing to \$19 million in 2012. An additional \$2.6 million will be required for debt service in 2011 on the \$53 million MPRA bonds that were issued during 2002-04. This obligation would otherwise have fallen on the property tax levy during those years and was spread out over time through the bonding process.

Minneapolis Fire Relief Association (MFRA), a closed fund:

In 2005, the City resumed contributions to the MFRA. The MFRA was previously 100% funded, which meant that the City did not need to make annual contributions. The stock market downturn in 2001 resulted in investment performance that reduced the funding level of the MFRA. The City's 2010 contribution to MFRA from the property tax levy was \$1.3 million. In 2011, this contribution will increase to \$4.9 million.

Investment gains and losses as compared to the State's assumed 6% are phased in over a three-year timeframe. As a result, the 2008 negative investment performance resulted in increases in 2010, 2011 and 2012 also unless offset by gains above the 6% assumptions in 2010 and 2011. Current projections call for contributions increasing to \$5.3 million in 2012.

The following graph shows the historical and projected levy under current law for Minneapolis closed funds (MPRA, MFRA, and MERF), with the Minneapolis share of the MERF second funding in the form of levy:



Teacher's Retirement Association (TRA):

The 2006 Legislative session combined the Minneapolis Teachers Retirement Fund Association (MTRA) with the State's Teachers Retirement Association (TRA). As part of the

legislation the City was required to redirect its annual \$2.25 million MTRA tax levy to TRA through 2037.

Public Employees Retirement Association (PERA), the plan for most current City employees:

The 2005 Legislative session increased annual employee and employer contribution levels starting January 1, 2006. During the 2010 Legislative session, the State changed the employer's contribution level in the coordinated plan from 7.00% to 7.25% for 2011. The police and fire plans' employer's contribution level increases from 14.1% to 14.4%. The estimated total cost to the City in 2011 is \$27.6 million, which is covered in the department budgets where the employees work.

	2010	2011	Change
PERA	\$11.7	\$13.1	\$1.4
PERA P&F	\$13.2	\$14.5	\$1.3
Total	\$24.8	\$27.7	\$2.8

➤ **Funding for internal services funds long-term financial plans**

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. Today, the combined balance is no longer negative. 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 2009, the City's three internal services funds with long-term financial plans had combined net assets of \$24.8 million. Additionally, all three funds had positive cash balances at 2009 year-end.

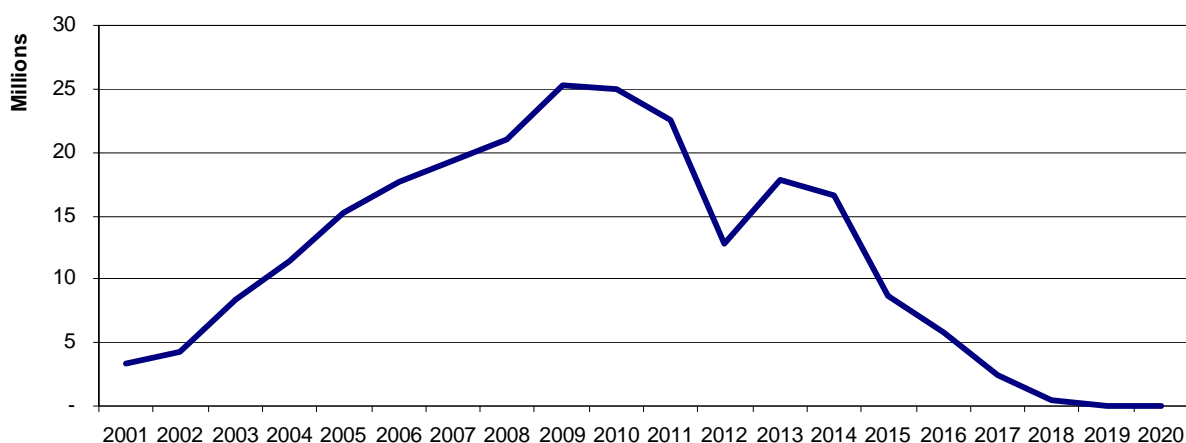
Status of Workout Plans (in millions)

	Adopted	Original Cash Deficit (2000)	Original Net Asset Deficit (2000)	2009 Year-End Net Assets	Target Date for Positive Cash Balance	2009 Year-End Cash Balance
Self-Insurance	2003	\$ (8.1)	\$ (49.5)	\$ (15.4)	2007	\$ 26.5*
Equipment	2001	(16.6)	0.0	26.5	2003	1.4
BIS	2000	(12.9)	(12.2)***	13.7	2009	0
Internal Service Fund Total		\$ (37.6)	\$ (61.7)	\$ 24.8		\$ 27.9
Parking Fund**	2004	\$ (8.6)	\$ 75.7	\$141.5	2010	\$ 24.1

*Status does not include \$2.5M 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.

General Fund Support for Internal Service Funds



The financial plans of the Self-Insurance, Fleet, and Intergovernmental Services (BIS) internal service funds call for transfers from the General Fund to eliminate deficits. The graph above presents the schedule of General Fund transfers to the three internal service funds with deficits.

To meet the goals of the adopted long-term financial plans, these transfers continue to make up a substantial portion of the City's budget until this budget year as these expenditures begin to decrease. In order to create capacity in 2012, the General Fund will prepay \$5.5 million in obligations to the Self Insurance Fund. The Council adopted a one-time \$1 million reduction to the Self Insurance Fund transfer to help reduce the property tax levy increase from 6.5% to 4.7%. The Council adopted this reduction given the fund's positive performance. Additionally, there will be a postponement of 2012 obligations (\$2.2 million) to the Fleet Services Fund and a partial prepayment of 2014 obligations (\$1.2 million) in 2013.

➤ Growth in personnel costs

- **Salary and wages.** The 2011 Council Adopted Budget keeps personnel expenditures flat at \$415 million (\$297 million in salaries and wages, \$118 million in fringe benefits). For City positions, not including independent boards, growth in salary and wages are budgeted at 0% for two years for bargaining units without settled labor contracts.
- **Benefits.** Health and dental insurance expenditures are budgeted to decrease from \$60.7 million to \$57.8 million. This estimate is based on changes and experience related to the current plan design and the competitive procurement processes. The anticipated health premium increase in 2011 is 0% due to implementation of a new contract.

- **Continuing library obligation to Hennepin County.** Minneapolis libraries merged with the Hennepin County system in 2008. In addition to the \$9.3 million market value referendum supported by Minneapolis taxpayers, the merger finance plan calls on Minneapolis for an additional declining base contribution for 10 years. In 2011, that contribution is over \$5.8 million. The City will also continue to pay the library's share of the MERF pension debt service in addition to the outstanding debt service on other bonds that have already been issued by the City for Library purposes.

Finance Plan For Hennepin County Library/Minneapolis Library Merger (in thousands):

	Base	Reopen (1)		Reopen	Other City (2)	Total City	Library LGA (3)	Prop tax (4)	One Time (5)	Total
2008	\$7,800	\$445	100%	\$445	\$10,650	\$18,895	\$6,800	\$10,650	\$1,445	\$18,895
2009	\$7,020	\$463	100%	\$463	\$10,650	\$18,133	\$6,800	\$10,650	\$683	\$18,133
2010	\$6,240	\$481	100%	\$481	\$10,650	\$17,371	\$6,721	\$10,650		\$17,371
2011	\$5,460	\$501	79%	\$393	\$10,750	\$16,603	\$5,853	\$10,750		\$16,603
2012	\$4,680	\$521	58%	\$302	\$10,750	\$15,732	\$4,982	\$10,750		\$15,732
2013	\$3,900	\$541	38%	\$206	\$10,750	\$14,856	\$4,106	\$10,750		\$14,856
2014	\$3,120	\$563	21%	\$118	\$10,750	\$13,988	\$3,238	\$10,750		\$13,988
2015	\$2,340	\$586	4%	\$23	\$10,750	\$13,113	\$2,363	\$10,750		\$13,113
2016	\$1,560	\$609	0%		\$10,850	\$12,410	\$1,560	\$10,850		\$12,410
2017	\$780	\$633	0%		\$10,850	\$11,630	\$780	\$10,850		\$11,630

(1) The cost to reopen 3 libraries at 24 (2) and 20 (1) hours per week. Annual costs are inflated 4% per year after 2008.

(2) Other City includes debt service on referendum and net debt bonds/MERF contributions. Final referendum debt service in 2031.

(3) Library LGA is the amount of LGA allocated to Libraries not exceeding the 2007 level.

(4) Property tax amounts are in City's five-year financial plans.

(5) The City will be responsible for these one-time costs.

(6) Net Debt is the City's adopted five-year capital improvement plan plus \$500,000 for Walker library improvements.

- **Technology funding**

The City has two main financing mechanisms for technology:

Property tax supported debt financing in the City's capital program: Since 2003, the City has programmed about \$1.5-\$2.0 million annually in property tax supported projects, financed by debt, as prioritized by BIS and the department heads. These technology assets are capitalized and the bond payments are structured within the useful life of the asset. For 2011, a total of \$1.0 million in technology projects funded through property tax supported debt planned in the capital program. The five-year plan totals \$3.7 million.

Pay-as-you go: On occasion, the City will allocate current year funding for a technology project with existing resources rather than issuing bonds.

Regardless of the initial funding source for a capital project, funding the ongoing operating costs for new technology has been a challenge for the City. Departments agree to proceed with projects; however ongoing costs of the systems are rarely identified in departments' long-term financial plans.

➤ Enterprise Challenges

In the course of the City's annual business and strategic planning process, City departments review and document the most significant trends and challenges affecting their work. While some of these issues are specific to department business, several enterprise-wide themes emerge. A summary of enterprise challenges follows:

Economic Downturn

Recent financial downturns in the economy coupled with State budget cuts have led to unique challenges at the City. At a time when demand for services is up, State funding is reduced. For example, the increased foreclosure rate in Minneapolis results in an increased need for home inspection and monitoring. In addition, City spending on closed pension funds is growing due to poor market returns and legislatively approved changes to assumptions upon which the calculations are based.

Demographic Changes

Diversity of City residents (minority and immigrant populations) is growing faster than any other city in Minnesota. Minority populations make up 29% of adults aged 18-64 years. Foreign-born residents have increased 2.5 times since 1990, posing language barrier challenges for all departments that touch the public directly. Nearly all departments note a need for improved focus on providing service to limited-English proficient residents. Minneapolis' over-age-65 population is also increasing. An increase in the City's older population may pose additional health and accessibility challenges in the future.

Technological Complexity and Increased Demand for Technological Solutions

Departments note an increased technological savvy of customers, and as a result, increased demand of technological approaches to customer service. This translates into additional costs for new equipment and in particular, increased maintenance costs. For example, assistive voting technology enhancements will likely need to be maintained by the City, the full financial impact of which is not yet known. Other examples include increased use of cameras in law enforcement, and a drive toward enterprise-wide technologies for use in business process re-engineering.

Regulatory Complexity/Unfunded Mandates

Departments have noted increased complexity of protocols and regulations at many levels. Civil Rights notes increased complexity of investigation protocols. Regulatory Services cites State codes, protocols, and building standards that are placing additional strains on the workload of inspectors. Public Works notes increased costs for inflow and infiltration required by Metropolitan Council Environmental Services. The City Clerk notes additional election requirements as a result of the 2002 federal "Help America Vote Act" and implementation of Instant Runoff Voting (IRV). Additionally, public safety departments face legislative-directed or nationally developed standards, training, or operating procedures. Departments indicate a need for increased and improved employee training, possibly placing short-term strain on productivity, to address these complexities.

Reliance on Tenuous Inter-Governmental Funding

Reliance on tenuous funding from State and Federal entities for some important City programs complicates the management and planning for these programs, and for the outcomes they hope to achieve. Local Government Aid from the State has been unpredictable with statewide reductions and year-to-year fluctuations, with the stability of the

program tied to the State's financial health. The uncertainty that surrounds these funds drains the time and energy of City managers from administering programs to ensure the best outcomes possible.

The recent American Recovery and Reinvestment Act (ARRA) from the Federal government has helped Minneapolis mitigate the cuts from other funding sources, though the funding is only temporary and does not provide a long-term solution to funding shortfalls.

Health programs have also faced State and Federal cuts recently. Medicare eligibility cuts, State of Minnesota public health care cuts, and reduced funding in early childhood and youth development affects the ability of City departments to project the health of residents.

Homeland Security

Ensuring adequate physical security, health security, electronic security (prevention of viruses, worms, and other system security threats), information backups, and emergency planning consumes resources of nearly every department. Departments continue to build and strengthen relationships with other governmental entities to maximize the effectiveness of security planning.

City Workforce Trends

Retirement rates are expected to rapidly increase over the next few years as the economy improves. As employees reach retirement age, the City loses institutional memory and highly skilled personnel.

Stadiums

Construction of several major stadiums - Target Field, the University of Minnesota's football stadium and a possible new Viking stadium - has and will continue to increase the workload for the City. Such large development efforts require extensive planning and zoning, appraisals, and more permit work due to demolition, new construction and redevelopment associated with the projects. The City must also contribute towards maintenance of the Target Center and Convention Center.

Aging Infrastructure

There are not adequate resources available for maintenance or replacement at most cost-effective frequencies. Public Works' pavement condition index reports the City's roads, bridges and other infrastructure are deteriorating. The Fire Department has noted a funding shortage for equipment updates in the next five to ten years as equipment reaches the end of its useful life cycle. The City Hall and Courthouse were in need of upgrading its mechanical and safety systems. Similar concerns were also noted by the Target Center and Convention Center.

Foreclosure

The volume of foreclosures poses challenges. The Minneapolis foreclosure recovery plan is a strategic and timely government intervention for prevention, reinvestment and market repositioning to the extent necessary to "tip" the market in our neighborhoods. As the housing market begins to decline, Minneapolis continues to employ foreclosure prevention outreach and counseling, engage in community building and marketing efforts to prepare the market for a rebound, and ready to promote rental and homeownership property development. Minneapolis has also partnered with other organizations to clear or rehabilitate dilapidated homes and pursue infill development on vacant lots.

Other Trends

The downtown real estate market continues to have an oversupply of office space available due to the weak commercial market dating back to 2003.

The transfer of property tax burden from commercial and industrial properties to residential properties continues, resulting from valuation changes and State law.

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

Department budget were revised 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.

This assumption change does not affect Independent Boards.

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.

Neighborhood and Community Relations

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$3,000 to this department. The Mayor also recommended \$150,000 in one-time funding for homeless outreach programming.

Council Adopted Budget: The Council adopted the Mayor's recommendation and directed the Department to work with Finance staff, the Intergovernmental 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 Department to work with the Finance 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 work with the NCEC and report back to the City Council by March 1, 2011 on how programs, including the Neighborhood Investment Fund and the Community Innovation Fund, will be implemented moving forward with an emphasis on mitigating equity issues among neighborhoods related to the suspension of new contracts.

Office of Internal Audit

Mayor's Recommended Budget: The Mayor did not recommend a reduction for this department. The Mayor recommended that the department be allowed to carry over its unspent 2010 budget for purposes of contracted audits the department will conduct in 2011 and further recommended a \$50,000 increase to the department's 2012 allocation in the Five-Year Financial Direction.

Council Adopted Budget: The Council adopted the Mayor's recommendations and increased the appropriation for the Internal Audit Department by \$11,000 to reflect actual salaries and directed Finance staff to increase the Department's allocation in the Five-Year Financial Direction accordingly.

Police

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$1.025M for this department, which will be partially offset by health care savings for the department. The recommendation also included a reduction of 24 sworn FTE, to 862 sworn FTE, which should be accomplished by the end of the 2011. The Mayor also recommended a one-time appropriation increase of \$500,000 to allow the department to reduce personnel through attrition. In addition, the department will reduce non-personnel expenses by \$1M to meet long-term financial projections.

The department's base budget has been increased by \$300,000, based on actual entertainment tax receipts over budgeted amounts. Entertainment tax resources are transferred into the General Fund for City costs related to citywide entertainment events.

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

Public Works

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$463,000 which the department will meet with additional revenue sources (a renegotiated state maintenance contract and from capital overhead to projects) and with health care savings. The Mayor further recommended \$50,000 on a one-time basis to be used for a 38th Street study to be funded from existing resources.

Council Adopted Budget: The Council adopted the Mayor's recommendations. The Council further adopted the following staff direction: the department of Public Works should report back to the Transportation & Public Works and Ways and Means/Budget by March 1, 2011 with a prioritized list of memberships, including prioritizing memberships for funding within the 2011 budget, including a plan for funding high-priority memberships on an ongoing basis. This list of memberships should include costs of City membership in regional coalitions.

Administration

Mayor's Recommended Budget: The Mayor recommended no changes.

Council Adopted Budget: The Council adopted the Mayor's recommendation.

Engineering Materials and Testing (Central Stores)

Mayor's Recommended Budget: The Mayor recommended no changes.

Council Adopted Budget: The Council adopted the Mayor's recommendation.

Fleet Services

Mayor's Recommended Budget: The Mayor recommended no changes.

Council Adopted Budget: The Council adopted an increase in rent charges of \$17,300 to be funded through existing resources.

Property Services

Mayor's Recommended Budget: The Mayor recommended no changes.

Council Adopted Budget: The Council adopted the Mayor's recommendation and further approves the following staff direction: the department of Public Works should work with the Finance department to simplify the Property Services allocation model for implementation in the 2012 budget process.

The Council adopted an increase appropriation in Property Services Fund by \$40,000 from the Property Disposition account for the development of the Citywide Strategic Facilities Space Plan. The Council adopted an increase to appropriation in Property Services Fund by \$80,000 with offsetting revenue from increasing rent charges within existing resources for the Public Works divisions (\$69,700 overall) and Regulatory Services (\$10,300).

The Council adopted a technical amendment to amend the City Hall rent charges for the Regulatory Services department to reflect the transfer of Fire inspection by reducing the rent charge to the Fire Department by \$79,000 and increasing the charge for Property Services by \$79,000.

Solid Waste and Recycling

Mayor's Recommended Budget: The Mayor recommended \$150,000 for graffiti microgrants and \$300,000 for efforts in support of reducing organic waste.

Council Adopted Budget: The Council adopted the Mayor's recommendations and further approves an increase in rent charges of \$10,500 to be funded through existing resources.

Surface Water & Sanitary Sewer – Sanitary Sewer

Mayor's Recommended Budget: The Mayor recommended no changes.

Council Adopted Budget: The Council adopted a rate reduction from the Mayor's recommended rates as follows: 2011, decrease from 8.2% to 4.1%; 2012, decrease from 7.6% to 4.3%; 2013, decrease from 7.0% to 3.5%; 2014, decrease from 6.6% to 4.0%; and 2015, decrease from 5.1% to 4.4% and adjust the revenue estimates accordingly. The Council further adopted an increase in rent charges of \$1,300 to be funded through existing resources.

Surface Water & Sanitary Sewer – Stormwater

Mayor's Recommended Budget: The Mayor recommended no changes.

Council Adopted Budget: The Council adopted an increase in rent charges of \$1,400 to be funded through existing resources.

Traffic & Parking

Mayor's Recommended Budget: The Mayor recommended no changes.

Council Adopted Budget: The Council adopted an increase in rent charges of \$20,500 to be funded through existing resources.

Transportation Maintenance and Repair

Mayor's Recommended Budget: The Mayor recommended \$387,000 be transferred from Infrastructure Acceleration Program to fund seal-coating and pothole repair on a one-time basis.

Council Adopted Budget: The Council adopted the Mayor's recommendations and further approves an increase in rent charges of \$17,400 to be funded through existing resources.

Transportation Planning and Engineering

Mayor's Recommended Budget: The Mayor recommended one transportation planner position (\$98,000) and \$430,000 in one-time funds for transportation planning expenditures.

Council Adopted Budget: The Council adopted the Mayor's recommendations and further approves an increase in rent charges of \$300 to be funded through existing resources.

Water Treatment and Distribution

Mayor's Recommended Budget: The Mayor recommended one-time funding of \$60,000 for hydrant conversion stations for large events and \$10,000 for a community garden irrigation program.

Council Adopted Budget: The Council adopted the Mayor's recommendations. The Council further approves increasing the Water revenue "pay as you go" capital appropriation in the water capital project WTR12 Water Distribution Improvements as follows: 2011, increase from \$1M to \$4M; 2012, increase from \$1.5M to \$5M; 2013, increase from \$1.5M to \$5M; 2014, increase from \$2M to \$5M; and 2015, increase from \$2M to \$5M. In addition, change the funding source for water project WTR23 Treatment Infrastructure Improvements from Water Bonds to Water Revenue for years 2011 through 2015 and update revenue estimates and reserve balances for these changes and current revenue projections. No change in water rate required.

Regulatory Services

Mayor's Recommended Budget: The Mayor recommended a reduction to growth of \$292,000 for the department. 911's share of the reduction is \$207,000.

Council Adopted Budget: Council adopted the Mayor's recommendation. Regulatory Services and Finance are directed 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 & Means/Budget committee by February 1, 2011. Additionally, Regulatory Services is directed to work with BIS and Finance to estimate the ongoing costs of the proposed Land Management System and propose an allocation to departments for ongoing operating costs no later than July 1, 2011.

Regulatory Services 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. Additionally, 13 FTE moved from Fire to Regulatory Services as part of this transfer.

Independent Boards:

BET

Mayor's Recommended Budget: The Mayor recommended no changes to BET's proposed budget.

Adopted Budget: The Board of Estimate and Taxation adopted the Mayor's budget recommendation.

MBC

Mayor's Recommended Budget: The Mayor recommended combined tax and LGA revenue of \$4.7M after subtracting shared costs. Total spending includes \$70,000 in one-time funds for clocktower renovations.

Council Adopted Budget: Minneapolis adopted a 4.7% levy, compared to a 6.5% recommendation by the Mayor, which reduces revenue available for shared activities of MBC, Park Board, and the City's general fund. The MBC board adopted a budget with total revenue of \$8.1M. \$4.7M is from property tax and LGA. Much of the remainder comes from revenue generating activities within MBC.

NRP

Mayor's Recommended Budget: The Mayor recommended no changes to NRP's proposed budget.

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

Park Board

Mayor's Recommended Budget: The Mayor recommended \$3.5 million for the Park Board for operating costs to maintain capital infrastructure. Overall, the Mayor recommended property tax and LGA revenue of \$56.8M. After subtracting shared costs and capital projects funded by the Park levy, the Mayor recommended \$52.3M in revenue for the Park board.

Park Board Adopted Budget: Park Board adopted a budget with property tax and LGA revenue of \$54.7M. The adopted City budget is based on certified LGA, and shares \$8.5M in LGA revenue with the Park Board. Park will use any LGA over \$7.5M for capital expenditures toward a backlog of capital needs.

MPHA

Mayor's Recommended Budget: The Mayor's recommended reinstating the MPHA tax levy at \$1.4 million and \$178,000 in CDBG funds.

Council Adopted Budget:

The City budget eliminated the MPHA tax levy by \$1.424M for taxes payable in both 2011 and 2012. MPHA is awarded \$178,000 in CDBG funds.

YCB

Mayor's Recommended Budget: The Mayor recommended no changes to YCB's proposed budget.

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

Council Adopted Staff Directions

1. Direct the **Finance** Officer to update the five-year financial direction consistent with recommendations of the City Council.
2. The Council does not intend to renew the Joint Powers Agreement when it expires on December 31, 2011. As a result, **IGR** staff is directed to report to the Intergovernmental Relations Subcommittee/Committee of the Whole on January 13, 2011, with passage on either January 14 or 28 on an amendment to the City's state legislative agenda which would incorporate a proposed strategy to seek legislation consolidating neighborhood programs and eliminating the need for the Joints Powers Board.

3. Direct the **Finance** and **NCR** departments 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.
4. Direct **NCR** to work with the NCEC and report back to City Council by March 1, 2011, on how programs, including the Neighborhood Investment Fund and the Community Innovation Fund, will be implemented moving forward with an emphasis on mitigating equity issues among neighborhoods related to the suspension of new contracts.”
5. Direct the **Finance** department to report to the Ways & Mean/Budget Committee no later than February 1, 2011, with a plan to provide property tax relief in 2012 and 2013 by capturing on 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 **NCR** department, the NCEC, the **IGR** 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 Ways and Means/Budget by February 15, 2011. This report should also include the impacts of limiting revenue generated by the TIF district funding neighborhood programs and Target Center debt relief to \$10 million annually, with any increment over and above \$10 million used to fund Phase II plans.
6. Direct 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.
7. **BIS**, with assistance from the **Finance** Department, should identify a plan to achieve a long-term, structurally balanced budget and report the plan to the Ways & Means/Budget Committee no later than March 1, 2011. The plan should include a recommendation for service reductions and/or additional charges to departments.
8. Direct the **Communications** 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 five-year financial plan beginning in 2012.
9. **CPED**, with the assistance of **Finance**, should develop a plan to fund ongoing development activities, including prioritizing the services CPED provides. CPED should report back to the Community Development and Ways & Means/Budget committees no later than March 1, 2011.
10. Direct 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.
11. **BIS**, with assistance from the **Finance** Department, should identify a plan to achieve a long-term, structurally balanced budget and report the plan to the Ways & Means/Budget Committee no later than March 1, 2011. The plan should include a recommendation for service reductions and/or additional charges to departments.

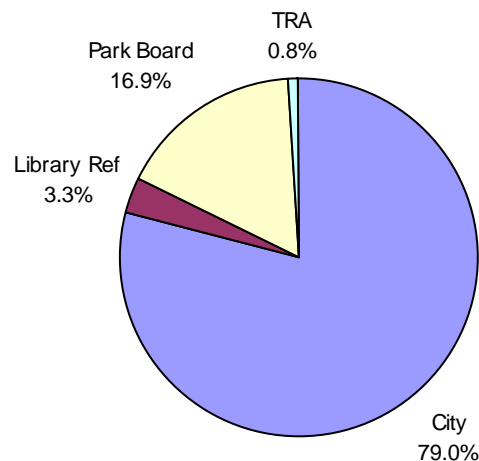
12. Direct the **Communications** Department to reduce the MTN contract amount no less than in the same proportion as the final appropriation reduction to the Communications department over the five-year financial plan beginning in 2012.
13. **CPED**, with the assistance of **Finance**, should develop a plan to fund ongoing development activities, including prioritizing the services CPED provides. CPED should report back to the Community Development and Ways & Means/Budget committees no later than March 1, 2011.
14. The **Fire** department should evaluate the current Council policy related to the Standard of Coverage in the context of the 2011 budget resources allocated to the department and report back to the Public Safety & Health and Ways & Means/Budget committees no later than February 15th with recommendations for any changes to that policy.
15. The **Human Resources**, **Finance** and **BIS** departments should bring a funding plan for the ERP (Enterprise Resource Planning) to the Ways and Means/Budget Committee by June 1, 2011.
16. The department of **Public Works** should report back to the Transportation & Public Works and Ways and Means/Budget by March 1, 2011 with a prioritized list of memberships, including prioritizing memberships for funding within the 2011 budget, including a plan for funding high-priority memberships on an ongoing basis. This list of memberships should include costs of City membership in regional coalitions.
17. The department of **Public Works** should work with the Finance Department to simplify the Property Services allocation model for implementation in the 2012 budget process.
18. The departments of **Regulatory Services** and **Finance** should 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 & Means/Budget committee by February 1, 2011.
19. The department of **Regulatory Services**, working with BIS and Finance should estimate the ongoing costs of the proposed Land Management System and propose an allocation to departments for ongoing operating costs no later than July 1, 2011.
20. Direct the **IGR** and **Finance** departments to work together to determine the impacts of not addressing the over-obligation of CDBG resources related to Block E. This information should be presented with the City's 2010 final report to the Ways & Means/Budget Committee in the first quarter of 2011.

Property Tax and Fee Changes

➤ Property Tax Revenue

The 2011 Council Adopted Budget includes an estimated net tax capacity rate of 69.906%; this rate is the combined rate for the City, the Board of Estimate and Taxation, the Minneapolis Park and Recreation Board, the Municipal Building Commission (MBC), and the City's special levies for the Minneapolis Public Housing Authority (MPHA) and Teachers Retirement Association (TRA). The library referendum is a \$9.3 million market value based tax estimated at .0267% for 2011 and is not included in the net tax capacity rate. This estimated net tax capacity rate will fund an additional \$12.6 million in property taxes, a 4.7% increase over the 2010 revised budget. The City's net tax capacity (after reductions for tax increment and fiscal disparities) is projected to decrease by 11.1% for taxes payable 2011, from \$439.1 million to \$390.5 million.

Property Tax by Fund - \$279.6 Million



Of the \$12.6 million budgeted increase in property tax revenue, \$10.8 million will be used by the City and \$1.7 million by the Park Board. The levy for MPHA will not be reinstated until 2013. The City's share includes funding for current and future pension obligations, as well as funding for basic City services such as public safety, snow plowing and street repair.

The Park Board budgeted levy increase of \$1.7 million is based off the adopted new tax policy and represents an increase of 3.8%.

From 2009-2011, levy limits are in effect. The City is using special levies for allowable expenses that are beyond the rate of inflation dictated in levy limits. Levy limits reduce flexibility in terms of how the City allocates property tax revenue under the tax policy.

Uses of New Property Tax Revenue

2011 Property Tax Levy Change: \$12.6 Million		
<i>(Why are my taxes going up?)</i>		
	\$ Change*	% of Change
Increased Pension Obligations	\$17.3	137.7%
All Other Obligations	(\$4.7)	-37.7%
Total of Tax Revenue Changes	\$12.6	100.0%

*Dollars shown in Millions.

Increased pension-related obligations:

\$17.3 million

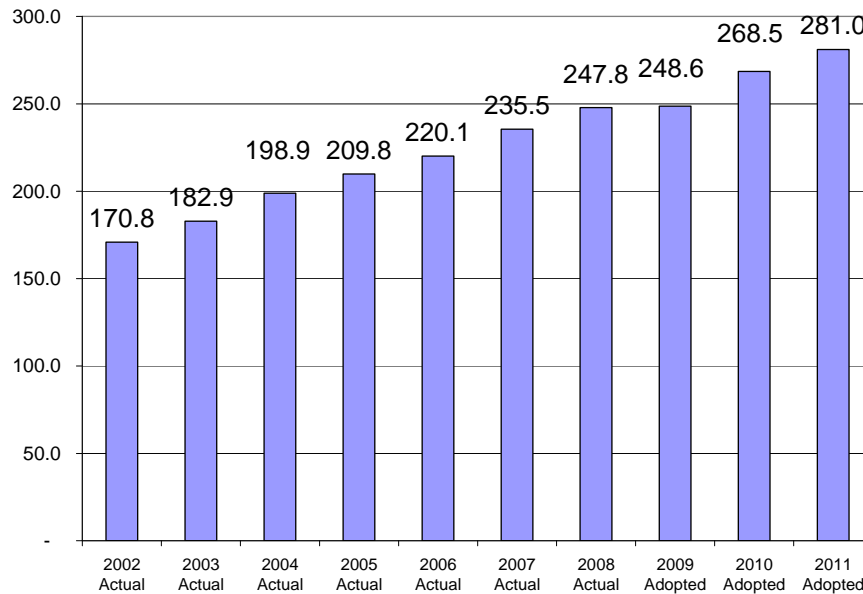
Other obligations including the changes in cost of General Fund City Services, the Permanent Improvement Fund, the Board of Estimate, the Library Referendum Levy, the Park Board, and the Municipal Building Commission:

-\$4.7 million

Total increase:

\$12.6 million

Property tax revenue in constant 2009 dollars*



*This revenue chart shows the trend of City revenues adjusted for inflation using the Consumer Price Index (CPI).

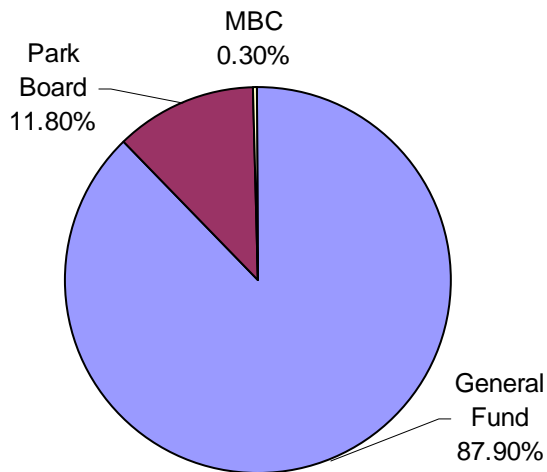
➤ **Local Government Aid**

The State certified an increase to the City’s LGA allocation for 2011 to \$87.5 million, a \$23.4 million increase from the actual amount received in 2010. While the State certified these numbers, actual distributions have been much lower due to State action to reduce LGA. The actual distribution for 2010 was \$64.1 million, a \$25.9 million reduction from the certified level. Certified LGA versus actual distribution of LGA is featured in the table below:

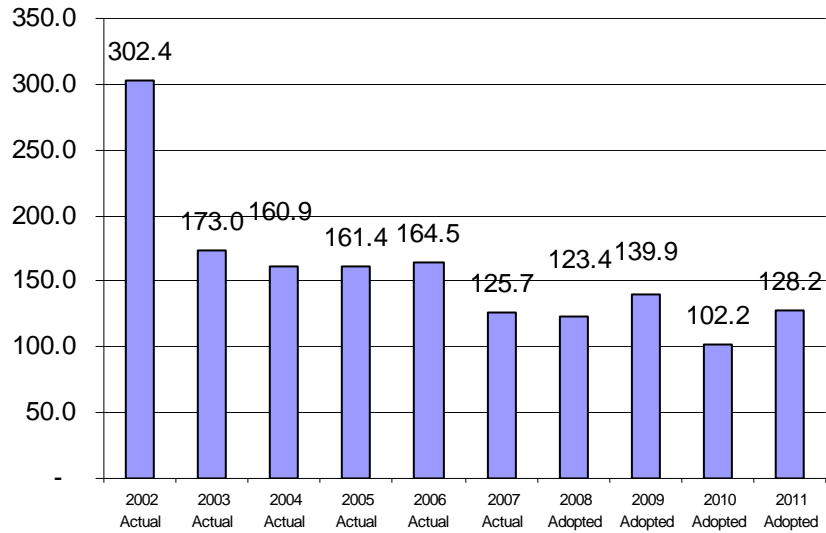
	2010 Certified LGA	2010 Actual LGA	2011 Certified LGA	% Change from 2010
General Fund	\$79,118,244	\$56,552,226	\$76,945,034	36.1%
Park Board	\$10,623,269	\$7,443,763	\$10,331,471	38.8%
MBC	\$270,937	\$146,279	\$263,495	80.1%
Totals	\$90,012,450	\$64,142,268	\$87,540,435	36.5%

The State also cut the Market Value Homestead Credit to Minneapolis for 2010 in the amount of \$6.4 million. The State has not taken action to reduce this credit in 2011 as of December 2010.

LGA Distribution by Percentage



State Government revenue in constant 2009 dollars*



*This revenue chart shows the trend of City revenues adjusted for inflation using the Consumer Price Index (CPI).

Stormwater, Sanitary Sewer and Water Utility Fees: The 2011 Council Adopted Budget includes an increase in utility rates of \$0.15 per 100 cubic feet for water, \$0.12 per 100 cubic feet for sanitary sewer, \$0.33 per equivalent stormwater unit (ESU = 1,530 square feet) for stormwater services, and no increase for solid waste and recycling services. These increases are necessary to fund investments for the City’s sanitary sewer and stormwater management services and water treatment and distribution systems. This represents a 4.9% increase for water fees, a 4.1% increase for sanitary sewer services, a 3.0% increase for Stormwater fees, and no increase for solid waste and recycling. The average monthly charge per residential dwelling is \$25.60 (based on average usage of 800 cubic feet) for water, \$18.30 (based on average usage of 600 cubic feet) for sewer, \$11.42 for Stormwater (based on 1 ESU), and \$24.00 for solid waste and recycling.

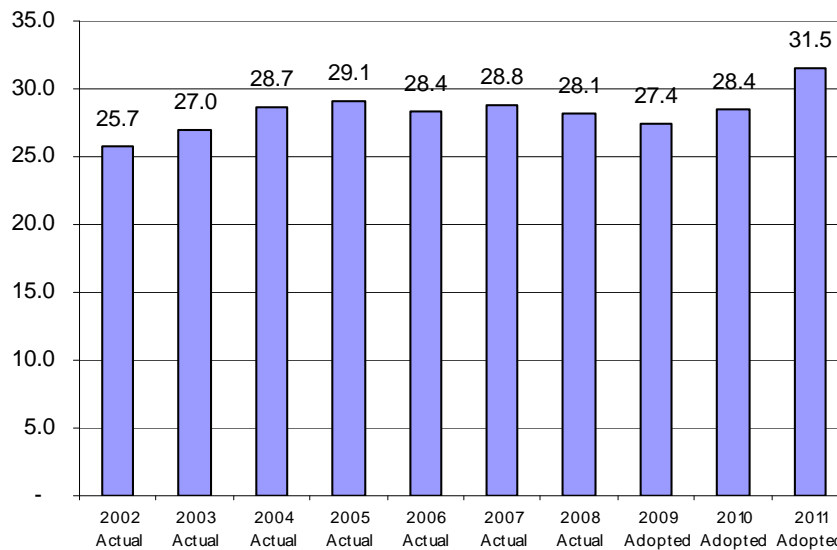
**Combined utility bill
Monthly and annual cost for average consumer**

	2010	2011 Monthly Average	2011 Annual Average	2011 monthly dollar change	2011 % change
Sanitary Sewer	\$17.58	\$18.30	\$220	\$.72	4.1%
Storm Water	\$11.09	\$11.42	\$137	\$0.33	3.0%
Water	\$24.40	\$25.60	\$307	\$1.20	4.9%
Solid Waste/Recycling	\$24.00	\$24.00	\$288	\$0.00	0.0%
Total	\$77.07	\$79.32	\$952	\$2.25	2.9%

- **Solid waste and recycling fee:** The 2011 revised budget left the solid waste and recycling fee unchanged at \$24.00, the average monthly charge per dwelling. Collection fee revenues are calculated on the base dwelling units, with adjustments to recycling credits, and charges applied to large and small carts. In an effort to encourage recycling, the cart fees will be \$2 per small cart compared to \$5 per large cart.
- **Franchise fees:** The 2011 Council Adopted Budget anticipates the total franchise fee revenue to decrease from \$29.1 million to \$27.8 million in 2011.

- **Community development block grant:** After several years of declining funding levels, 2009 and 2010 were the first years the actual funding had exceeded the anticipated funding by approximately 2%. For 2011, the City is anticipating the funding to remain level with the 2010 actual funding of \$14.4 million.
- **Other fee changes:** The licenses and permit fee revenue is expected to increase from \$30.7 million in 2010 to \$31.4 million in 2011 due to increases in the rates charged for some of the licenses and permits.

License and permit revenue in constant 2009 dollars



*This revenue chart shows the trend of City revenues adjusted for inflation using the Consumer Price Index (CPI).

Property Market Values and Tax Base Highlights

Following are charts from the City Assessor’s Office with estimated market values and corresponding tax capacity by property group.

Group	2010 Estimated Market Value	% of Total	% Change	Tax Capacity	% of Total	% Change
Real Estate						
Commercial	\$6,344,933,600	18.3%	-9.6%	\$124,362,836	28.6%	-9.8%
Industrial	1,469,674,300	4.2%	-0.3%	28,912,199	6.6%	-0.3%
Residential	23,541,324,600	67.8%	-4.3%	241,759,803	55.6%	-4.4%
Apartment	3,322,590,100	9.6%	-6.6%	39,682,151	9.1%	-6.7%
Other	23,621,600	0.1%	-5.0%	317,937	0.1%	-5.1%
Sub Total	\$34,702,144,200	100.0%	-5.4%	\$435,034,926	100.0%	-5.9%

Change in Tax Capacity by Category 2009-2010



The market value and tax capacity data shown above does not include personal property, which is estimated to have a market value of approximately \$380 million and a corresponding tax capacity of \$7.2 million for taxes payable 2011. With personal property included, gross tax capacity is estimated to decrease from the prior year by approximately 5.9%.

The following table provides the estimated changes in tax increment financing, fiscal disparities contribution, and fiscal disparities distribution for taxes payable 2011:

For Taxes Payable in 2011	
Real Estate Tax Capacity	\$435,034,926
Personal Property Tax Capacity	\$7,199,950
Gross Tax Capacity	\$442,234,876
- Less Increment Financing	(\$44,386,152)
- Less Fiscal Disparities Contribution	(\$58,331,426)
+ Plus Fiscal Disparities Distribution	\$57,452,116
Net Tax Capacity	\$396,969,414

Property Values and Tax Trends

Commercial and Industrial Trends

Minneapolis has the highest concentration of commercial office buildings in the State of Minnesota and therefore is the largest contributor of revenue to the state general tax on a per city basis. Minneapolis's 2010 commercial/industrial tax base is \$7.8 billion dollars, of which \$4.04 billion resides in the Minneapolis Central Business District (CBD).

Between January 2009 and January 2010 the Minneapolis CBD experienced a 12.2% reduction in the commercial tax base. The overall commercial property tax base for Minneapolis declined 9.6% from \$7.0 billion dollars in 2009 to \$6.3 billion in 2010.

There was a slight increase in commercial foreclosures from 22 in 2008 to 25 in 2009, but these are not significant numbers relative to the size of the Minneapolis market.

Investment sales will remain at a minimum due to fewer investment properties on the market. Brokers and real estate professionals are of the opinion that unless an owner is forced to sell during the economic recession, property owners will sit tight and wait for the market to show signs of recovery. If the financial markets don't become more accessible, buyers won't be motivated to purchase properties and instead will continue to lease space.

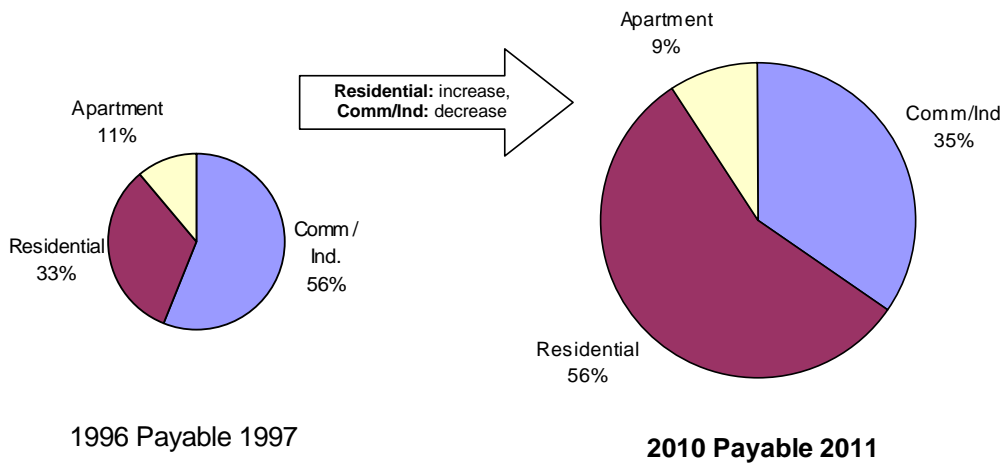
Apartments

The apartment market, although the most stable real estate sector for many years, struggled by the end of 2009. Some owners maintained rent levels by increasing concessions (a typical concession is one month free rent). Toward the end of 2009, some owners reduced rents to improve their occupancy. The key for all landlords is tenant retention. Although 54 apartment properties went into foreclosure in 2009, this number is a relatively small portion of the 3,243 apartment buildings in Minneapolis. GVA Marquette Advisors 4th Quarter reported that average overall rent for an apartment in Minneapolis non-downtown was \$814 per month in December 2009 with 5.9% vacancy. This rent is down from \$821 per month from the previous year. Rent in downtown Minneapolis was reported to be \$1197 per month. Although downtown has the highest reported rents in the metro area, the vacancy increased from 5.6% in December 2008 to 9.8% in December 2009. In 2010, the apartment tax base declined by 6.7 percent over 2009.

Residential

Consistent with national trends, residential property values in Minneapolis have been negatively impacted by foreclosures, short-sales and the current recession. Single family values peaked in early 2007 with a median citywide value of \$230,000, by 2010, that median property value declined to \$183,500 or a reduction of 20 percent in three years. During 2009, the Minneapolis Area Association of Realtors median sale price decreased from \$176,000 in 2008 to \$150,000 in 2009. Residential foreclosures sales in Minneapolis decreased 30 percent from 2,987 in 2008 to 2,081 in 2009, a sign that the foreclosure market is trending downward and a positive indicator for the Minneapolis residential market. In 2010, the residential tax base was reduced 4.4 percent over 2009.

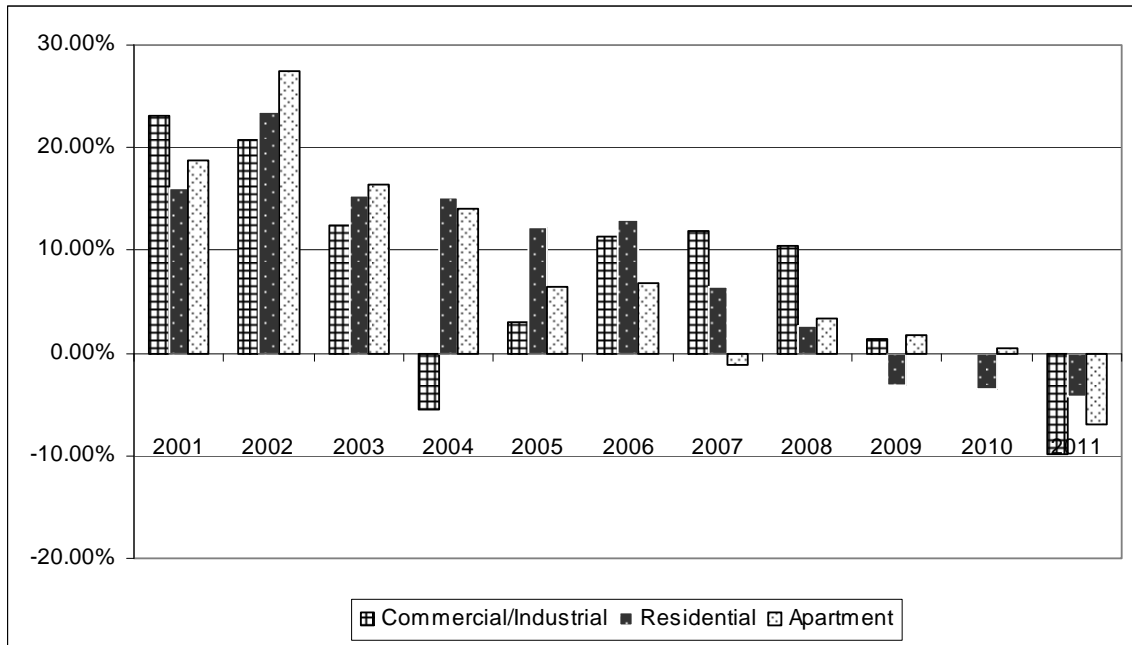
In summary, the Minneapolis real estate market will continue to work its way through the economic slowdown. Unlike real estate markets on either coast, none of Minneapolis's real estate sectors have been dealt a devastating blow by the recession. While Minneapolis is not immune to the current economic crunch, it does not function within a vacuum. Minneapolis has yet to see a Class "A" office building, major apartment complex or retail development turn their keys over to the lender. This bodes well for Minneapolis's diverse industries and balanced economic market place, its focused commitment to sound fundamental investing and its long-term planning in capital and infrastructure.



The changes in distribution of tax base are a function of both market conditions and changing class rates. The table below shows the growth or decline in the market value by the three main property type classifications from payable 2000 to 2011:

Payable	Change in Market Value		
	Commercial/Industrial	Residential	Apartment
2000	17.70%	9.50%	13.00%
2001	23.10%	16.00%	18.70%
2002	20.80%	23.40%	27.50%
2003	12.50%	15.40%	16.40%
2004	-5.50%	15.10%	14.10%
2005	3.00%	12.20%	6.50%
2006	11.40%	12.90%	6.80%
2007	11.80%	6.40%	-1.20%
2008	10.41%	2.63%	3.31%
2009	1.30%	-3.12%	1.82%
2010	-0.09%	-3.60%	0.53%
2011	-9.80%	-4.40%	-6.70%

Change in Market Value (2010, Payable 2011)



**2011 Adopted Budget
Property Tax Levies**

	2010 Adopted Levies	2011 Adopted Budget		
		2011 Adopted Levies	% Change from 2010	\$ Change from 2010
By Major Funds				
General Levies	\$264,804,932	\$277,357,000	4.7%	\$12,552,068
Special Levies Other*	\$2,250,000	\$2,250,000	0.0%	\$0
Grand Totals	\$267,054,932	\$279,607,000	4.7%	\$12,552,068

	2010 Adopted Levies	2011 Adopted Budget		
		2011 Adopted Levies	% Change from 2010	\$ Change from 2010
By Entity				
City**	\$210,016,652	\$220,840,000	5.2%	\$10,823,348
Park Board	\$45,488,280	\$47,217,000	3.8%	\$1,728,720
Library Referendum***	\$9,300,000	\$9,300,000	0.0%	\$0
Public Housing Authority	\$0	\$0	0.0%	\$0
Teachers' Retirement	\$2,250,000	\$2,250,000	0.0%	\$0
Grand Totals	\$267,054,932	\$279,607,000	4.7%	\$12,552,068

* Special Levies other Include; Chapter 595 (CPED), Public Housing Authority, Teachers' Retirement

** Includes General Fund, Permanent Improvement, Bond Redemption, Municipal Building Commission, Board of Estimate & Taxation, and closed pension funds (MERF,MPRA,MFRA)

***This remains a City obligation after the Library System consolidation

2011 Adopted Budget
Property Tax Levies

	2010 Adopted	2011 Adopted Budget		
		2011 Adopted Levies	% Change from 2010	\$ Change from 2010
Levy Only Entities				
Public Housing Auth	\$0	\$0	0.0%	\$0
Teachers Retirement	\$2,250,000	\$2,250,000	0.0%	\$0
Library Referendum***	\$9,300,000	\$9,300,000	0.0%	\$0
Board Estimate & Taxation	\$270,000	\$170,000	-37.0%	(\$100,000)
Perm. Imp Fund	\$1,700,000	\$1,900,000	11.8%	\$200,000
Bond Redemption Fund	\$16,141,429	\$18,500,000	14.6%	\$2,358,571
MERF	\$2,390,000	\$2,570,000	7.5%	\$180,000
MFRA	\$1,335,000	\$4,880,000	265.5%	\$3,545,000
MPRA	\$11,793,000	\$15,525,000	31.6%	\$3,732,000
Subtotals	\$45,179,429	\$55,095,000	21.9%	\$9,915,571
Levy & LGA Entities				
Municip Building Commission	\$4,413,217	\$4,285,000	-2.9%	(\$128,217)
Park & Recreation Board	\$45,488,280	\$47,217,000	3.8%	\$1,728,720
General Fund Levy	\$171,974,006	\$173,010,000	0.6%	\$1,035,994
Subtotals	\$221,875,503	\$224,512,000	1.2%	\$2,636,497
Grand Totals	\$267,054,932	\$279,607,000	4.7%	\$12,552,068

**2011 Adopted Budget
Activities Approach @ Certified LGA Amounts**

Activities Approach for Levy & LGA Entities	2010 Adopted	2011 Adopted Budget		
		2011 Adopted	% Change from 2010	\$ Change from 2010
Municip Building Commission				
Tax Levy \$\$	\$4,413,217	\$4,285,000		
Tax Rev \$\$	\$4,244,734	\$4,199,300	-1.07%	(\$45,434)
Trf to City General Fund OH	(\$45,000)	(\$48,672)	8.16%	(\$3,672)
LGA Rev	\$145,889	\$273,755	87.65%	\$127,866
MBC Activities	\$4,345,623	\$4,424,383	1.81%	\$78,760
Park & Recreation Board				
Tax Levy \$\$	\$45,488,280	\$47,217,000		
Tax Rev \$\$	\$43,680,614	\$46,272,660	5.93%	\$2,592,046
Trf to City General Fund OH	(\$811,687)	(\$895,837)	10.37%	(\$84,150)
Trf to City General Admin Fee	(\$121,056)	(\$125,899)	4.00%	(\$4,843)
Capital Projects from Levy	(\$1,528,800)	(\$1,589,952)	4.00%	(\$61,152)
LGA Rev	\$7,423,928	\$8,521,635	14.79%	\$1,097,707
Park Board Activities	\$48,642,999	\$52,182,607	7.28%	\$3,539,608
General Fund Levy				
Tax Levy \$\$	\$171,974,006	\$173,010,000		
Tax Rev \$\$	\$163,313,107	\$169,549,800	3.82%	\$6,236,693
Trf to County for Library System	(\$6,721,000)	(\$5,853,000)	-12.91%	\$868,000
MV Cr Pension Mgmt Plan set-aside	\$0	(\$6,200,000)	0.00%	(\$6,200,000)
Trf to Other Funds	(\$1,000,000)	(\$477,628)	-52.24%	\$522,372
Trf to Target Center Finance Plan	(\$92,000)	(\$92,000)	0.00%	\$0
Trf to Solid Waste Graffiti	(\$50,000)	(\$50,000)	0.00%	\$0
Capital Projects from Levy Residential Pvg	(\$5,000,000)	(\$9,000,000)	80.00%	(\$4,000,000)
One Time General Fund Capital	(\$6,460,000)	\$0	-100.00%	\$6,460,000
GFd OH Not recovered Park Bd	(\$1,287,025)	(\$1,798,575)	39.75%	(\$511,550)
GFd OH Not recovered from MBC	(\$184,927)	(\$179,158)	-3.12%	\$5,769
GFd OH Not recovered from Others	(\$3,004,803)	(\$1,246,234)	-58.53%	\$1,758,569
GFd OH Recovered from Others	(\$21,640,821)	(\$19,693,483)	-9.00%	\$1,947,338
Trf to Internal Service Fds Workout Plans	(\$25,205,000)	(\$22,604,000)	-10.32%	\$2,601,000
Trf to Pension Debt Service Sinking Fd	(\$8,702,400)	(\$17,856,792)	105.19%	(\$9,154,392)
Subtotal General Fund for Others	(\$79,347,976)	(\$85,050,870)	7.19%	(\$5,702,894)
General Fund Revenue	\$142,525,000	\$139,569,623	-2.07%	(\$2,955,377)
LGA Rev	\$56,416,914	\$78,744,610	39.58%	\$22,327,696
General Fund Activities	\$282,907,045	\$302,813,163	7.04%	\$19,906,118

Residential Property Tax – Sample Bills

Residential Property with Estimated Market Value Change of >>		0.0%			-5.0%			-10.0%		
2010	2011	%	\$	2011	%	\$	2011	%	\$	
		Change	Change		Change	Change		Change	Change	
Assessed Market Value (MV)	\$138,100	\$138,100	0.0%	\$0	\$131,195	-5.0%	(\$6,905)	\$124,290	-10.0%	(\$13,810)
Taxable Value	\$138,100	\$138,100	0.0%	\$0	\$131,195	-5.0%	(\$6,905)	\$124,290	-10.0%	(\$13,810)
Tax Capacity	\$1,381	\$1,381	0.0%	\$0	\$1,312	-5.0%	(\$69)	\$1,243	-10.0%	(\$138)
City Property Taxes										
Tax Capacity based Taxes	\$687	\$836	21.7%	\$149	\$785	14.3%	\$98	\$735	7.0%	\$48
MV Referendum Tax	\$35	\$37	5.7%	\$2	\$35	0.0%	\$0	\$33	-5.7%	(\$2)
Total City Property Taxes	\$722	\$873	20.9%	\$151	\$820	13.6%	\$98	\$768	6.4%	\$46
Utility Fees										
Water	\$293	\$307	4.8%	\$14	\$307	4.8%	\$14	\$307	4.8%	\$14
Sorm	\$133	\$137	3.0%	\$4	\$137	3.0%	\$4	\$137	3.0%	\$4
Sanitary Sewer	\$211	\$220	4.3%	\$9	\$220	4.3%	\$9	\$220	4.3%	\$9
Solid Waste Recycling	\$288	\$288	0.0%	\$0	\$288	0.0%	\$0	\$288	0.0%	\$0
Total Utilities	\$925	\$952	2.9%	\$27	\$952	2.9%	\$27	\$952	2.9%	\$27
Total City Property Taxes & Utility	\$1,647	\$1,825	10.8%	\$178	\$1,772	7.6%	\$125	\$1,720	4.4%	\$73
Residential Property with Estimated Market Value Change of >>		0.0%			-5.0%			-10.0%		
2010	2011	%	\$	2011	%	\$	2011	%	\$	
		Change	Change		Change	Change		Change	Change	
Assessed Market Value (MV)	\$216,000	\$216,000	0.0%	\$0	\$205,200	-5.0%	(\$10,800)	\$194,400	-10.0%	(\$21,600)
Taxable Value	\$216,000	\$216,000	0.0%	\$0	\$205,200	-5.0%	(\$10,800)	\$194,400	-10.0%	(\$21,600)
Tax Capacity	\$2,160	\$2,160	0.0%	\$0	\$2,052	-5.0%	(\$108)	\$1,944	-10.0%	(\$216)
City Property Taxes										
Tax Capacity based Taxes	\$1,175	\$1,408	19.8%	\$233	\$1,329	13.1%	\$154	\$1,249	6.3%	\$74
MV Referendum Tax	\$55	\$58	5.5%	\$3	\$55	0.0%	\$0	\$52	-5.5%	(\$3)
Total City Property Taxes	\$1,230	\$1,466	19.2%	\$236	\$1,384	12.5%	\$154	\$1,301	5.8%	\$71
Utility Fees										
Water	\$293	\$307	4.8%	\$14	\$307	4.8%	\$14	\$307	4.8%	\$14
Sorm	\$133	\$137	3.0%	\$4	\$137	3.0%	\$4	\$137	3.0%	\$4
Sanitary Sewer	\$211	\$220	4.3%	\$9	\$220	4.3%	\$9	\$220	4.3%	\$9
Solid Waste Recycling	\$288	\$288	0.0%	\$0	\$288	0.0%	\$0	\$288	0.0%	\$0
Total Utilities	\$925	\$952	2.9%	\$27	\$952	2.9%	\$27	\$952	2.9%	\$27
Total City Property Taxes & Utility	\$2,155	\$2,418	12.2%	\$263	\$2,336	8.4%	\$181	\$2,253	4.5%	\$98

Residential Property with Estimated Market Value Change of >>				0.0%			-5.0%			-10.0%		
	2010	2011	% Change	\$ Change	2011	% Change	\$ Change	2011	% Change	\$ Change		
Assessed Market Value (MV)	\$536,000	\$536,000	0.0%	\$0	\$509,200	-5.0%	(\$26,800)	\$482,400	-10.0%	(\$53,600)		
Taxable Value	\$536,000	\$536,000	0.0%	\$0	\$509,200	-5.0%	(\$26,800)	\$482,400	-10.0%	(\$53,600)		
Tax Capacity	\$5,450	\$5,450	0.0%	\$0	\$5,115	-6.1%	(\$335)	\$4,780	-12.3%	(\$670)		
City Property Taxes												
Tax Capacity based Taxes	\$3,178	\$3,765	18.5%	\$587	\$3,533	11.2%	\$355	\$3,302	3.9%	\$124		
MV Referendum Tax	\$135	\$143	5.9%	\$8	\$136	0.7%	\$1	\$129	-4.4%	(\$6)		
Total City Property Taxes	\$3,313	\$3,908	18.0%	\$595	\$3,669	10.7%	\$356	\$3,431	3.6%	\$118		
Utility Fees												
Water	\$293	\$307	4.8%	\$14	\$307	4.8%	\$14	\$307	4.8%	\$14		
Sorm	\$133	\$137	3.0%	\$4	\$137	3.0%	\$4	\$137	3.0%	\$4		
Sanitary Sewer	\$211	\$220	4.3%	\$9	\$220	4.3%	\$9	\$220	4.3%	\$9		
Solid Waste Recycling	\$288	\$288	0.0%	\$0	\$288	0.0%	\$0	\$288	0.0%	\$0		
Total Utilities	\$925	\$952	2.9%	\$27	\$952	2.9%	\$27	\$952	2.9%	\$27		
Total City Property Taxes & Utility	\$4,238	\$4,860	14.7%	\$622	\$4,621	9.0%	\$383	\$4,383	3.4%	\$145		
Residential Property with Estimated Market Value Change of >>				0.0%			-5.0%			-10.0%		
	2010	2011	% Change	\$ Change	2011	% Change	\$ Change	2011	% Change	\$ Change		
Assessed Market Value (MV)	\$1,417,500	\$1,417,500	0.0%	\$0	\$1,346,625	-5.0%	(\$70,875)	\$1,275,750	-10.0%	(\$141,750)		
Taxable Value	\$1,417,500	\$1,417,500	0.0%	\$0	\$1,346,625	-5.0%	(\$70,875)	\$1,275,750	-10.0%	(\$141,750)		
Tax Capacity	\$16,469	\$16,469	0.0%	\$0	\$15,583	-5.4%	(\$886)	\$14,697	-10.8%	(\$1,772)		
City Property Taxes												
Tax Capacity based Taxes	\$9,602	\$11,377	18.5%	\$1,775	\$10,765	12.1%	\$1,163	\$10,153	5.7%	\$551		
MV Referendum Tax	\$358	\$379	5.9%	\$21	\$360	0.6%	\$2	\$341	-4.7%	(\$17)		
Total City Property Taxes	\$9,960	\$11,756	18.0%	\$1,796	\$11,125	11.7%	\$1,165	\$10,494	5.4%	\$534		
Utility Fees												
Water	\$293	\$307	4.8%	\$14	\$307	4.8%	\$14	\$307	4.8%	\$14		
Sorm	\$133	\$137	3.0%	\$4	\$137	3.0%	\$4	\$137	3.0%	\$4		
Sanitary Sewer	\$211	\$220	4.3%	\$9	\$220	4.3%	\$9	\$220	4.3%	\$9		
Solid Waste Recycling	\$288	\$288	0.0%	\$0	\$288	0.0%	\$0	\$288	0.0%	\$0		
Total Utilities	\$925	\$952	2.9%	\$27	\$952	2.9%	\$27	\$952	2.9%	\$27		
Total City Property Taxes & Utility	\$10,885	\$12,708	16.7%	\$1,823	\$12,077	11.0%	\$1,192	\$11,446	5.2%	\$561		

Commercial/Industrial and Apartment Property Tax – Sample Bills

Commercial/Industrial Property with Estimated Pay 2011 Market Value Change of					0.0%			-5.0%			-10.0%		
	2010	2011	% Change	\$ Change	2011	% Change	\$ Change	2011	% Change	\$ Change			
Assessed Market Value (MV)	\$300,000	\$300,000	0.0%	\$0	\$285,000	-5.0%	(\$15,000)	\$270,000	-10.0%	(\$30,000)			
Tax Capacity	\$5,250	\$5,250	0.0%	\$0	\$4,950	-5.7%	(\$300)	\$4,650	-11.4%	(\$600)			
City Property Taxes													
Tax Capacity based Taxes	\$2,090	\$2,306	10.3%	\$216	\$2,306	10.3%	\$216	\$2,306	10.3%	\$216			
MV Referendum Tax	\$76	\$80	5.8%	\$4	\$76	0.5%	\$0	\$72	-4.8%	(\$4)			
Total City Property Taxes	\$2,166	\$2,386	10.2%	\$220	\$2,382	10.0%	\$216	\$2,378	9.8%	\$212			

Commercial/Industrial Property with Estimated Pay 2011 Market Value Change of					0.0%			-5.0%			-10.0%		
	2010	2011	% Change	\$ Change	2011	% Change	\$ Change	2011	% Change	\$ Change			
Assessed Market Value (MV)	\$10,350,000	\$10,350,000	0.0%	\$0	\$9,832,500	-5.0%	(\$517,500)	\$9,315,000	-10.0%	(\$1,035,000)			
Tax Capacity	\$205,500	\$206,250	0.4%	\$750	\$195,900	-4.7%	(\$9,600)	\$185,550	-9.7%	(\$19,950)			
City Property Taxes													
Tax Capacity based Taxes	\$81,813	\$90,587	10.7%	\$8,773	\$90,587	10.7%	\$8,773	\$90,587	10.7%	\$8,773			
MV Referendum Tax	\$2,614	\$2,766	5.8%	\$151	\$2,627	0.5%	\$13	\$2,489	-4.8%	(\$125)			
Total City Property Taxes	\$84,428	\$93,352.29	10.6%	\$8,925	\$93,214	10.4%	\$8,786	\$93,076	10.2%	\$8,648			

Apartment Property with Estimated Pay 2011 Market Value Change of					0.0%			-5.0%			-10.0%		
	2010	2011	% Change	\$ Change	2011	% Change	\$ Change	2011	% Change	\$ Change			
Assessed Market Value (MV)	\$380,000	\$380,000	0.0%	\$0	\$361,000	-5.0%	(\$19,000)	\$342,000	-10.0%	(\$38,000)			
Tax Capacity	\$4,750	\$4,750	0.0%	\$0	\$4,513	-5.0%	(\$238)	\$4,275	-10.0%	(\$475)			
City Property Taxes													
Tax Capacity based Taxes	\$2,772	\$3,281	18.4%	\$509	\$3,117	12.4%	\$345	\$2,953	6.5%	\$181			
MV Referendum Tax	\$96	\$102	5.8%	\$6	\$96	0.5%	\$0	\$91	-4.8%	(\$5)			
Total City Property Taxes	\$2,868	\$3,383	17.9%	\$514	\$3,214	12.0%	\$345	\$3,045	6.1%	\$176			

Apartment Property with Estimated Pay 2011 Market Value Change of					0.0%			-5.0%			-10.0%		
	2010	2011	% Change	\$ Change	2011	% Change	\$ Change	2011	% Change	\$ Change			
Assessed Market Value (MV)	\$686,000	\$686,000	0.0%	\$0	\$651,700	-5.0%	(\$34,300)	\$617,400	-10.0%	(\$68,600)			
Tax Capacity	\$8,575	\$8,575	0.0%	\$0	\$8,146	-5.0%	(\$429)	\$7,718	-10.0%	(\$858)			
City Property Taxes													
Tax Capacity based Taxes	\$5,005	\$5,924	18.4%	\$919	\$5,627	12.4%	\$622	\$5,331	6.5%	\$326			
MV Referendum Tax	\$173	\$183	5.8%	\$10	\$174	0.5%	\$1	\$165	-4.8%	(\$8)			
Total City Property Taxes	\$5,178	\$6,107	17.9%	\$929	\$5,802	12.0%	\$623	\$5,496	6.1%	\$318			