

**City of Minneapolis
2012 Budget
Financial Plan**

Property Services Fund

Background

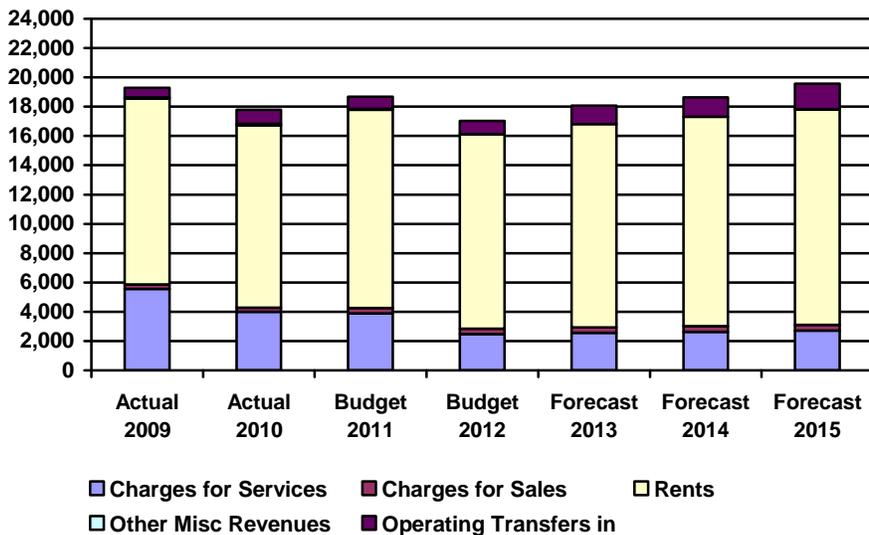
The Property Services Fund is an internal service fund responsible for the operations and maintenance for the majority of the City owned buildings including police precincts, fire stations, public works buildings, parking structures and specialty facilities. At this time, the fund does not provide any services to the Convention Center, City Hall, or the Minneapolis Park and Recreation Board facilities. The fund is also responsible for the Radio Shop which maintains the City’s emergency communications network and accounts for the coordination and management of special property projects. In 2004, the Property Services division assumed the responsibility for space and asset management and security management. In 2007, the division provided energy management for City properties.

In April 2011, the Property Services Fund was transitioned from the Public Works department to the Finance department within the City Coordinator. The activities in this fund will remain in an internal service fund and report to the Chief Financial Officer.

Historical Financial Performance

This fund collects revenue from the City departments that use its goods and services (building space, operational maintenance, security, space and asset management, energy management, janitorial and radio services). The proposed building and equipment rental rates charged to City departments are calculated through allocation models using historical and anticipated operational costs. The rate structure is configured to enable the fund to charge the amount required to recover the cost of the goods and services provided to City departments and the cost of the fund’s overhead.

Property Services Revenues
(in thousands of dollars)

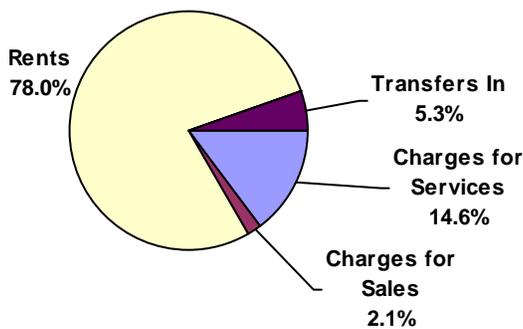


2012 Budget

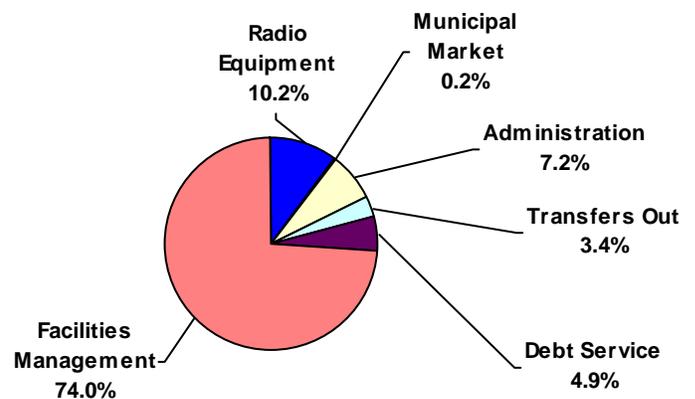
Revenues

The 2012 revenue budget for this fund is \$17.0 million, or a decrease of 17.7% from projected 2011 of \$20.7 million. The decrease in revenue is primarily related to the transition of two departments within this fund, Development Properties and Parking Facilities, to other City departments, resulting in a loss of revenue to Property Services for the services that this fund previously provided. In addition, the fund expects a decline in the demand for additional elective services provided to City departments. Included in this division's revenue budget is \$4.2 million of pass-through rent revenue collected from City departments that occupy City Hall and is remitted to the Municipal Building Commission, a charge that began in 2009.

**Source of Funds
(\$17 million)**



**Use of Funds
(\$17.5 million)**



Expense

The 2012 expense budget is \$17.5 million, a decrease of 13.9% from the projected 2011 of \$20.4 million. The decrease in expense is primarily related to the transition of two departments within the fund, Development Properties and Parking Facilities, to other City funds resulting in the elimination of costs related to maintaining these properties. In addition, operating expense are expected to decrease related to an anticipated decline in the demand for elective reimbursable services provided to other City departments. Included in this division's expense budget is \$4.2 million of pass-through cost for services provided by the Municipal Building Commission for maintaining the City's space in City Hall.

Transfers

The 2012 budget includes a transfer out of \$598,000 for debt service related to the Minneapolis Employees Retirement Fund (MERF) unfunded pension liability. This payment will retire bonds related to this debt service in 2012 resulting in substantial savings to the City and creating a large increase in this debt payment for the proprietary funds. The Property Service Fund will fund this payment using cash that is recorded in the Property Disposition Fund, a fund that is included within the Property Services Fund. The Property Disposition fund will be reimbursed for this payment through revenue generated by the increasing the rents for City buildings as determined by the rent allocation model for years 2013 through 2015.

The fund receives a transfer of \$514,000 in 2012 from the general fund which includes the cost of the general fund's portion of the debt service related to the 800MHz emergency communications project. In addition, the fund receives a transfer of \$380,000 from the general fund to cover the cost of City Hall rent.

Debt Service

The radio shop, a division of the Property Services, has management responsibility for the \$14.0 million 800 MHz radio system. The Property Services Fund recognizes the fixed asset, along with the debt related to this project. The radio shop is funding a portion of the City's public safety initiative through a contribution of \$350,000 a year.

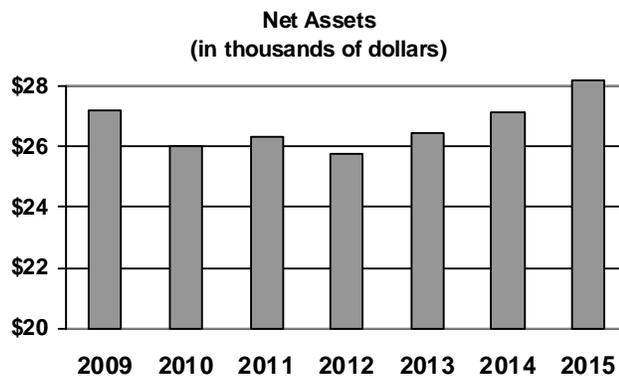
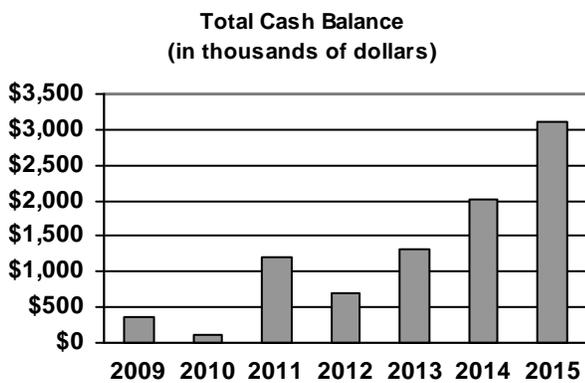
The debt service for 800 MHz radio system is funded as follows in 2012:

\$514,250	Transfer from the general fund
<u>\$350,000</u>	<u>Property services portion of debt</u>
\$864,250	Total debt service (Year 2012)

Net Assets and Cash Balance

The Property Services Fund has a positive net asset balance of \$26.0 million at year-end 2010, a decrease of \$1.2 million from the 2009 ending balance of \$27.2 million. The fund does not recover the cost of depreciation of the buildings or equipment which is included as assets of the fund. Because this cost is not recovered, the fund balance will continue to decline even though the fund recovers its operating costs through a rent allocation model. The financial policy for the net asset balance for the Property Services Fund determines that the value of net assets should not fall below two times the annual depreciation amount. The depreciation for Property Services in 2010 is \$1.1 million. The 2010 net asset balance of \$26.0 million is \$23.8 million greater than the benchmark amount.

The 2010 year-end cash balance is \$126,000, a decrease of 64.3% from the 2009 year-end balance of \$353,000. The projected 2011 ending cash balance is \$1.2 million which is a substantial increase from the 2011 budgeted amount of a deficit of \$195,000. The fund receives the proceeds from the sale of City property and records the proceeds in the Property Disposition fund. The sale of City property in 2011 increased the cash balance of the fund. In 2010, a target cash balance reserve was established for the internal service funds. The minimum balance is equal to 15% of the operating budget.



Mayor's Recommended Budget

The Mayor recommended an acceleration of the General Fund transfers to the Property Services Fund from the 2011 Adopted plan. The proposed transfer schedule is \$514,000 in 2012; \$872,000 in 2013; \$939,000 in 2014; and \$1.374M in 2015. By accelerating the transfer schedule, capacity is created in the near future to hold down property tax levy increases, while maintaining the financial integrity of the fund.

Council Adopted Budget

The Council adopted the Mayor's recommendations.

City of Minneapolis
2012 Budget
Financial Plan (in thousand of dollars)
Property Services Fund - 06200

	2009	2010	2011	2011	2012	% Chg	2013	2014	2015
	Actual	Actual	Budget	Projected	Budget	From 2011 Projected	Forecast	Forecast	Forecast
Source of Funds:									
Charges for Services	5,551	4,003	3,893	6,200	2,486	-59.9%	2,561	2,637	2,717
Charges for Sales	327	284	355	300	355	18.3%	366	377	388
Rents	12,670	12,428	13,548	13,300	13,281	-0.1%	13,879	14,290	14,713
Other Misc Revenues	83	122	61	50	3	-94.0%	3	3	3
Transfers In	655	951	821	821	894	8.9%	1,252	1,319	1,754
Total	19,285	17,788	18,678	20,671	17,019	-17.7%	18,061	18,626	19,574
Use of Funds:									
Property Services Administration	1,357	1,508	1,852	1,600	1,267	-20.8%	1,306	1,345	1,385
Radio Equipment	1,550	1,409	1,804	1,500	1,793	19.5%	1,847	1,902	1,959
Municipal Market	6	16	21	21	40	90.5%	41	42	44
Facilities Management	15,347	14,146	14,214	16,130	12,971	-19.6%	13,360	13,761	14,173
Debt Service	877	838	880	880	864	-1.8%	873	886	918
Transfers Out	97	925	228	228	598	162.3%	-	-	-
Total	19,234	17,919	18,999	20,359	17,533	-13.9%	17,427	17,937	18,480
Change in Net Assets	(226)	(1,219)	(321)	312	(514)		633	689	1,094
Net Assets	27,210	25,991	25,670	26,303	25,789		26,423	27,112	28,206
Total Cash Balance	353	126	(195)	1,206	692		1,326	2,015	3,109
Operating Cash balance¹	(1,556)	(944)	(1,265)	(312)	(826)		(192)	497	1,591
Target Cash Reserve²	353	890	1,426	1,426	1,963		2,500	2,500	2,500
Variance Cash to Target Cash Reserve	(1,909)	(764)	(1,621)	(1,738)	(2,789)		(2,692)	(2,003)	(909)

¹ Total cash balance is the sum of cash recorded to the Property Dispositon fund and to the Property Services fund. Operating cash is the cash balance generated from Property Service fund operations and recorded in the Property Services fund.

² The target cash reserve policy for internal services establishes a minimum cash balance at 15% of the operating budget. The reserve amounts were determined April 2010.

Note: Source and use of funds forecasts were calculated using a factor of 3.0% to capture increases in costs and revenues.