

**City of Minneapolis
2014 Budget
Financial Plan**

Property Services Fund

Background

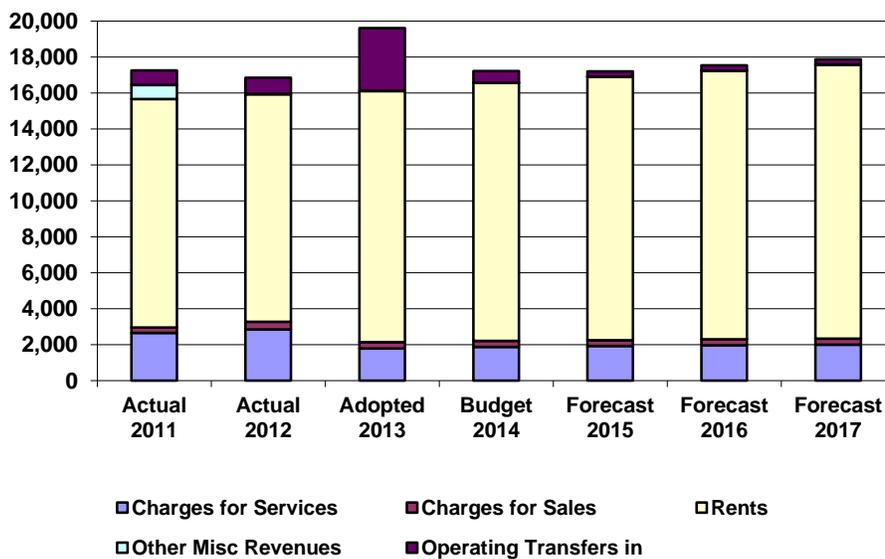
The Property Services Fund is an internal service fund responsible for the operations and maintenance for the majority of the City-owned buildings including police precincts, fire stations, public works buildings, parking structures and specialty facilities. At this time, the fund does not provide any 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 began providing energy management services 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 remain 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 charges to City departments are calculated through cost allocation models using historical and anticipated operational costs. The cost recovery structure is configured to enable the fund to charge the amounts required to recover the cost of the goods and services provided to City departments and the cost of the fund's overhead.

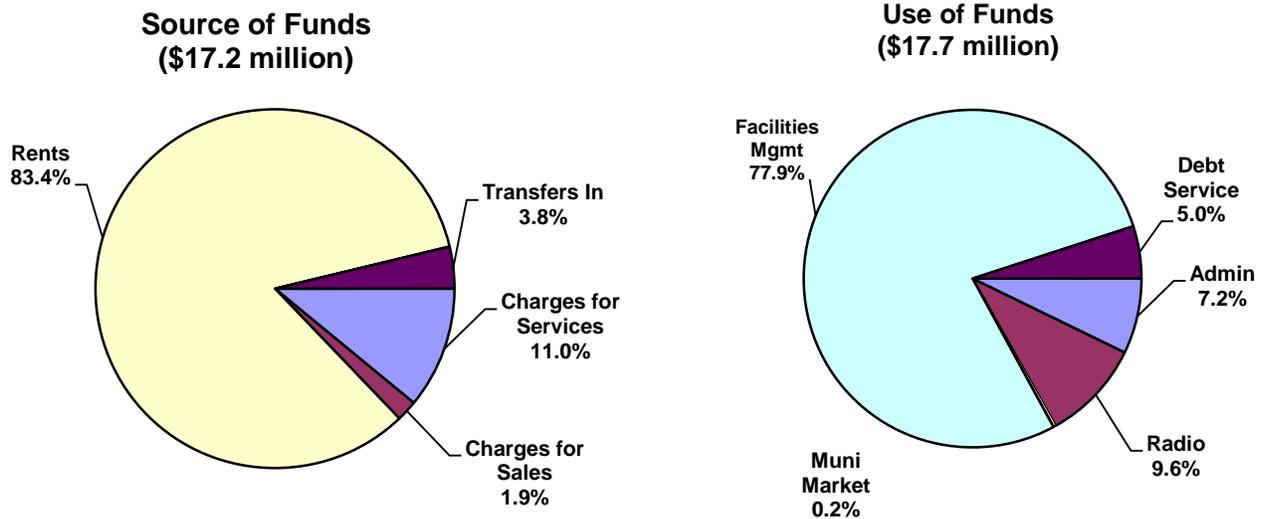
Property Services Revenues
(in thousands of dollars)



2014 Budget

Revenues

The 2014 revenue budget for this fund is \$17.2 million, or a decrease of 13.6% from projected 2013 revenue of \$19.9 million. The decrease in revenue is primarily related to a decrease in non-operating revenue due to a reduction in the transfer from the general fund from \$3.5 million in 2013 to \$0.6 million in 2014.



Expense

The 2014 expense budget is \$17.7 million, an increase of 4.2% from projected 2013 expense of \$17.0 million. The increase in expense is primarily related to expected increases in costs for Facilities Management and planning services. There are additional funds requested for 2.5 additional full-time positions. Also included in this fund's expense budget is \$4.5 million of pass-through cost for services provided by the Municipal Building Commission for maintaining the City's space in City Hall.

Transfers

The 2014 expense budget does not include any transfers to other City funds. The final transfer for debt service related to the Minneapolis Employees Retirement Fund (MERF) unfunded pension liability occurred in 2012 and totaled \$598,000. This payment retired the bonds related to this debt service, resulting in substantial savings to the City. The cash balance in the Property Disposition Fund, which is included in the Property Services Fund, provided payment for this debt. The Property Disposition fund will be reimbursed for this payment through revenue generated by increasing the rents for City buildings as determined by the rent cost allocation model for years 2013 through 2015.

The fund received a transfer of \$3.5 million in 2013 from the general fund which included \$3.2 million for the general fund's portion of the debt service related to the 800MHz emergency communications project for years 2013 through 2018. The 2014 transfer of \$301,206 is intended to cover the cost of City Hall rent that Property Services pays for space it occupies in City Hall. An additional transfer of \$345,000 will cover security enhancement projects as part of the CARs budget process.

Debt Service

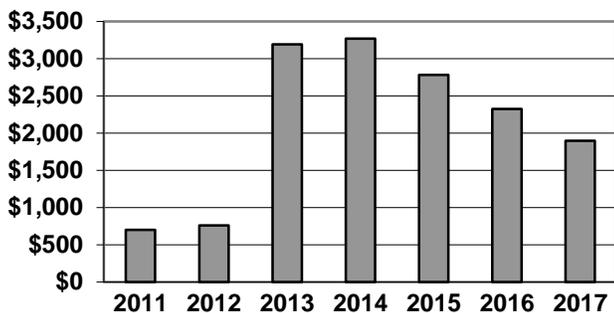
The Radio Shop, a division of Property Services, has management responsibility for the \$14.0 million 800 MHz radio system. The Property Services Fund recognizes the fixed asset, along with the debt related to this project. The Radio Shop is funding a portion of the City's public safety initiative through a contribution of \$350,000 a year. As noted above, the general fund transfer for debt service in 2013 covered the years 2014 through 2018 and there will be no further transfers for debt service. Total debt service for 2014 is \$886,350.

Net Assets and Cash Balance

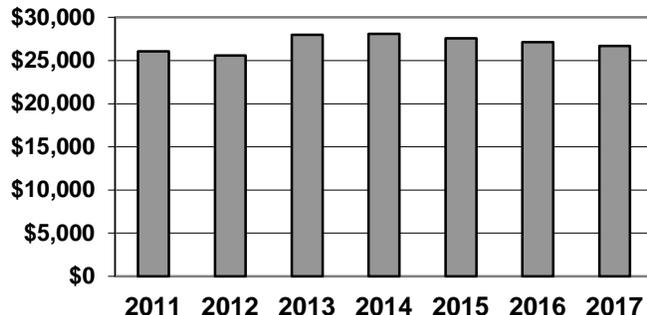
The Property Services Fund has a positive net asset balance of \$25.6 million at year-end 2012, a decrease of \$(491,000) from the 2011 ending balance of \$26.1 million. The fund does not recover the cost of depreciation of the buildings or equipment included as assets of the fund. Because this cost is not recovered, the fund balance will continue to decline even though the fund recovers its operating costs through a rent cost allocation model. The fund is also experiencing a decline in net assets due to the loss of income resulting from vacant space in the downtown campus City buildings. Beginning in 2014, unutilized space will be allocated to the General Fund. The financial policy for the net assets for the Property Services Fund determines that the net assets should not fall below two times the annual depreciation amount. The depreciation for Property Services in 2012 is \$1.1 million. The 2012 net asset balance of \$25.6 million is \$23.4 million greater than the benchmark amount.

The 2012 year-end cash balance was \$762,000, an increase of \$63,000 from the 2011 year-end balance of \$699,000. The Property Services Fund cash balance includes operating cash and the cash balance in the Property Disposition, a fund that receives proceeds from the sale of City property. The cash balance in the Property Disposition Fund at year end 2012 was \$1.4 million, leaving a deficit balance of \$(0.6 million) in operating cash. Financial reserve policies for the internal service funds determine that the cash reserve for the Property Services fund should not be less than 15% of the operating budget, or \$1.9 million for 2012.

Total Cash Balance
(in thousands of dollars)



Net Assets
(in thousands of dollars)



City of Minneapolis
2014 Budget
Financial Plan (in thousand of dollars)
Property Services Fund - 06200

| | 2011 Actual | 2012 Actual | 2013 Budget | 2013 Projected | 2014 Budget | % Chg From 2013 Projected | 2015 Forecast | 2016 Forecast | 2017 Forecast |
|---|----------------|----------------|----------------|-------------------|----------------|---------------------------------|------------------|------------------|------------------|
| Source of Funds: | | | | | | | | | |
| Charges for Services | 2,657 | 2,857 | 1,785 | 2,236 | 1,889 | -15.5% | 1,926 | 1,965 | 2,004 |
| Charges for Sales | 298 | 427 | 360 | 450 | 324 | -28.0% | 330 | 337 | 344 |
| Rents | 12,700 | 12,637 | 13,966 | 13,750 | 14,351 | 4.4% | 14,638 | 14,931 | 15,229 |
| Other Misc Revenues | 781 | 23 | 3 | 4 | 3 | -25.0% | 3 | 3 | 3 |
| Transfers In | 821 | 894 | 3,493 | 3,493 | 646 | -81.5% | 300 | 300 | 300 |
| Total | 17,257 | 16,838 | 19,607 | 19,933 | 17,213 | -13.6% | 17,198 | 17,536 | 17,881 |
| Use of Funds: | | | | | | | | | |
| Property Services Administration | 1,538 | 1,286 | 1,386 | 1,310 | 1,276 | -2.6% | 1,301 | 1,327 | 1,353 |
| Radio Equipment | 1,459 | 1,631 | 1,766 | 1,730 | 1,697 | -1.9% | 1,731 | 1,766 | 1,801 |
| Municipal Market | 26 | 33 | 41 | 40 | 41 | 1.5% | 41 | 42 | 44 |
| Facilities Management | 12,988 | 12,570 | 13,109 | 13,010 | 13,768 | 5.8% | 14,043 | 14,324 | 14,611 |
| Debt Service | 880 | 864 | 873 | 873 | 886 | 1.5% | 918 | 894 | 869 |
| Transfers Out | 421 | 598 | - | - | - | | - | - | - |
| Total | 17,312 | 16,982 | 17,175 | 16,963 | 17,668 | 4.2% | 18,035 | 18,353 | 18,677 |
| Change in Net Position | 71 | (491) | 2,432 | 2,970 | (455) | | (837) | (817) | (796) |
| Net Position | 26,062 | 25,571 | 28,003 | 28,541 | 28,086 | | 27,249 | 26,432 | 25,635 |
| Total Cash Balance | 699 | 762 | 3,194 | 3,732 | 3,276 | | 2,440 | 1,623 | 826 |
| Operating Cash balance¹ | (699) | (618) | 1,814 | 2,351 | 1,896 | | 1,059 | 242 | (554) |
| Target Cash Reserve² | 1,426 | 1,920 | 1,818 | 1,818 | 1,904 | | 1,954 | 2,006 | 2,059 |
| Variance Operating Cash to Target Cash Reserve | (2,125) | (2,538) | (4) | 533 | (8) | | (895) | (1,764) | (2,613) |

¹ Total cash balance is the sum of cash recorded to the Property Disposition 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 is in accordance with the financial reserve policy for internal service funds. The cash reserve for the Property Services Fund should be equal to 15% of the operating budget at a minimum. For years 2010 and 2011, the target cash is a phase-in amount.

Note: The 2014-2016 forecasts for source and use of funds are calculated using a factor of 2.0% to capture increases in revenues and expense.