Financial Overview

City of Minneapolis
FY 2009 Revised Budget

Financial Overview
Prepared by the City of Minneapolis Finance Department

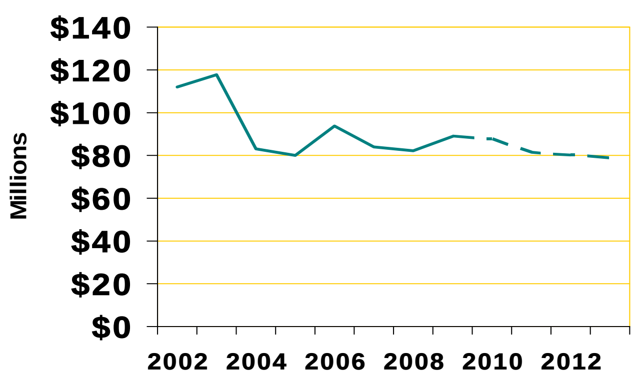
The 2009 revised budget for all City funds remains at $1.4 billion, a constant spending level from the 2008 adopted budget. The revised budget recommends a property tax revenue increase of 8% over 2008 levels, consistent with the adopted 8% property tax revenue policy.

2008 Reduction to the Budget Reserve
In December 2008, the Governor exercised his authority to “unallot” or unilaterally reduce various state appropriations. The appropriation directly impacting the City of Minneapolis is Local Government Aid (LGA). The City’s LGA was reduced by $13.2 million as a result of these actions. Because the action occurred with only one week remaining in the City’s fiscal year, the City reduced its budget reserves to address the shortfall.

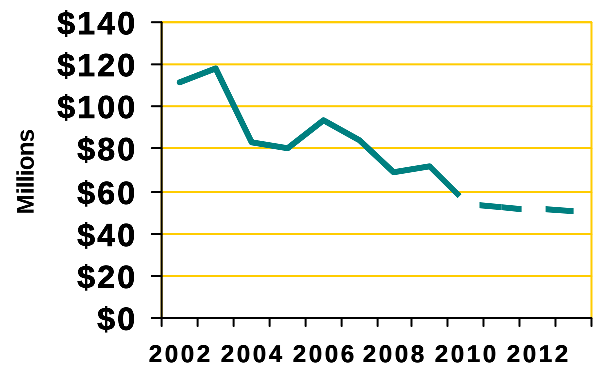
The budget reserve serves as both the City’s budgetary reserve and cash flow reserve. The City’s adopted financial policies require a budget reserve equal to 15 percent of the following year’s revenue budget amount, which would be approximately $55 million at the end of fiscal year 2008. The unallotment action resulted in a reserve below the stated policy. The City took action in 2009 to rebuild reserves which were significantly depleted as a result of the unallotment.

2009 Supplemental Budget Recommendations
In February, the Governor released his budget recommendations to balance the state’s projected deficit. The recommendations included a reduction in LGA of $16.9 million in 2009 and an additional $18 million in 2010, for an ongoing impact over the next two years of $35 million. The following tables show the historical LGA appropriations, both the certified amounts and with the Governor’s proposed revisions:

Certified LGA 2002-2013



Citywide LGA 2002-2013
(with reductions)



The City’s adopted financial policies include a formula for distributing LGA among the City’s general fund and the independent boards as shown in the following table:

City and Independent Boards: 2009 LGA Reduction Distribution

City General Fund	-$14,821,308
Park Board	-$ 1,990,069
Municipal Building Commission	-$ 50,755
Total 2009 Proposed Reduction	**-$16,862,131**

The revised budget does not impact the independent boards that are not included in the distribution of LGA. These boards include the Minneapolis Public Housing Authority, the Youth Coordinating Board and the Neighborhood Revitalization Program Policy Board.

Major Highlights

The 2009 revised budget builds on many of the significant organizational and financial changes that have occurred in recent years. It is important to be aware of these major changes when making comparisons between budget years.

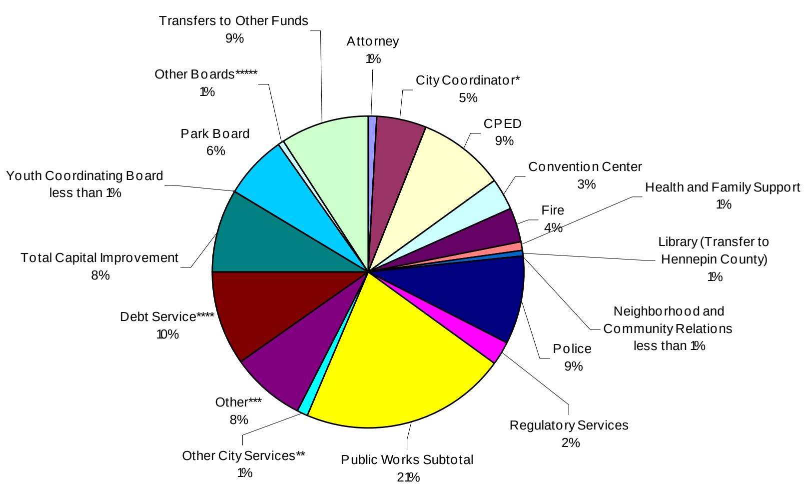
The major changes include:

- The Council approves additional capital funding for the Infrastructure Acceleration Program, which includes paving projects, street lighting, parkway paving, parkway lighting, pavement and bikeway maintenance and park infrastructure improvements ($5.5 million annually for 5 years).
- The five-year financial direction adopted in December 2008 was balanced in all five years. Due to the extraordinary circumstances and short timeline for consideration of solutions, expenditures for 2010-2014 have not yet been adjusted for shortfalls related to the additional pension costs and proposed reductions in local government aid pending final legislative action. Estimated changes related to revenue loss from the decertification of TIF districts are included in 2011 and beyond.
- The 2009 revised budget includes establishment of a department of Neighborhood and Community Relations, including funding for neighborhood investment and innovation, neighborhood administration and City infrastructure.

City Spending

Below is a summary of the 2009 revised budget by major spending categories, which includes transfers between funds and the independent boards.

Total Expense Budget – Use of Funds
2009 Revised budget
$1.4 billion



Expenditures by Service

(In Millions of Dollars)

	2008 Adopted Budget	2009 Revised Budget
Attorney	12.8	13.5
City Coordinator*	69.6	71.2
CPED	155.7	125.3
Convention Center	40.4	45.7
Fire	50.8	51.3
Health and Family Support	13.6	13.4
Library (Transfer to Hennepin County)	22.1	7.5
Neighborhood and Community Relations	0.0	1.0
Police	127.5	128.4
Regulatory Services	30.0	32.7
PW - Administrative Services	2.9	2.6
PW - Eng. Materials & Testing	2.9	1.7
PW - Fleet	33.2	42.1
PW - Property Services	16.4	21.9
PW - Solid Waste	31.3	32.5
PW - Traffic and Parking	50.8	50.1
PW - Transportation Maintenance and Repair	32.2	32.6
PW - Transportation Planning and Engineering	10.8	14.3
PW - Water Treatment & Distribution	44.8	47.9
Surface Water & Sewers	53.9	55.3
Public Works Subtotal	**279.2**	**301.1**
*Other City Services***	*16.0*	*17.0*
*Other****	*102.1*	*107.0*
Debt Service****	137.6	138.3
Total Capital Improvement	134.2	119.2
Subtotal	***380.2***	***372.7***
Youth Coordinating Board	1.9	1.9
Park Board	88.3	90.3
*Other Boards*******	*8.3*	*10.2*
Subtotal	***98.5***	***102.5***
Total Expenditures Without Transfers	1,291.6	1,276.5
Transfers to Other Funds	118.6	128.1
TOTAL DEPARTMENTS	**1,410.2**	**1,404.6**

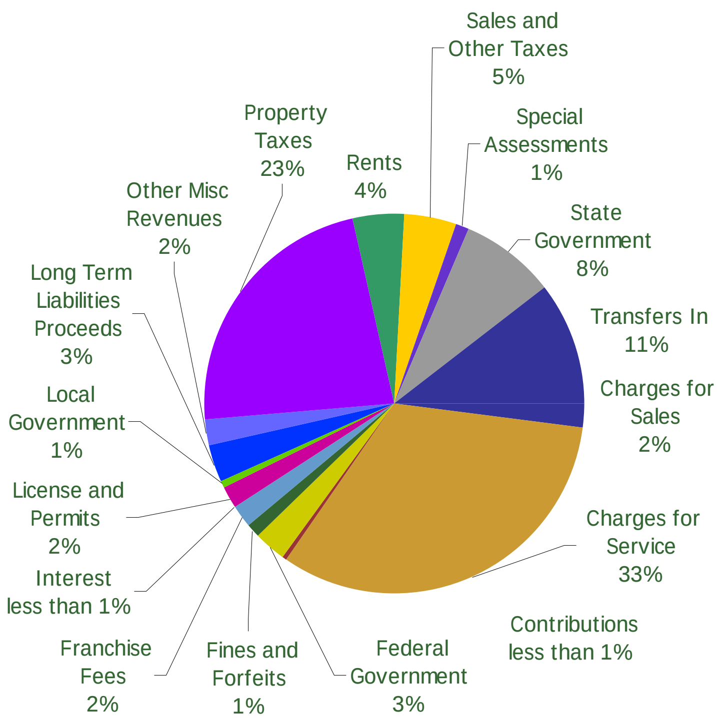
*Includes Human Resources, Finance, 911/311, Intergovernmental Relations, Communications and BIS
**Includes Assessor, City Clerk/Elections/Council, Civil Rights & Mayor
***Includes Non-departmental, Health and Welfare, Workers' Compensation, Liability, Contingency and pensions
****Does not include debt service paid directly from proprietary funds or by independent boards
*****Includes Neighborhood Revitalization Program, Board of Estimate and Taxation and Municipal Building Commission

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 2009 revised budget revenues by major category.

Total City Revenue Budget – Source of Funds
2009 Revised budget
$1.4 billion



In 2009, the City forecasts $1.4 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 those 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 by State law. Like many Minnesota cities, Minneapolis pays for other City services (police, fire, streets, parks, etc.) with property taxes and LGA.

REVENUES BY MAJOR CATEGORY
(in millions of dollars)

	2008 Adopted Budget	2009 Council Revised
Charges for Sales	30.9	28.8
Charges for Service	422.3	447.0
Contributions	3.0	2.1
Federal Government	68.1	41.4
Fines and Forfeits	12.3	12.1
Franchise Fees	27.1	28.1
Gains	0.2	0.2
Interest	3.6	3.3
License and Permits	27.6	28.2
Local Government	11.2	8.6
Long Term Liabilities Proceeds	49.0	54.8
Other Misc Revenues	29.2	29.4
Property Taxes	330.0	323.1
Rents	57.6	60.9
Sales and Other Taxes	58.0	59.5
Special Assessments	10.8	17.9
State Government	119.0	118.1
Transfers In	121.2	158.1
Total Revenues	**1,381.3**	**1,421.5**

LGA is reflected in the State Government line. Please note that a technical correction in other State Government items offsets the LGA loss.

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 2009 revised budget anticipates the total franchise fee revenue to increase slightly from the 2008 adopted budget, from $27.1 million in 2008 to $28.1 million in 2009.

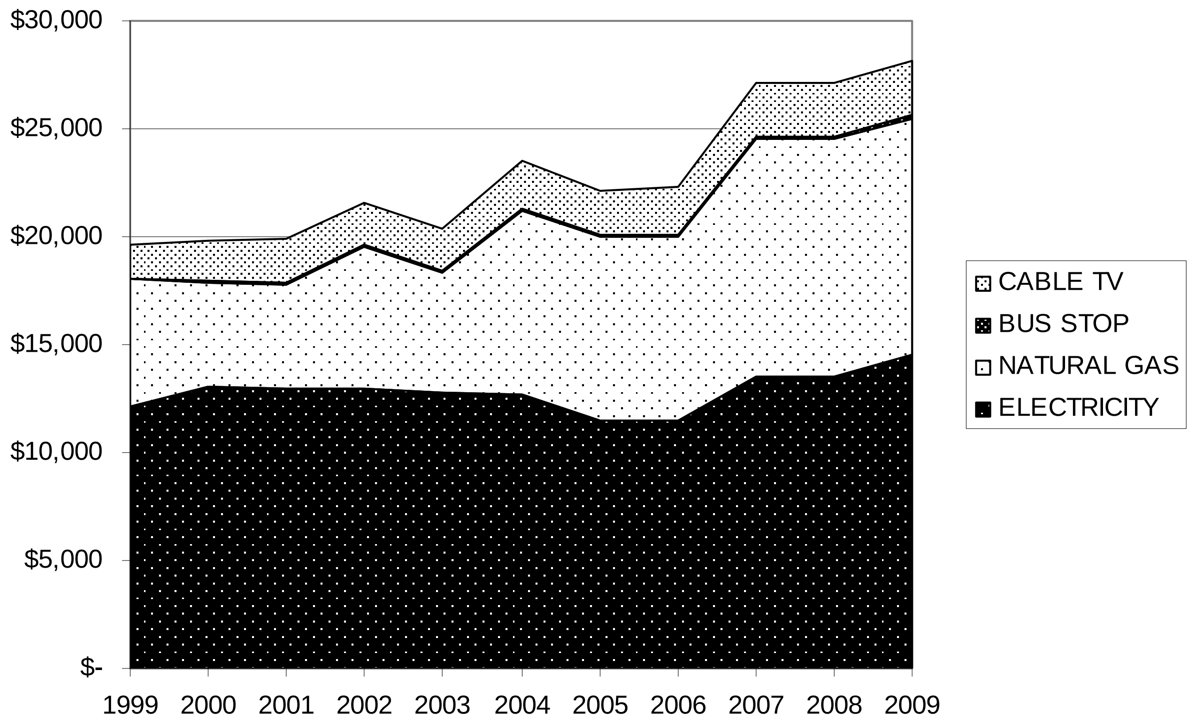
There are four franchise agreements that provide revenue for the City. The franchise agreement with Xcel Energy for electricity (Xcel does not provide natural gas services in Minneapolis) requires the company to pay the City 5 percent of its gross revenues for Minneapolis residential service customers, 3 percent of gross revenues for Minneapolis commercial/industrial customers, and 5 percent 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. For 2009, the revised budget anticipates Xcel will pay the City $14.5 million from this agreement.

The franchise agreement with CenterPoint Energy for natural gas requires the company to pay the City 4.25 percent of gross revenues for Minneapolis residential buildings with four units or less, 5 percent 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 percent for large volume interruptible customers. This franchise agreement expires on Dec. 31, 2015. For 2009, the revised budget anticipates CenterPoint Energy will pay the City $11 million from this agreement.

The city also has two smaller franchises. The bus stop advertising franchise will generate approximately $110,000 in revenues for the City in 2009, and the City's cable television franchise is anticipated to generate more than $2.5 million for the City in 2009. Comcast collects this "franchise 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 2009. 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 during cable installations, provides continuous availability of PEG access channels and protects consumer rights.

Franchise Fee Revenue 1999-2009
(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 26 percent of the 2009 revised budget.

Enterprise Funds include services that the City provides that operate more like a "business" in that they are expected to generate a profit to cover capital purchases and related debt service requirements. 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. However, Internal Service Funds' primary customers are other City departments. Internal services include such services as information technology, equipment rental (*e.g.* police squad cars and fire equipment), facility fees and workers compensation insurance.

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, operating costs, contractual services and equipment. These funds support the convention center, health and family support, public safety, and ongoing support of closed pension funds.

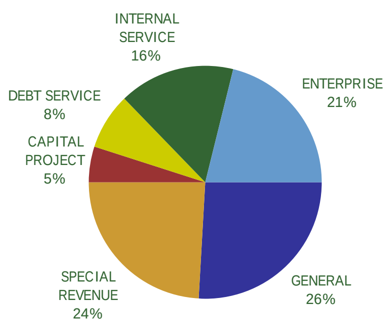
Debt service funds are used to pay interest and principal on City debt.

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

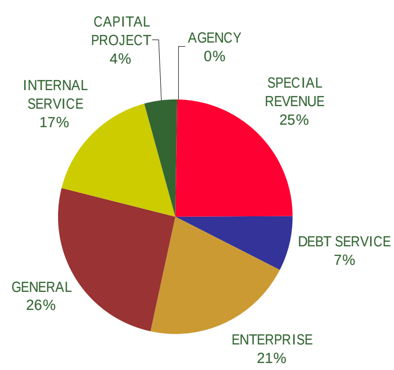
	2008 Adopted Budget	2009 Revised Budget	Pct Increase
Expense:			
GENERAL	360.7	363.8	0.9%
SPECIAL REVENUE	365.1	338.9	-7.2%
CAPITAL PROJECT	79.5	70.0	-11.9%
DEBT SERVICE	114.4	110.0	-3.9%
INTERNAL SERVICE	205.1	223.5	9.0%
ENTERPRISE	285.4	298.3	4.5%
Total	**1,410.2**	**1,404.6**	**-0.4%**

	2008 Adopted Budget	2009 Revised Budget	Pct Increase
Revenue:			
AGENCY	0.0		0.0%
GENERAL	360.7	363.8	0.9%
SPECIAL REVENUE	359.2	351.9	-2.0%
CAPITAL PROJECT	76.3	63.5	-16.7%
DEBT SERVICE	77.7	105.6	35.9%
INTERNAL SERVICE	216.9	240.2	10.7%
ENTERPRISE	290.6	297.3	2.3%
Total	**1,381.3**	**1,422.3**	**3.0%**

Total City Expense Budget by Fund
2009 Revised budget
$1.4 Billion



Total City Revenue Budget by Fund
2009 Revised budget
$1.4 Billion

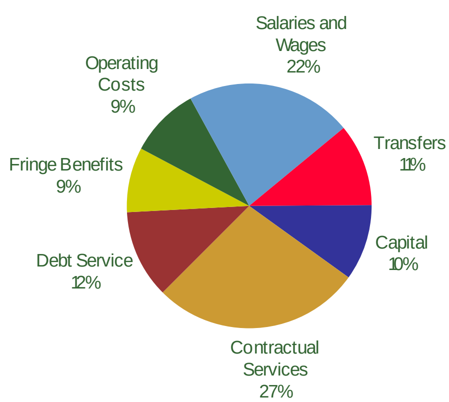


A significant amount of the City's budget is spent on personnel, $410 million or nearly 30 percent of the total budget. The 2009 revised budget includes an overall decrease of 69 budgeted full-time equivalent positions.

Spending by Major Categories

	2008 Adopted Budget	2009 Council Revised
Fringe Benefits	105.9	113.9
Salaries and Wages	294.4	295.7
Capital	185.1	165.0
Contractual Services	365.7	368.5
Debt Service	173.8	175.7
Operating Costs	120.3	126.1
Transfers	164.8	159.7
TOTAL	**$1,410.2**	**1,404.6**

Total City Budget – Expenditures by Category
2009 Revised budget
$1.4 billion



Major Budget Pressures:

➢ **Funding for physical infrastructure**

Five-Year Capital Program Totals**:** For 2009 – 2013, the five-year capital program for City departments, independent boards and commissions totals $521.7 million including all funding sources. The 2009 portion of this program is $107.6 million. Property tax supported net debt bonds (NDB) help to leverage many funding sources in the five-year plan. Below are highlights of certain NDB totals (in millions) - more details are contained later in this document.

Accelerated Infrastructure Program: In addition to the property tax supported funding indicated, this budget includes an expanded capital program of $31.85 million over the five years to provide additional investment in paving projects, street lighting, parkway paving, parkway lighting, pavement and bikeway maintenance and park infrastructure improvements. Funding for this expansion is coming from the use of Hilton Trust funds, net debt bonds and related assessments – see details later in the document. The Park Board is receiving 10% of new capital expansion funding because its assets are approximately 10% of the City's total assets.

	2009	2010	2011	2012	2013	Totals
Paving	$4.85	$4.85	$4.85	$4.85	$4.15	$23.55
Lighting	$1.06	$1.06	$1.06	$1.06	$1.06	$5.30
Bike Trail Maintenance	$0.10	$0.10	$0.10	$0.10	$0.10	$0.50
Park Infrastructure	$0.50	$0.50	$0.50	$0.50	$0.50	$2.50
Total New Capital Expansion	$6.51	$6.51	$6.51	$6.51	$5.81	$31.85

Property Tax Supported – Public Works: The 2009 budget includes $12.47 million in property tax supported (NDB) funding for Public Works capital. Below is a summary of the 2009 -2013 NDB allocation for the Public Works infrastructure program, including some Park related assets.

	2009	2010	2011	2012	2013
Net Debt Bond funding	$12.47	$10.41	$9.81	$14.05	$13.97

Park Board Infrastructure Funding: The 2009 budget includes $2.14 million for Park Board Infrastructure improvements including $1.5 million of Park capital levy dollars, $0.14 million of net debt bonds and $0.5 million of capital expansion funding. Also shown are $2.99 million of net debt bonds, assessments and expansion funding programmed in the public work's capital budget for parkway paving and parkway lighting programs. Below is a summary of the total 2009–2013 funding for park board capital improvements. The Park Capital Infrastructure line includes $1.5 million of capital levy, $0.5 million of expansion funding and the balance for each year is net debt bonds.

	2009	2010	2011	2012	2013
Park Capital Infrastructure	$2.14	$2.35	$2.40	$2.00	$2.00
Parkway Paving	$2.71	$0.16	$0.16	$0.71	$0.71
Parkway Lighting	$0.29	$0.30	$0.30	$0.30	$0.30
Total Park Board Capital Improvements	$5.14	$2.81	$2.86	$3.01	$3.01

Property Tax Supported – Miscellaneous and BIS Technology Projects: The 2009 budget includes $4.50 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 utilize 22.3% of the available net debt bond funds in the five-year plan. Below is a summary of the 2009 -2013 net debt funding for miscellaneous and technology projects.

	2009	2010	2011	2012	2013
Net Debt Bond funding	$4.50	$3.21	$5.28	$3.42	$3.91

Utility Fee Supported Capital: The 2009 - 2013 budget includes funding for additional water and sewer related infrastructure expenditures. The utility rates proposed for 2009 – 2013 are higher than last year's adopted plan primarily due to increasing the inflation assumption for future operating cost increases from 3% to 4% to reflect the unique cost increases in these activities. In addition, the rate recommendations accelerate improvement of the cash positions in the enterprise funds to be in compliance with City financial policies. Sanitary sewer fee increases were primarily due to increased capital expenditures required in response to Metropolitan Council demands for less "clean" water in the Sanitary System and increased treatment costs. Rate details for the Sewer and Water funds can be found later in this document.

Relationship between the Capital and Operating Budgets: As part of each capital budget request, departments and independent boards are required to identify whether the capital request will result in an increase or decrease in annual operating costs. The CLIC ranking process provides for adding or subtracting up to 25 points out of 310 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 positive points in the project rating process.

- **State authorized financing for Target Center and neighborhoods**

Background

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

During the 2008 session, the Minnesota Legislature authorized the City to establish a non-contiguous redevelopment tax increment finance (TIF) district. If established, this district will be comprised of properties commonly know as "pre-1979" TIF districts, which are scheduled to end in 2009. The earliest year the tax increment revenue can be realized is in 2011. Without further action by the City, the current districts will go back into the tax base during 2009, increasing the tax base in 2010, resulting in property tax relief for many property owners.

Under the special legislation, tax increment from the district may be expended only to pay principal and interest on Target Center bonds or for "neighborhood revitalization purposes." The legislation does not specify or require any particular allocation of revenues between these purposes.

The legislation also explicitly states that the certification of the district does not impact the City's "property wealth" factors in the Local Government Aid program. An estimated $9 million drop in the City's LGA will occur in 2011, whether or not the City uses the special legislation. Much of the impact is anticipated in the general fund ($8 million).

Overall Recommended Funding from the District

Consistent with the recommendations in the "Framework for the Future" from the Neighborhood Revitalization Program (NRP) Work Group, the Mayor recommended and the Council approved certification of a redevelopment tax increment finance district to pay principal and interest on Target Center bonds and to fund neighborhood revitalization programs and administration. Further, the Mayor recommended and the Council approved establishment of this new City department in the Coordinator's group, with transition funding allocated.

The Council direction is to certify districts to generate $24 million dollars in 2011, the earliest year allowed under the special legislation. The Council allocates these funds as follows:

Target Center principal and interest	$10.0 million
Target Center expedited debt payments	$ 2.0 million
General Neighborhood Revitalization Purposes (neighborhood operations, department of Neighborhood and Community Relations)	$ 8.5 million
Community Revitalization	$ 3.5 million
Total	$24.0 million

This direction leads to certifying 100% of the tax capacity of the district. If none of the districts were certified, residential taxpayers would see an estimated reduction in their individual tax bills from $61 to $307 annually. The district would last for ten years (through 2020).

Financial recommendation for Target Center principal and interest
The current Target Center financial plan (before the 2008 State legislation) is not structurally balanced. In addition to $61.3 million in fixed rate debt at an interest rate higher than the current market conditions, the financial plan does not take into account two cost pressures: an operating subsidy for the operator (up to $1.7 million annually) and necessary capital refurbishment of the arena ($2-3 million annually).

The current plan relies on the following revenue sources:

- *Property tax* generated at the arena - $100,000 annually through 2012, $550,000 when the arena TIF district decertifies in 2013 and beyond.
- *Tax Increment* from the Arena - $1 million annually through 2012. This resource may only be used for debt service, certain administrative costs, and capital costs.
- *Entertainment tax* generated at the arena - $1.1 million annually
- *Event parking* - $2.6 annually million in 2010, escalating to $5.6 million by 2024.
- *Minnesota Amateur Sports Commission* - $750,000 in 2009 only
- *Tax Increment* from the Common Project – around $5 million annually through 2013. This resource may only be used for debt service, certain administrative costs, and capital costs.

Of these resources only entertainment tax, parking revenues and property tax can be used to fund the operating subsidy. But for dedication in the plan, these amounts could be used to reduce financial pressures in the general fund or the parking fund.

The Council direction funded the principal and interest payments for the Target Center financial plan at $10 million each year. Additionally, the Council allocated $2 million for expedited debt payments. This direction provides the opportunity to redirect resources to the unfunded capital and operating needs. The finance department will prepare an updated finance plan for the arena based upon this Council direction by July 2009.

Financial impact for neighborhood operations and programming
The Council direction specifies $8.5 million per year for general neighborhood revitalization purposes. In addition, the direction includes $3.5 million for community revitalization. In the current neighborhood revitalization program, neighborhood groups identify administrative funding from within the overall program funding.

This direction demonstrates City support for a long-term funding source for neighborhood groups tied to the length of the new district as defined in state law. Neighborhood groups may decide to reallocate administrative funding to programmatic funding as needed. The following is the summary of this direction:

Neighborhood and Community Relations Proposed Sources and Uses (in thousands)

	2008	2009 Adopted Budget	2010 Forecast	2011 Forecast	2012 Forecast	2013 Forecast
Sources						
CDBG	428	420	416	185	182	179
NRP central admin funds - admin set aside	1,670	1,428	350	0	0	0
Property Tax (including revenue from new district in 2011)	590	1,110	984	8,314	8,334	8,355
Total Sources	2,688	2,958	1,750	8,499	8,516	8,534
Uses						
(1) Neighborhood Investment & Community Innovation Funds, neighborhood operations, and department of Neighborhood and Community Relations	0	298	1,100	7,905	7,905	7,905
(2) Existing Citizen Participation Program	333	328	328			
(3) Existing Homelessness Program	225	225	75	75	75	75
(4) Existing Multicultural Services	380	392	407	424	441	459
(5)Existing NRP - Central Administration	1,250	1,428	350	0	0	0
(6) Existing City Community Engagement	80	85	90	95	95	95
Total Uses	2,268	2,756	2,350	8,499	8,516	8,534
Difference	420	0	-600	0	0	0

- **Funding for pension liabilities**

The City's liabilities for 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 2005-2008, property tax supported contributions to three closed funds totaled: $60.7 million. For two of the plans (Minneapolis Police Relief Association, Minneapolis Fire Relief Association), the City is responsible for making up for stock market underperformance of state law assumptions (6% investment return), increasing the liabilities by millions of dollars during economic downturns. In these 2 plans, the combination of an approximate 2008 market return of -30%, combined with legislatively approved changes, City payments will increase from $7.8 million in 2009 to $27.6 million (estimated) in 2010. The City is currently exploring merging these three funds into the larger statewide plans, which will stabilize the funding of these plans due to the inclusion of new members and the additional time needed to recover from short-term market losses.

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

The City issued $61 million in general obligation pension bonds from 2002-03 to cover part of the cost of MERF retirements. In 2007, the City successfully pursued legislation related to the MERF "liquidity trigger" which provided relief from the City prepaying the state's obligations to this fund and eliminated the need for the issuance of additional MERF bonds. Due to this legislation, the projected 2007 City obligation to MERF, previously anticipated to be approximately $33.5 million, was reduced to $9.9 million. This was financed through the property tax levy ($2.4 million) and other City sources ($7.5 million).

The 2009 obligation to MERF is $4.3 million, of which $2.3 million is financed through the property tax levy and $2.0 million financed through nontax funds. The 2009 budget also allocates funds necessary for the debt service on bonds issued during 2002-03. Debt service in 2009 is $3.2 million, of which $2.0 million is financed through tax funds and $1.2 million in nontax funds.

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 2009 contribution to MPRA from the tax levy is $3.0 million. An additional $2.9 million will be required for debt service 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. In 2010, because of poor market performance and a change in actuarial assumptions approve by the State, Minneapolis' contribution rises to approximately $22.5 million (estimated).

Minneapolis Fire Relief Association (MFRA), a closed fund:
In 2005, the City resumed contributions to the MFRA. The MFRA was previously 100 percent funded, which meant that the City did not need to make annual contributions. The stock market downturn in March of 2001 resulted in investment performance that reduced the funding level of the MFRA. The City's 2009 contribution to MFRA is provided by a property tax levy of $1.9 million. This increases to $5.1 million (estimated) in 2010 due to poor market returns in 2008.

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. For 2009 the employer's contribution level in the coordinated plan moves from 6.5% to 6.75%. The police and fire plans' employer's contribution level moves from 12.9% to 14.1%. The estimated incremental cost to the City in 2009 is $26.2 million, which is covered in the budgets of the departments where the employees work.

	2008	2009	Change
PERA	$11.3	$13.1	$1.8
PERA P&F	$10.8	$13.1	$2.3
Total	$22.1	$26.2	$4.1

- **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. While the combined balance is still negative, the position of the funds is showing marked improvement over the 2000 net asset deficit of $61.7 million. At year-end 2007, the City's three internal services funds with long-term financial plans had combined negative net assets of $18.3 million. Additionally, all three internal service funds that implemented long-term financial plans (equipment, intergovernmental services & self-insurance), had positive cash balances at 2007 year-end, most of them ahead of schedule.

Status of Workout Plans (in millions)

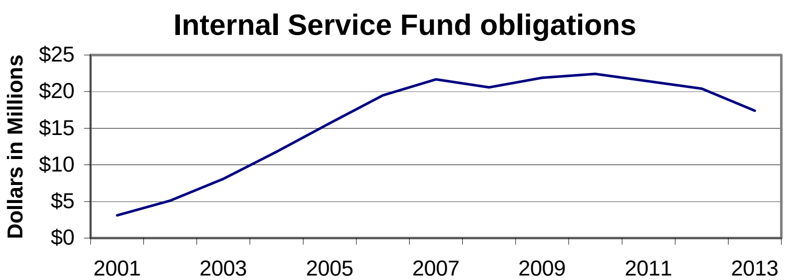
	Adopted	Original Cash Deficit (2000)	Original Net Asset Deficit (2000)	2007 Year-End Net Assets	Target Date for Positive Cash Balance	2007 Year-End Cash Balance
Self-Insurance	2003	$ (8.1)	$ (49.5)	$ (26.4)	2008	$ 9.0
Equipment*	2001	(16.6)	0	21.7	2006	0.2
BIS	2000	(12.9)	(12.2)***	(13.6)	2009	0.1
Internal Service Fund Total		**$ (37.6)**	**$ (61.7)**	**$ (18.3)**		***$ 9.3***
Parking Fund**	2004	$ (8.6)	$ 75.7	$125.7	2010	$ 42.7

*Status excludes bond cash.

**Parking fund includes proceeds of $73.2 million from the sale of parking ramps. The majority of the remaining cash balance will be used to pay down existing bonds.

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

The 2009 Mayor's recommended budget included $1.5 million in pre-payment of internal service fund obligations for 2012, reducing pressure on the general fund in that year. The Mayor's budget also included $1.0 million to repay this fund for capital costs related to completing the City's wireless network that will be incurred in 2008. Council approved the Mayor's recommendations and directs that an additional $135,000 should offset the unmet wireless internet buying commitment. (These expenses are in addition to the City's annual $1.25M buying commitment.)



Internal service fund obligations in the graph above fund self insurance, equipment services and information technology services (*e.g.* workers compensation, general liability, squad cars, fire trucks and computers). As the graph below demonstrates, the obligations in these plans continue to grow, but at a slower rate.

- **Parking fund financial plan**

The 2009 transfer from the City's municipal parking fund to the general fund declines from the 2008 funding level by $800,000. This is in line with the adopted parking fund financial plan, which was developed to address the cash deficits in the fund. This decline is the final scheduled change to the transfer to the general fund. The adopted budget reflects the sale of six City-owned parking ramps for $73.2 million in 2007, and one in 2008 for $2.5 million.

- **Growth in personnel costs**

  - ***Salary and Wages***. The 2009 revised budget includes a slight increase in total personnel expenditures from $402 million to $410 million. For City positions, not including the independent boards, growth in salary and wages are budgeted at 2.5 percent for bargaining units without settled labor contracts. In July of 2007, the Council and Mayor removed the two percent salary cap that was implemented in 2003 and adopted a compensation philosophy to provide strategic guidance for future decisions.

- ***Benefits***. Health and dental insurance expenditures are budgeted to increase from $50 million to $56 million. This estimate is based on experiences related to current plan design and competitive procurement processes. The anticipated premium increase in 2009 is 16%.

➢ ***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 taxpayers for an additional declining base contribution for 10 years. In 2009, that contribution is over $7.5 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.

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 2032.
(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.

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

For 2009, a total of $1.5 million in technology projects funded through property tax supported debt are planned in the capital program. The five-year plan totals $4.5 million dollars.

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 Challenge
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 legislatively approved changes to longevity combined with poor market returns.

Demographic Changes
Diversity of City residents (minority and immigrant populations) is growing faster than any other city in Minnesota. Minority populations make up 29 percent 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 our 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." 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 time and energy of City managers from administering programs to ensure the best outcomes possible.

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 remain at 1 to 2 percent for the next six years, but greatly accelerate after 2011 due to the expected "baby boom" generation reaching retirement age. As employees reach retirement age, the City loses institutional memory and highly skilled personnel.

Stadiums
Construction of several major stadiums - the 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. Departments heavily affected include assessor, regulatory services, community planning and economic development, public works and police.

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 it reaches the end of the useful life cycle. The city hall and courthouse were in need of upgrading its mechanical and safety system. Similar concerns were also noted by the 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.

Other Trends
The downtown real estate market continues to have an oversupply of office space available due to the weak commercial market from 2003-2004. Beyond regulation is the city's interest in sustainability. Toward the same goal, regulatory services is pursuing a 100% green fleet, an effort that requires a realistic timeframe and substantial funding.

Major Changes in the 2009 Council revised budget

911/311 - The Mayor's revised budget included a reduction of $280,000. Council concurs with the Mayor's recommendation.

Assessor - The Mayor's revised budget included no reduction. Council concurs with the Mayor's recommendation.

Attorney - The Mayor's revised budget included a reduction of $330,000. Council further reduces the budget by $75,000 in one-time funds for a youth prostitution prevention pilot program. Please refer to the departmental narrative for information regarding staff directions.

BIS - In the revised budget, the Mayor recommended and Council approves a reduction of $580,000 from the general fund to BIS, and a reduction of $145,000 in other funds, for a total reduction of $725,000. These changes should be reflected the rate model charges to departments, and departmental appropriations will be reduced accordingly. Please refer to the departmental narrative for information regarding staff directions.

City Clerk/Elections/City Council - In the revised budget, the Mayor recommended and Council approves a reduction of $320,000. Please refer to the departmental narrative for information regarding staff directions.

City Coordinator Administration - In the revised budget, the Mayor recommended and Council approves a reduction of $56,000.

Civil Rights - In the revised budget, the Mayor recommended and Council approves a reduction of $180,000. Please refer to the departmental narrative for information regarding staff directions.

Communications - In the revised budget, the Mayor recommended and Council approves a reduction of $80,000. Please refer to the departmental narrative for information regarding staff directions.

Convention Center - In the revised budget, the Mayor recommended and Council approves a reduction of $280,000.

CPED - The Mayor's revised budget recommended a reduction $150,000. The Council concurs with the Mayor's recommendation and further reduces $100,000, for a total reduction of $250,000. The $100,000 was one-time funding for the promotion of the City goal of Connected Communities by advancing the project of reopening of Nicollet Avenue at Lake Street (BR112).

Finance - In the revised budget, the Mayor recommended and Council approves a reduction of $570,000. Please refer to the departmental narrative for information regarding staff directions.

Fire - The Mayor's revised recommendation included a reduction of $2,647,000. The Mayor also recommended the implementation of a commercial inspection program and to increase its revenue budget by $800,000, which serves to offset these reductions. The Council approves the Mayor's recommendations. Please refer to the departmental narrative for information regarding staff directions.

Health and Family Support - In the revised budget, the Mayor recommended and Council approves a reduction of $210,000. Please refer to the departmental narrative for information regarding staff directions.

Human Resources - In the revised budget, the Mayor recommended and Council approves a reduction of $320,000. Please refer to the departmental narrative for information regarding staff directions.

IGR - In the revised budget, the Mayor recommended and Council approves a reduction of $55,000. Please refer to the departmental narrative for information regarding staff directions.

Mayor - In the revised budget, the Mayor recommended and Council approves a reduction of $60,000.

Neighborhood and Community Relations - The Mayor's revised budget includes no reduction. Council concurs with the Mayor's recommendation.

Police - The Mayor recommended a reduction of $6,510,000 in the general fund. This reduction will be temporarily offset by the receipt of up to $4.7 million in federal grant resources in 2009, and an additional amount in 2010. The remaining $1.8 million will be achieved through the reduction of non-personnel expenditures, including overtime. The Council concurs with the Mayor's recommendations. Please refer to the departmental narrative for information regarding staff directions.

Public Works - The Mayor's revised budget recommended a reduction of $2,225,000. In addition to reducing expenditures, the Mayor directs the Public Works department to introduce a street lighting utility fee for both residential and non-residential properties. For a typical residential property, the street lighting utility fee will be no more then $20.00 a year.

The Council concurs with the amount of reduction and directs Public Works to decrease the revenue budget by $850,000 to reflect removal of the street light fee implementation in 2009. Public Works is to decrease the proposed expenditure appropriation by $850,000. To offset this $850,000 reduction, the following one-time funding allocations are to be eliminated:

- CPED: $100,000 for the promotion of the City goal of Connected Communities by advancing the project of reopening of Nicollet Avenue at Lake Street (BR112)
- Capital project: $250,000 for the Hiawatha LRT Signal Improvements project (TR019)
- Attorney: $75,000 for a youth prostitution prevention pilot program
- Regulatory Services: $25,000 for contract spay and neuter services
- Public Works: $400,000 for ballpark area pedestrian improvements

Please refer to the departmental narrative for information regarding staff directions.

Public Works Administration - The Mayor recommended and Council approves no changes to this division.

Public Works Central Stores - The Mayor recommended and Council approves no changes to this division.

Public Works Fleet Services - The Mayor recommended and Council approves no changes to this division.

Public Works Property Services - The Mayor recommended and Council approves no changes to this division.

Public Works Solid Waste and Recycling Services - The Mayor recommended and Council approves no changes to this division.

Public Works Surface Water and Sanitary Sewer - The Mayor recommended and Council approves no changes to this division.

Public Works Traffic & Parking Services
The Mayor recommended and Council approves no changes to this division.

Public Works Transportation Maintenance and Repair - The Mayor recommended and Council approves no changes to this division in addition to those mentioned above related to the ballpark area pedestrian improvements and the Hiawatha LRT signal improvements.

Public Works Transportation Planning and Engineering - The Mayor recommended and Council approves no changes to this division.

Public Works Water Treatment and Distribution Services - The Mayor recommended and Council approves no changes to this division.

Regulatory Services - The Mayor's revised budget included a reduction of $130,000. The Council further reduces the budget by $25,000 in one-time funds for contract spay and neuter services.

Citywide
The revised budget includes $1.5 million in pre-payment of internal service fund obligations for 2012. This strategy reduces pressures on the general fund that year.

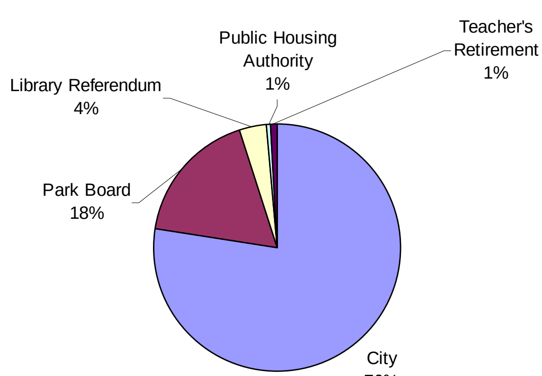
All departments are directed to amend their business plans to include the conversion of existing services to wireless internet and to implement new services using wireless internet as a key initiative in department business plans.

Property Tax and Fee Changes

- **Property tax revenue**

The 2009 revised budget includes an estimated net tax capacity rate of 57.129 percent; this rate is the combined rate for the City, board of estimate and taxation, park and recreation board, 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 market value based tax estimated at .02460 percent for 2009 and is not included in the net tax capacity rate. This estimated net tax capacity rate will levy an additional $18.4 million in property taxes, a 8.0 percent increase over the 2008 adopted budget after adjusting out for the $13.9 library board levy transfer to the County. The City's net tax capacity (after reductions for tax increment and fiscal disparities) is projected to increase by 0.9 percent for taxes payable 2009, from $410.6 million to $414.1 million.

Property Tax Allocation by Fund $248.6 Million



Of the $18.4 million increase in property tax revenue, $16.5 million will be used by the City and $1.8 million by the Park Board. The City will use its share to increase funding for internal service fund obligations ($3.0 million), pension obligations ($3.0 million), pension debt management plan ($2.6 million), ballpark area pedestrian improvements ($2.0 million), and for other general fund changes ($5.9 million).

The Park Board revenue increase of $1.8 million is the net result of a 4 percent increase in adopted tax policy and $0.2 million of additional funding for a capital infrastructure gap (for a total increase of 4.4%).

In 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. It is anticipated that in 2011 the City will need to use its special levy for community development to support Community Planning and Economic Development's general fund supported resources, an authority not used since 2004. Levy limits result in reduced flexibility in terms of how the City allocates property tax revenue within the City's 8% tax policy.

Uses of new property tax revenue - $18.4 million in 2009

Internal Service Fund Debt:
$1.5 million

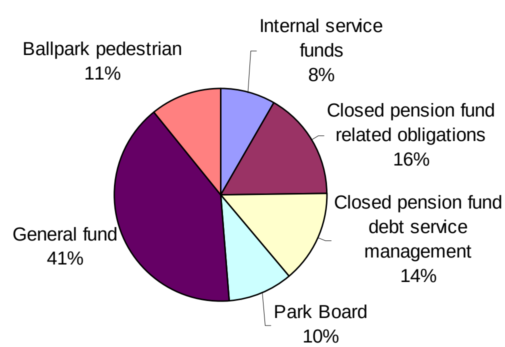
Ballpark area pedestrian improvements (one-time):
$2.0 million

Increased pension obligations:
$3.0 million

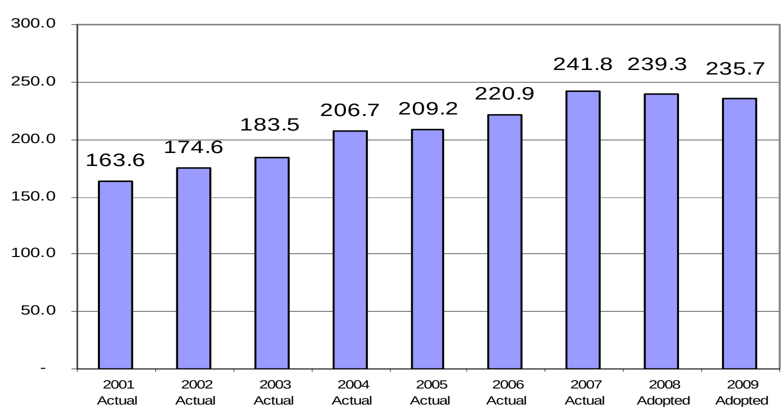
Debt service management for closed pension funds
$2.6 million

Increased cost to provide General Fund City services:
$7.4 million

Increased cost to provide existing Park Board services:
$1.8 million



Property Tax revenue in constant 2008 dollars*



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

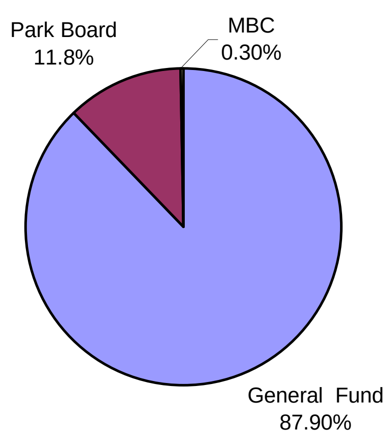
➢ State Aid

The State Legislature certified an increase to the City's LGA allocation for 2009 to $88.8 million, a $6.6 million increase from last year. Prior to a $13 million unallotment of LGA in December 2008, the State certified the following LGA amounts for 2008 and 2009.

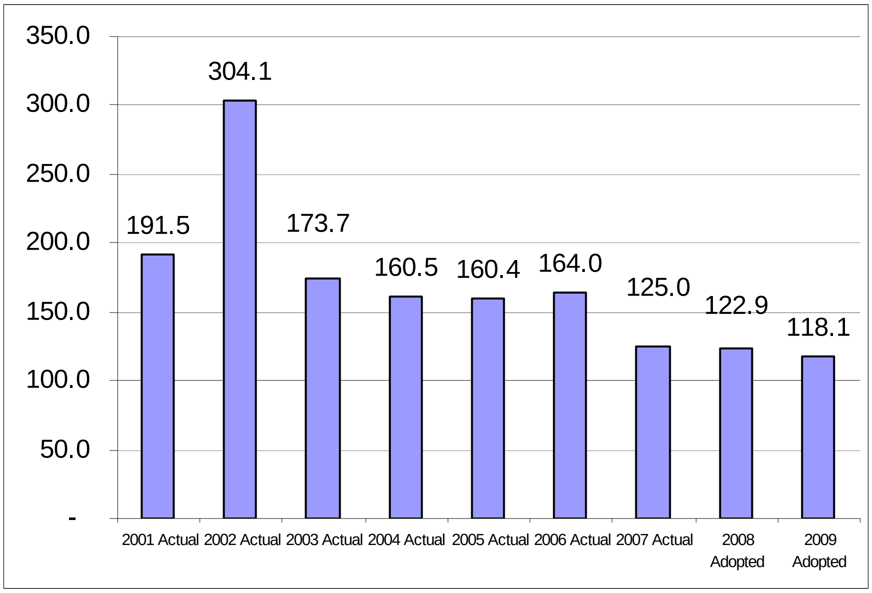
	LGA $ Distribution %	2008 LGA $ Distribution	2009 LGA $ Certification	% Change from 2008	$ Change from 2008
General Fund	87.897%	$72,278,486	$78,043,592	8.0%	$5,765,106
Park Board	11.802%	$9,704,890	$10,478,975	8.0%	$774,085
MBC	0.301%	$247,515	$267,257	8.0%	$19,742
Totals	100.000%	$82,230,891	$88,789,824	8.0%	$6,558,933

After unallotment, the 2008 totals were reduced as follows.

	LGA $ Distribution %	2008 Certified LGA Distribution	Actual 2008 LGA Distribution	2009 Certified LGA Distribution	Expected 2009 LGA Distribution	$ Change from 2009 Certification	% Change from 2009 Certification
General Fund	87.897%	$72,278,486	$60,699,335	$78,043,592	$63,222,284	-$14,821,308	-19.0%
Park Board	11.802%	$9,704,890	$8,150,148	$10,478,975	$8,488,906	-$1,990,069	-19.0%
MBC	0.301%	$247,515	$207,863	$267,257	$216,502	-$50,755	-19.0%
Totals	100.000%	$82,230,891	$69,057,346	$88,789,824	$71,927,693	-$16,862,131	-19.0%



State Government revenue in constant 2008 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 2009 revised budget includes an increase in utility rates of $0.16 per 100 cubic feet for water, $0.16 per 100 cubic feet for sanitary sewer, $0.51 per equivalent stormwater unit for stormwater services, and $1.00 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 5.8% increase for water fees, a 6.8% increase for sanitary sewer services, a 5.1% increase for stormwater, and a 4.4% increase for solid waste and recycling. The average monthly charge per residential dwelling is $23.28 (based on average usage of 800 cubic feet) for water, $15.66 (based on average usage of 600 cubic feet) for sewer, $10.77 for stormwater, and $24.00 for solid waste and recycling.

Combined utility bill
Monthly and annual cost for average consumer

	2008	2009 Monthly Average	2009 Annual Average	2009 monthly dollar change	2009 % change
Sanitary Sewer	$14.67	$15.66	$188	$0.99	6.77%
Storm Water	$10.25	$10.77	$129	$0.52	5.07%
Water	$22.00	$23.28	$279	$1.28	5.82%
Solid Waste/Recycling	$23.00	$24.00	$288	$1.00	4.35%
Total	$69.92	$73.71	$885	$3.79	5.43%

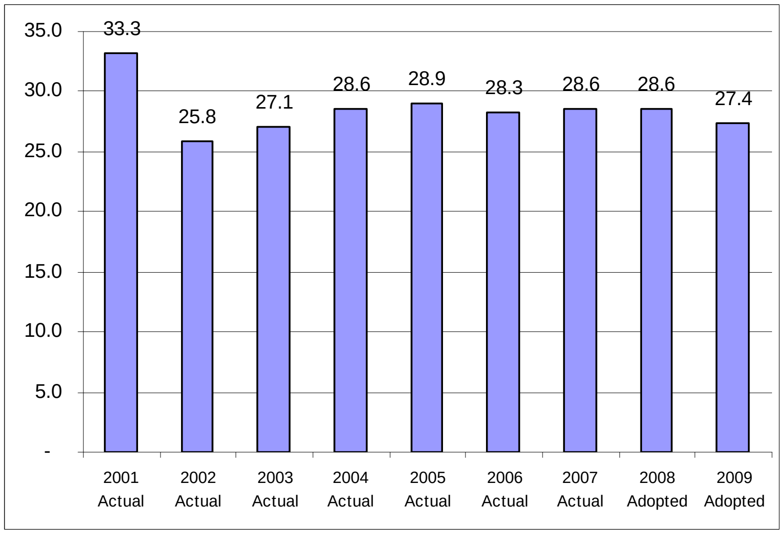
- **Solid waste and recycling fee:** The 2009 revised budget increased the solid waste and recycling fee by $1.00 to $24.00, the average monthly charge per dwelling.

- **Franchise fees:** The 2009 revised budget anticipates the total franchise fee revenue to increase from the 2008 level to $28.1 million.

- **Community development block grant:** The 2009 CDBG budget anticipates a 2% reduction in funding from the 2008 actual funding level from the U.S. Department of Housing and Urban Development.

- **Other fee changes:** The licenses and permit fee revenue is expected to increase from $27.6 million to approximately $28.3 million in 2009 due to increases in the rates charged for some of the licenses and permits. (The graph below represents 2008 and 2009 numbers adjusted for inflation). The 2009 revised budget is structured so as to prevent the property taxpayers from having to subsidize fee-based services.

License and permit revenue in constant 2008 dollars

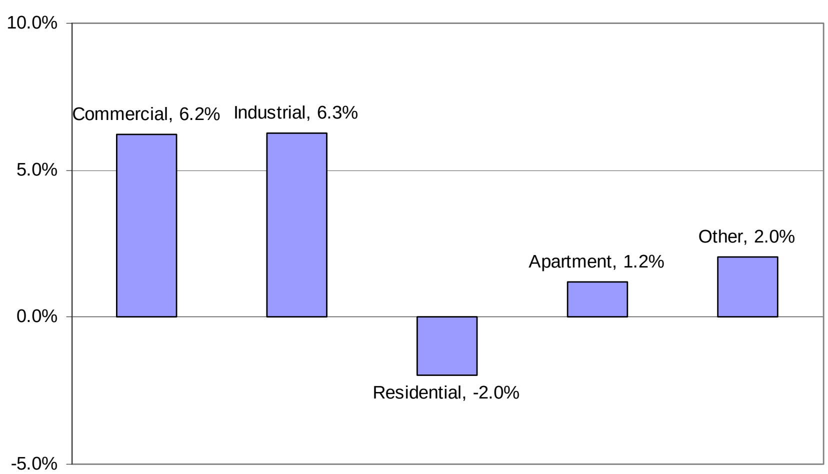


*This revenue chart shows the trend of City revenues adjusted for inflation using the Consumer Price Index (CPI).

Property Market Values and Tax Base Highlights

Following is a chart from the City Assessor's Office with estimated market values and corresponding tax capacity by property group. These numbers are updated as of January 30, 2009.

Group	2008 Estimated Market Value Real Estate	% of Total	% Change	Tax Capacity Real Estate	% of Total	% Change
Commercial	$7,286,749,800	19.3%	0.0%	$143,151,834	30.1%	6.2%
Industrial	1,424,852,200	3.8%	6.2%	28,000,367	5.9%	6.3%
Residential	25,506,913,100	67.6%	-4.5%	261,673,221	55.1%	-2.0%
Apartment	3,490,527,300	9.3%	1.2%	41,896,963	8.8%	1.2%
Other	24,022,300	0.1%	2.2%	322,288	0.1%	2.0%
Total	**$37,733,064,700**	**100.0%**	**-1.4%**	**$475,044,673**	**100.0%**	**1.4%**



The market value and tax capacity data shown above does not include personal property, which is estimated to have a market value of approximately $378.9 million and a corresponding tax capacity of $7.2 million for taxes payable 2009. With personal property included, gross tax capacity is estimated to increase from the prior year by approximately 2.1 percent.

The following table provides the estimated changes in tax increment financing, fiscal disparities contribution, and fiscal disparities distribution for taxes payable 2009:

For Taxes Payable in 2009	
Real Estate Tax Capacity	$475,044,673
Personal Property Tax Capacity	$7,179,861
Gross Tax Capacity	$482,224,534
- Less Increment Financing	($73,308,233)
- Less Fiscal Disparities Contribution	($51,148,718)
+ Plus Fiscal Disparities Distribution	$56,167,749
Net Tax Capacity	$413,935,332

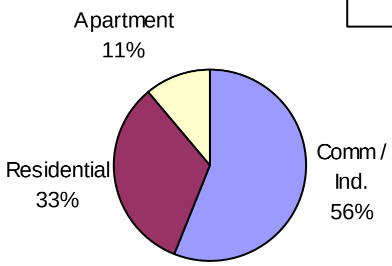
Property Values and Tax Trends

The 2001 tax bill enacted by the state legislature, made comprehensive changes to the property tax laws. Under Minnesota's state property tax system, if the State reduces the classification rate for one property type through changes in the classification system, the taxes are redistributed throughout the property types. The same principle applies for market value referendums.

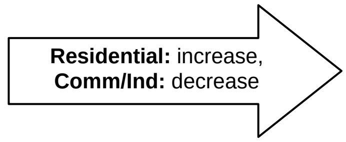
Different property classifications result in a different tax burden as a result of the classification rates of the State's property tax classification system. Property taxes are a function of the market value taken multiplied by the classification rate multiplied by the tax rate. The 2001 legislature made changes to the property tax classification rates that reduced the rates for commercial/industrial property, apartments and high valued homes which redistributed the burden to lower and mid-value residential properties.

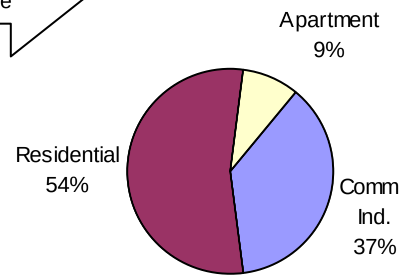
In 2001, the State Legislature enacted a statewide property tax on commercial, industrial and seasonal-residential recreational properties. The State of Minnesota now receives approximately 26% of the property taxes paid on those property types. Until the 2001 property tax reform, property taxes were collected and distributed exclusively at the local level.

Minneapolis has historically had a strong commercial and industrial tax base. For taxes payable in 1997, Minneapolis commercial and industrial property paid 56 percent of the total taxes for the City with the central business district alone paying almost 40 percent; for taxes payable 2008 this declined to 34 percent of the City total with the central business district paying approximately 24 percent. Corresponding percentages for Residential property owners (defined as 1-3 dwelling units) paid 32 percent of the City's taxes in 1997, and an estimated 57 percent for payable 2008. This represents a reversal in the share of the City's tax burden between the two property types. For taxed payable 2009, as a result of ongoing positive growth in the commercial property sector coupled with the recent downward adjustment in residential property values, the property tax burden shifted slightly to commercial property owners.



1996 Payable 1997



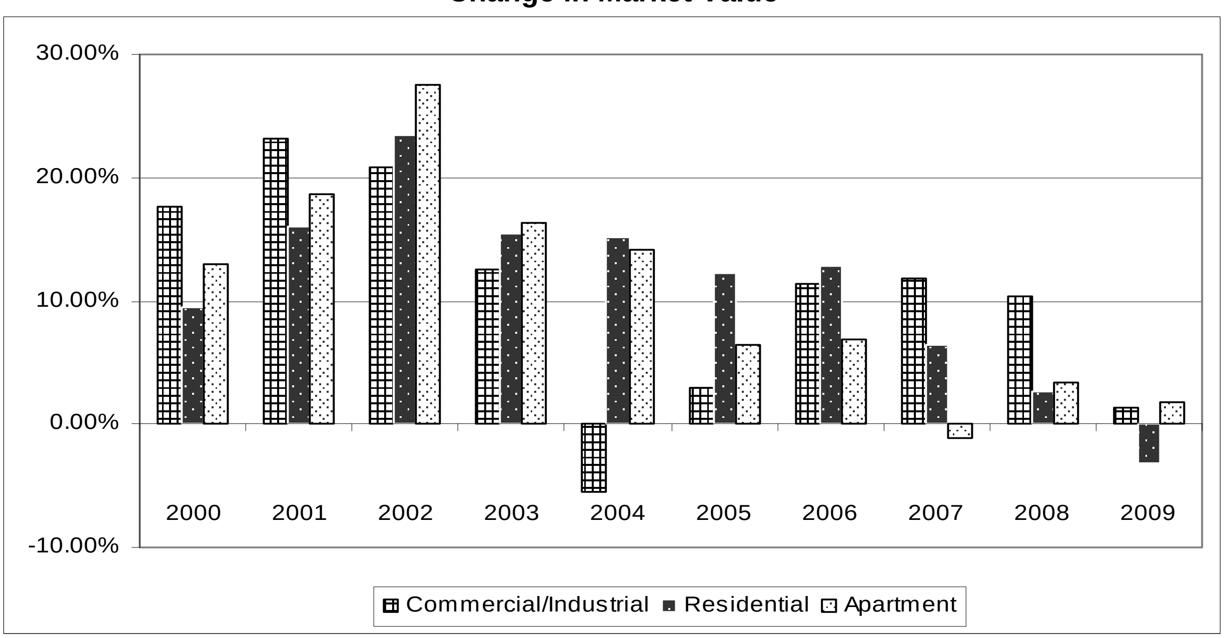


2008 Payable 2009

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 2008 pay 2009:

	Change in Market Value		
Payable	**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%

Change in Market Value



Increases in residential taxes were buffered because of the enactment of the limited market value (LMV) law. This law limited the percentage increases in taxes on residential property by establishing a lower (*i.e.,* limited) market value to which the tax rate was applied instead of the higher actual market value of the property. Originally, the 2001 legislature initiated a phase-out of the limited market value program over a six-year period, with the last year of the program occurring in 2008. More recently, the 2005 legislature extended the phase-out of the LMV program two additional years to 2009. This two year extension resulted in a more gradual recapture schedule of the LMV program. The final two years of the LMV program mirror the original phase-out schedule approved by the 2001 legislature.

At the time of the 2008 assessment, only 4 percent of the eligible residential property had value deferred in the Limited Market Value program as the program enters its final year of the seven year phase-out schedule.

The central business district (CBD) grew moderately in 2008 with minimal impact from the residential foreclosure market to date. The impact from foreclosures and tighter lending requirements on commercial property will be closely watched in 2009. Although vacancy rates have not dropped to the level where a new Class "A" development is imminent, investors continue to place their faith and pocket book in the CBD. While commercial sales activity in the CBD was slower than prior years, the quantity and quality of the sales still indicate a healthy CBD commercial market.

Residential property values for 2008 ranged from an overall average neighborhood increase of less than 1 percent to average decreases of up to 15 percent. There was a close correlation between the number foreclosures and vacant and boarded buildings in a neighborhood and the decline in property values. We anticipate recent actions by Federal, State and local agencies to fund programs targeted at foreclosure mitigation, neighborhood stabilization and revitalization.

2009 Adopted Budget
Property Tax Levies

	2008 Adopted Levies	2009 Adopted Budget: 2009 Adopted Levies	% Change from 2008	$ Change from 2008
By Major Funds				
General Levies	$240,553,497	$242,399,279	0.8%	$1,845,782
Less Library Levy Trf	($13,912,246)			
General Levies Adj	$226,641,251	$242,399,279	7.0%	$15,758,028
Special Levies Other*	$3,515,319	$3,565,932	1.4%	$50,613
Grand Totals	$244,068,816	$245,965,211	0.8%	$1,896,395
Less Library Levy Trf	($13,912,246)			
Grand Totals Adj	$230,156,570	$245,965,211	6.9%	$15,808,641
By Entity				
City**	$175,563,230	$189,491,737	7.9%	$13,928,507
Park Board	$41,778,021	$43,607,542	4.4%	$1,829,521
Library Board***	$13,912,246	$0	-100.0%	($13,912,246)
Library Referendum****	$9,300,000	$9,300,000	0.0%	$0
Public Housing Authority	$1,265,319	$1,315,932	4.0%	$50,613
Teachers' Retirement	$2,250,000	$2,250,000	0.0%	$0
Grand Totals	$244,068,816	$245,965,211	0.8%	$1,896,395

* 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 was part of the General Fund Levy in 2008, starting in 2009 this is a County responsibility
****This remains a City obligation after the Library System consolidation

2009 Adopted Budget
Tax Rates and Levies
*Based on Final Pay 2009 information

NET TAX CAPACITY BASED (NTC) LEVIES

	2007		2008		2009*	
City Levies	**Tax Rate (%)**	**Total Tax Levy $$**	**Tax Rate (%)**	**Total Tax Levy $$**	**Tax Rate (%)**	**Total Tax Levy $$**
General Fund	33.543	$126,180,059	37.743	$155,082,373	37.876	$156,497,722
Estimate and Taxation	0.064	240,417	0.061	250,034	0.063	260,035
Building Commission	1.067	4,012,566	1.016	4,173,069	1.051	4,339,992
Permanent Improvement	0.431	1,619,000	0.395	1,619,000	0.392	1,619,000
Bond Redemption	4.965	18,677,000	4.468	18,355,000	5.384	22,243,873
Firefighter's Relief Association	0.821	3,086,000	0.832	3,415,000	0.451	1,860,000
Police Relief Association	0.964	3,625,000	0.887	3,641,000	0.728	3,005,000
Minneapolis Employees Retirement Fund	0.638	2,400,000	0.716	2,940,000	0.550	2,270,000
Sub-Total City Levies	42.493	$159,840,042	46.118	$189,475,476	46.495	$192,095,622
Park and Recreation	10.635	40,005,789	10.168	41,778,021	10.554	43,607,542
Sub-Total Park Board Levies	10.635	$40,005,789	10.168	$41,778,021	10.554	$43,607,542
Library Board 1	3.557	$13,377,160	**In General Fund in 2008**		**a County Function in 2009**	
Sub-Total City Levies	**56.685**	**$213,222,991**	**56.286**	**$231,253,497**	**57.049**	**$235,703,164**
City-Related Special Levies						
Public Housing	0.322	1,216,653	0.307	1,265,319	0.320	1,315,932
Teachers' Retirement	0.593	2,250,000	0.542	2,250,000	0.544	2,250,000
Watershed Districts 2	1.121	5,990,820	1.404	6,703,804	1.489	7,056,535
Sub-Total City-Related Specials Levies	**2.036**	**$9,457,473**	**2.253**	**$10,219,123**	**2.353**	**$10,622,467**
Other Special Levies						
Hennepin County	34.797	134,463,075	34.486	141,969,039	39.697	161,631,008
State of Minnesota 3	**CI only**	70,081,548	**CI only**	74,047,875	**CI only**	78,642,725
Minneapolis Public Schools	24.225	91,834,140	21.950	91,461,148	24.583	71,004,773
Other Special Taxing Districts 4	4.242	15,374,768	4.260	16,742,474	3.820	15,263,657
Sub-Total Other Specials Levies	**63.264**	**$296,378,763**	**60.696**	**$307,478,062**	**68.100**	**$311,278,506**
TOTAL NTC BASED LEVIES	**121.985**	**$519,059,227**	**119.235**	**$548,950,682**	**127.502**	**$557,604,137**

REFERENDUM MARKET VALUE BASED (RMV) LEVIES

	2007		2008		2009*	
	Tax Rate (%)	**Total Tax Levy $$**	**Tax Rate (%)**	**Total Tax Levy $$**	**Tax Rate (%)**	**Total Tax Levy $$**
Minneapolis Public Library Referendum	0.02688%	$9,300,000	0.02465%	$9,300,000	0.02461%	$9,300,000
Minneapolis Public Schools Referendum	0.09311%	36,690,461	0.08752%	38,011,310	0.16261%	61,473,699
Solid Waste Fee [5]	0.01571%	5,497,000	0.01584%	5,997,260	0.01096%	4,158,069
TOTAL RMV BASED LEVIES	**0.13570%**	**$51,487,461**	**0.12801%**	**$53,308,570**	**0.19818%**	**$74,931,768**

	2007	2008	2009*
TOTAL ALL LEVIES	**$570,546,688**	**$602,259,252**	**$632,535,905**

Notes:

[1] This does not include the Library Board referendum levy. That amount is listed under "Referendum Market Value Based Levies."

[2] The watershed Levy $$ are for watersheds 3 & 6 & 7 & 8, these watersheds silightly adjust the levy rates for the School & County applicable to these areas, table shows for payable 2009 & #3

Water Shed #	**# 0**	**# 3**	**# 6**	**# 7**	**# 8**
School Rate	24.539	24.583	24.543	24.539	24.539
County Rate	39.666	39.697	39.669	39.666	39.666
Water Shed rate	0.000	1.489	2.143	0.535	0.047
Total NTC Based rate	**125.938**	**127.502**	**128.088**	**126.473**	**125.985**

[3] The State of Minnesota Property Tax is applicable only to Commercial & Industrial properties.

[4] Other special taxing jurisdictions include: Metro Mosquito Control, Metropolitan Council, Metro Transit, Park Museum, & Hennepin County Regional Railroad Authority .

[5] The Solid Waste Fee amounts are the portions associated with Minneapolis only.

[6] The pay 2009 Tax rate applies to 71.3737% of the Commercial property's taxable value and the area wide rate of 115.921 applies to the remaining 28.6263% in addition to the State rate of 45.535.

Residential Property Home with Estimated Market Value of		$138,100		
	2008	**2009**	% Change	$ Change
Assessed Market Value (MV)	$145,500	$134,000	-7.9%	($11,500)
Taxable Value	$145,500	$134,000	-7.9%	($11,500)
Tax Capacity	$1,455	$1,340	-7.9%	($115)
City Property Taxes				
Tax Capacity based Taxes	$716	$652	-8.9%	($63)
MV Referendum Tax	$36	$33	-8.3%	($3)
Total City Property Taxes	$751	$685	-8.8%	($66)
Utility Fees				
Water	$264		-100.0%	($264)
Storm	$123		-100.0%	($123)
Sanitary Sewer	$176		-100.0%	($176)
Solid Waste/Recycling	$285		-100.0%	($285)
Total Utilities	$848	$0	-100.0%	($848)
Total Property Taxes & Utilities	$1,599	$685	-57.2%	($914)

Residential Property Home with Estimated Market Value of		$216,000		
	2008	**2009**	% Change	$ Change
Assessed Market Value (MV)	$225,500	$216,000	-4.2%	($9,500)
Taxable Value	$225,500	$216,000	-4.2%	($9,500)
Tax Capacity	$2,255	$2,160	-4.2%	($95)
City Property Taxes				
Tax Capacity based Taxes	$1,208	$1,159	-4.1%	($49)
MV Referendum Tax	$56	$53	-4.6%	($3)
Total City Property Taxes	$1,263	$1,212	-4.1%	($52)
Utility Fees				
Water	$264		-100.0%	($264)
Storm	$123		-100.0%	($123)
Sanitary Sewer	$176		-100.0%	($176)
Solid Waste/Recycling	$285		-100.0%	($285)
Total Utilities	$848	$0	-100.0%	($848)
Total Property Taxes & Utilities	$2,111	$1,212	-42.6%	($900)

Residential Property Home with Estimated Market Value of		$536,000		
	2008	**2009**	% Change	$ Change
Assessed Market Value (MV)	$564,000	$536,000	-5.0%	($28,000)
Taxable Value	$564,000	$536,000	-5.0%	($28,000)
Tax Capacity	$5,800	$5,450	-6.0%	($350)
City Property Taxes				
Tax Capacity based Taxes	$3,314	$3,133	-5.5%	($181)
MV Referendum Tax	$139	$132	-5.4%	($7)
Total City Property Taxes	$3,453	$3,265	-5.5%	($188)
Utility Fees				
Water	$264		-100.0%	($264)
Storm	$123		-100.0%	($123)
Sanitary Sewer	$176		-100.0%	($176)
Solid Waste/Recycling	$285		-100.0%	($285)
Total Utilities	$848	$0	-100.0%	($848)
Total Property Taxes & Utilities	$4,301	$3,265	-24.1%	($1,036)

Residential Property Home with Estimated Market Value of		$1,417,500		
	2008	**2009**	% Change	$ Change
Assessed Market Value (MV)	$1,350,000	$1,417,500	5.0%	$67,500
Taxable Value	$1,346,600	$1,417,500	5.3%	$70,900
Tax Capacity	$15,583	$16,469	5.7%	$886
City Property Taxes				
Tax Capacity based Taxes	$8,903	$9,467	6.3%	$564
MV Referendum Tax	$332	$348	4.8%	$16
Total City Property Taxes	$9,235	$9,815	6.3%	$580
Utility Fees				
Water	$264		-100.0%	($264)
Storm	$123		-100.0%	($123)
Sanitary Sewer	$176		-100.0%	($176)
Solid Waste/Recycling	$285		-100.0%	($285)
Total Utilities	$848	$0	-100.0%	($848)
Total Property Taxes & Utilities	$10,083	$9,815	-2.7%	($268)

Commercial/Industrial and Apartment Property Tax – Sample Bills

Commercial/Industrial Property with Estimated Market Value of		**$325,000**		
	2008	**2009**	**% Change**	**$ Change**
Assessed Market Value (MV)	$415,000	$325,000	-21.7%	($90,000)
Tax Capacity	$7,550	$5,750	-23.8%	($1,800)
City Property Taxes				
Tax Capacity based Taxes	$3,152	$2,416	-23.3%	($736)
Less Library Bd Tax Trf to Co[1]	($187)			
	$2,965	$2,416	-18.5%	($549)
MV Referendum Tax	$102	$80	-22.0%	($23)
Total City Property Taxes	$3,068	$2,496	-18.6%	($572)

Commercial/Industrial Property with Estimated Market Value of		**$10,250,000**		
	2008	**2009**	**% Change**	**$ Change**
Assessed Market Value (MV)	$10,250,000	$10,250,000	0.0%	$0
Tax Capacity	$204,250	$204,250	0.0%	$0
City Property Taxes				
Tax Capacity based Taxes	$85,280	$85,830	0.6%	$550
Less Library Bd Tax Trf to Co[1]	($5,054)			
	$80,226	$85,830	7.0%	$5,604
MV Referendum Tax	$2,527	$2,516	-0.4%	($10)
Total City Property Taxes	$82,753	$88,346	6.8%	$5,593

Apartment Property with Estimated Market Value of		**$400,000**		
	2008	**2009**	**% Change**	**$ Change**
Assessed Market Value (MV)	$503,500	$400,000	-20.6%	($103,500)
Tax Capacity	$6,294	$5,000	-20.6%	($1,294)
City Property Taxes				
Tax Capacity based Taxes	$3,596	$2,874	-20.1%	($722)
Less Library Bd Tax Trf to Co[1]	($213)			
	$3,383	$2,874	-15.0%	($509)
MV Referendum Tax	$124	$98	-20.9%	($26)
Total City Property Taxes	$3,507	$2,973	-15.2%	($534)

Apartment Property with Estimated Market Value of		**$686,000**		
	2008	**2009**	**% Change**	**$ Change**
Assessed Market Value (MV)	$686,000	$686,000	0.0%	$0
Tax Capacity	$8,575	$8,575	0.0%	$0
City Property Taxes				
Tax Capacity based Taxes	$4,899	$4,929	0.6%	$30
Less Library Bd Tax Trf to Co[1]	($290)			
	$4,609	$4,929	7.0%	$320
MV Referendum Tax	$169	$168	-0.4%	($1)
Total City Property Taxes	$4,778	$5,098	6.7%	$320

[1]Library Board levy will now appear in Hennepin County