

## **CITY OF MINNEAPOLIS MANAGEMENT'S DISCUSSION AND ANALYSIS REQUIRED SUPPLEMENTARY INFORMATION**

This section of the City of Minneapolis' comprehensive annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2006. Please read it in conjunction with the transmittal letter at the front of this report and the City's basic financial statements following this section. All dollar amounts are expressed in thousands unless otherwise indicated.

### **FINANCIAL HIGHLIGHTS**

- Assets of the City of Minneapolis exceeded liabilities at the close of the 2006 fiscal year by \$883,334 (net assets). Of this amount, a deficiency of \$210,199 in unrestricted net assets resulted primarily from other debt issued by the City to finance assets owned by the City's component units, debt related to unfunded pension liabilities, various development related debt, and prior period losses in the internal service funds. Additionally, \$80,748 is restricted for specific purposes (restricted net assets) and \$1,012,785 is invested in capital assets net of related debt.
- The City's total net assets increased by \$58,075. Governmental activities increased the City's net assets by \$29,146 and the business type activities by \$28,929.
- As of December 31, 2006, unreserved fund balance for the general fund was \$52,641, or about 18 percent of total general fund expenditures.
- The City's total long-term bond and note liability decreased by \$81,108 from the prior year. Total bonds and notes issued in 2006 was \$64,676 including \$18,945 of refunding transactions and total debt retirement was \$145,784, including refunding transactions. Major new debt issuances included bonds of \$31,715 for various infrastructure improvements in the five-year capital plan, \$3,980 for library improvements and \$3,780 for special assessment projects.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include 3 components; 1) Government-wide financial statements; 2) Fund financial statements; and 3) Notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

***Government-wide Financial Statements***—Government-wide financial statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or in part a portion of these costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, health and welfare, and community development. The business-type activities of the City include sanitary sewer, stormwater, solid waste and recycling, water works, economic development, and parking.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

The government-wide financial statements include not only the City of Minneapolis (known as primary government), but also legally separate entities for which the City is accountable. For the City of Minneapolis, component units are included in the basic financial statements of the City, and consist of legally separate entities for which the City is financially accountable (discretely presented component units) and have substantially the same board as the City or provide services almost entirely to the primary government (blended component units). An example of blended funds is the Board of Estimate and Taxation (BET). Examples of discretely presented component units include the Minneapolis Library Board (Library Board), Minneapolis Park and Recreation Board (Park Board), and the Municipal Building Commission (MBC).

The government-wide financial statements can be found on pages 24-25 of this report.

**Fund Financial Statements**—A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds in the City can be divided into three categories - governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Minneapolis maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, the Community Planning and Economic Development Special Revenue Fund, the Convention Center Special Revenue Fund, and the Permanent Improvement Capital Projects Fund, all of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The governmental funds' financial statements can be found on pages 26-29 of this report.

**Proprietary Funds**—The City of Minneapolis maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Minneapolis uses the enterprise funds to account for its Sanitary Sewer, Stormwater, Solid Waste and Recycling, Water Works, Community Planning and Economic Development (CPED), and Parking activities. The City uses internal service funds to account for its property management services, equipment services, business information systems, central stores, engineering lab, outside purchase of asphalt and cement services, city attorney, workers' compensation, unemployment benefits and other payroll related services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The proprietary funds' financial statements can be found on pages 30-33 of this report.

**Fiduciary Funds**—Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the programs of the City.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

The fiduciary fund financial statements can be found on page 34 of this report.

**Notes to the Financial Statements**—The notes to the financial statements provide additional information that is essential to a full understanding of the information provided in the government-wide financial statements.

The notes to the financial statements can be found on pages 37-75.

**Required Supplementary Information**—In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

The required supplementary information can be found on pages 77-80 of this report.

The combining statements referred to earlier, in connection with non-major governmental funds and internal service funds, are presented immediately following the required supplementary information.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Assets:

The City’s assets exceeded liabilities by \$883,334 at the close of the fiscal year ending December 31, 2006, compared to \$815,159 at the end of the previous year.

**Statement of Net Assets  
December 31, 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 513,724	\$ 526,408	\$ 140,356	\$ 131,281	\$ 654,080	\$ 657,689
Capital assets	947,923	923,175	939,604	936,592	1,887,527	1,859,767
Total assets	<u>1,461,647</u>	<u>1,449,583</u>	<u>1,079,960</u>	<u>1,067,873</u>	<u>2,541,607</u>	<u>2,517,456</u>
Current and other liabilities	300,528	267,369	69,547	58,811	370,075	326,180
Long-term liabilities	867,137	927,478	421,061	448,639	1,288,198	1,376,117
Total liabilities	<u>1,167,665</u>	<u>1,194,847</u>	<u>490,608</u>	<u>507,450</u>	<u>1,658,273</u>	<u>1,702,297</u>
Net assets:						
Invested in capital, net of related debt	471,115	420,879	541,670	523,073	1,012,785	943,952
Restricted net assets	47,526	42,667	33,222	37,030	80,748	79,697
Unrestricted net assets, restated	(224,659)	(198,710)	14,460	320	(210,199)	(198,390)
Total net assets	<u>293,982</u>	<u>264,836</u>	<u>589,352</u>	<u>560,423</u>	<u>883,334</u>	<u>825,259</u>
Total liabilities and net assets	<u>\$1,461,647</u>	<u>\$ 1,459,683</u>	<u>\$ 1,079,960</u>	<u>\$ 1,067,873</u>	<u>\$ 2,541,607</u>	<u>\$ 2,527,556</u>

The largest portion of the City’s net assets, \$1,012,785, reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the City’s net assets represents a deficit in unrestricted net assets of (\$210,199), which, if positive, would be used for meeting the City’s short and long-term obligations. The negative unrestricted net assets balance is a result of prior period losses within the internal service funds and debt obligations that are not offset with capital assets. The nature of the

(All dollar amounts are expressed in thousands unless otherwise indicated.)

debt obligations include pension contributions, tax increment issued for the Community Planning and Economic Development Fund (“CPED”), and debt issued on behalf of the City’s discrete component units. The City reports the debt, but not the assets related to city’s discrete component units. As of December 31, 2006, approximately \$145,000 of the outstanding debt is related to activities of these discretely presented component units and it is included in the City report; however the related capital assets are reported as an asset of the component units. The City also has over \$93,000 of pension obligation bonds and over \$200,000 of various development related debt. A re-examination of the components of net assets for the governmental activities found that at January 1, 2006, net assets invested in capital assets, net of related debt was understated and unrestricted net assets was overstated. This was corrected in the statements and also disclosed in the notes to the financial statements under the summary of significant accounting policies, section N as reclassifications.

The remaining balance of the City’s net assets, \$80,748 represents resources that are subject to external restrictions on how they may be used.

The following table presents the net assets of the Primary government, (the City) and its discrete component units (Park Board, Library Board, and the Municipal Building Commission):

**City and Discrete Component Units**

**Statement of Net Assets**

December 31, 2006

	<u>Primary Government</u>		<u>Discrete Component Units</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 654,080	\$ 657,689	\$ 46,077	\$ 49,144	\$ 700,157	\$ 706,833
Capital assets	1,887,527	1,859,767	489,490	461,349	2,377,017	2,321,116
Total assets	<u>2,541,607</u>	<u>2,517,456</u>	<u>535,567</u>	<u>510,493</u>	<u>3,077,174</u>	<u>3,027,949</u>
Current and other liabilities	370,075	326,180	29,666	33,131	399,741	359,311
Long-term liabilities	1,288,198	1,376,117	12,643	2,019	1,300,841	1,378,136
Total liabilities	<u>1,658,273</u>	<u>1,702,297</u>	<u>42,309</u>	<u>35,150</u>	<u>1,700,582</u>	<u>1,737,447</u>
Net assets:						
Invested in capital, net of related debt	1,012,785	943,952	479,390	471,443	1,492,175	1,415,395
Restricted net assets	80,748	79,697	1,133	1,354	81,881	81,051
Unrestricted net assets, restated	(210,199)	(198,390)	12,735	12,646	(197,464)	(185,744)
Total net assets	<u>883,334</u>	<u>825,259</u>	<u>493,258</u>	<u>485,443</u>	<u>1,376,592</u>	<u>1,310,702</u>
Total liabilities and net assets	<u>\$ 2,541,607</u>	<u>\$ 2,527,556</u>	<u>\$ 535,567</u>	<u>\$ 520,593</u>	<u>\$ 3,077,174</u>	<u>\$ 3,048,149</u>

As the above table shows, the debt issued by the City for capital assets acquired by the discrete component units are reported in city’s column and the related capital assets under the component unit’s column.

***Statement of Activities***

The following table presents the changes in net assets for governmental and business-type activities:

(All dollar amounts are expressed in thousands unless otherwise indicated.)

**Statement of Activities**  
**For the Year Ended December 31, 2006**

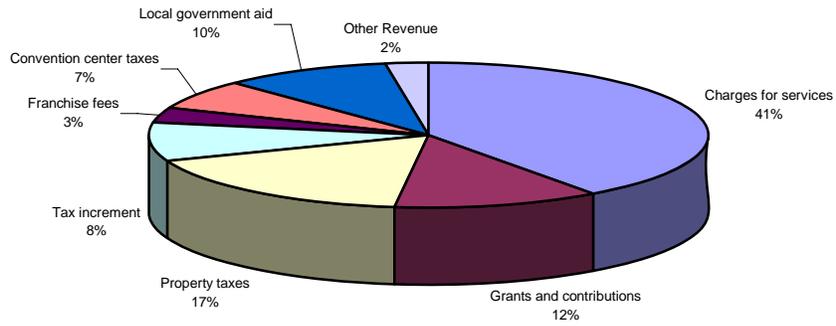
	Governmental Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 116,793	\$ 107,959	\$ 221,631	\$ 222,078	\$ 338,424	\$ 330,037
Operating grants and contributions	68,894	85,301	13,553	-	82,447	85,301
Capital grants and contributions	18,717	13,858	-	-	18,717	13,858
General revenues:						
Property taxes	145,073	131,261	-	-	145,073	131,261
Property tax increment	71,556	64,044	-	-	71,556	64,044
Franchise fees	29,026	27,702	-	-	29,026	27,702
Convention center taxes	56,725	55,064	-	-	56,725	55,064
Other taxes	188	228	-	-	188	228
Local government aid	81,626	65,921	-	-	81,626	65,921
Grants & contributions not restricted to prgms	9	-	-	-	9	-
Interest and investment earnings	14,407	13,510	1,542	1,359	15,949	14,869
Miscellaneous	2,862	1,144	2,039	1,582	4,901	2,726
<b>Total revenues</b>	<b><u>605,876</u></b>	<b><u>565,992</u></b>	<b><u>238,765</u></b>	<b><u>225,019</u></b>	<b><u>844,641</u></b>	<b><u>791,011</u></b>
<b>Expenses</b>						
General government	67,780	68,095	-	-	67,780	68,095
Public safety	221,160	215,366	-	-	221,160	215,366
Public works	52,267	28,909	-	-	52,267	28,909
Culture and recreation	15,851	48,744	-	-	15,851	48,744
Health and welfare	14,572	13,502	-	-	14,572	13,502
Community & economic development	116,369	133,037	9,035	24,517	125,404	157,554
Interest on long-term debt	89,147	34,383	-	-	89,147	34,383
Sanitary Sewer	-	-	36,710	26,880	36,710	26,880
Storm Water	-	-	23,815	25,898	23,815	25,898
Solid waste and recycling	-	-	26,554	24,500	26,554	24,500
Water works	-	-	53,209	46,292	53,209	46,292
Municipal parking	-	-	60,097	56,676	60,097	56,676
<b>Total expenses</b>	<b><u>577,146</u></b>	<b><u>542,036</u></b>	<b><u>209,420</u></b>	<b><u>204,763</u></b>	<b><u>786,566</u></b>	<b><u>746,799</u></b>
Excess (deficiency) before transfers	28,730	23,956	29,345	20,256	58,075	44,212
Transfers	416	19,291	(416)	(19,291)	-	-
<b>Change in net assets</b>	<b>29,146</b>	<b>43,247</b>	<b>28,929</b>	<b>965</b>	<b>58,075</b>	<b>44,212</b>
Net assets - January 1 -restated note 1	264,836	221,589	560,423	559,458	825,259	781,047
<b>Net assets - December 31, 2006</b>	<b><u>\$ 293,982</u></b>	<b><u>\$ 264,836</u></b>	<b><u>\$ 589,352</u></b>	<b><u>\$ 560,423</u></b>	<b><u>\$ 883,334</u></b>	<b><u>\$ 825,259</u></b>

**Governmental Activities**—Governmental activities increased the City’s net assets by \$29,146, compared to an increase of \$43,247 in 2005. Governmental activities are supported by charges for services, grants, and contributions. Additionally, general revenues cover any net expense after program specific revenues are applied. In 2006, the City relied primarily on taxes, various charges for services, and local government aid for funding governmental activities. Specifically, property tax increment revenues supported economic development activities.

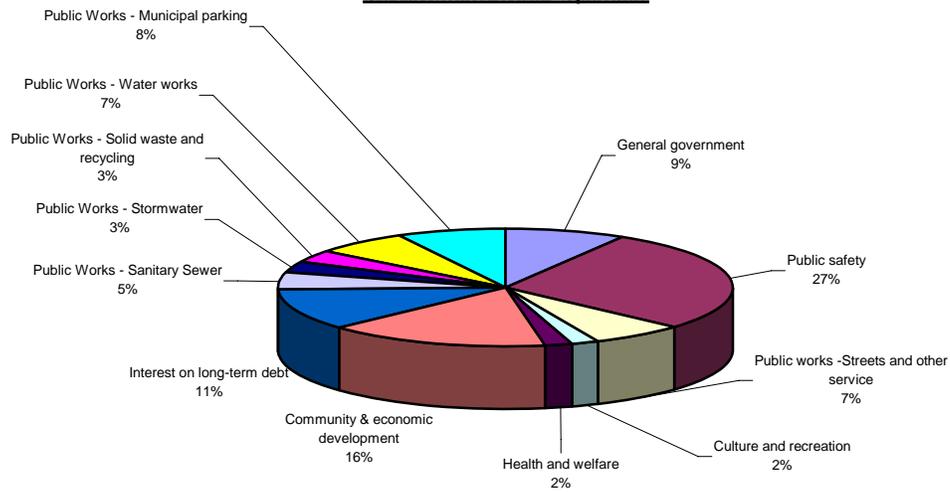
A significant expense in the statement of activities, compared to fund statements, is depreciation. Current year depreciation for governmental activities was \$33,984.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

**Government-wide Revenues**



**Government-wide Expenses**

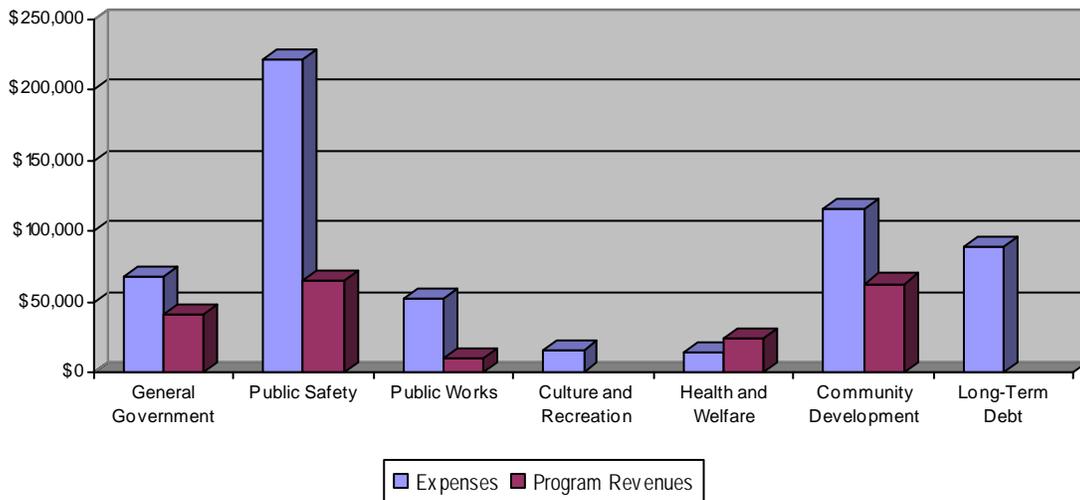


(All dollar amounts are expressed in thousands unless otherwise indicated.)

**Summary of expenses and program revenues - Governmental Activities**  
**For the Year ended December 31, 2006**

Functions/Programs	Expenses	Program revenues	Net (Expense) Revenue by Program
General government	\$ 67,780	\$ 41,641	\$ (26,139)
Public safety	221,160	64,914	(156,246)
Public works	52,267	10,370	(41,897)
Culture and recreation	15,851	-	(15,851)
Health and welfare	14,572	24,349	9,777
Community & economic development	116,369	63,130	(53,239)
Interest on long term debt	89,147	-	(89,147)
	<u>\$ 577,146</u>	<u>\$ 204,404</u>	<u>\$ (372,742)</u>

General revenues and transfers supporting governmental activities	<u>401,888</u>
<b>Change in net assets</b>	<u>29,146</u>
Net assets - January 1, 2006	<u>264,836</u>
Net assets - December 31, 2006	<u>\$ 293,982</u>



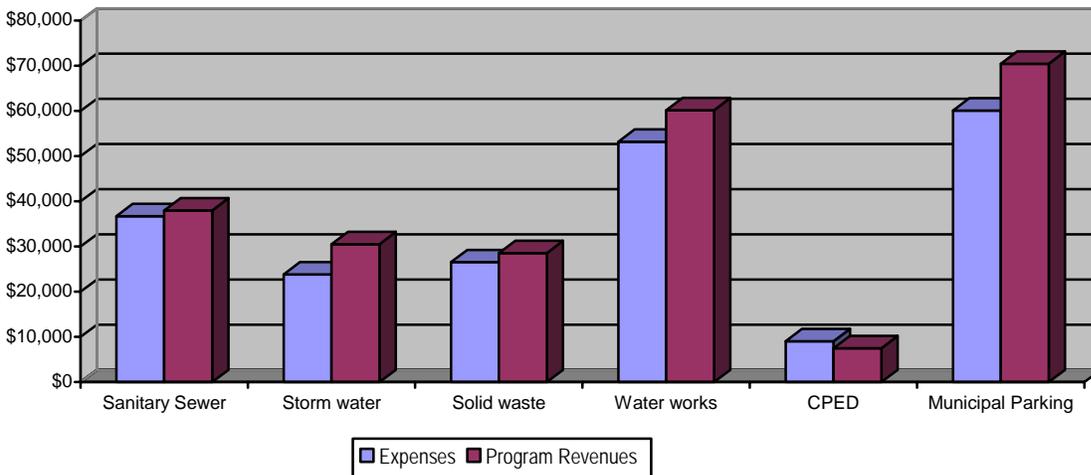
**Business-Type Activities**—Business-type activities increased the City’s net assets by \$28,929, compared with an increase of \$965 in 2005. The Stormwater, Municipal Parking, Solid Waste and Recycling, and Water Works funds experienced positive increases to net assets. However, the Sanitary Sewer and Community Planning and Economic Development (CPED) funds ended the year with a decrease in net assets. The CPED fund’s net asset decrease was primarily due to the loss on the disposal of capital assets.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

**Summary of expenses and program revenues - Business-Type Activities**  
**For the Year ended December 31, 2006**

Functions/Programs			Net (Expense) Revenue by
	Expenses	Program revenues	Program
Sanitary sewer	\$ 36,710	\$ 37,971	\$ 1,261
Stormwater	23,815	30,536	6,721
Solid waste and recycling	26,554	28,583	2,029
Water works	53,209	60,170	6,961
Community & economic development	9,035	7,483	(1,552)
Municipal parking	60,097	70,441	10,344
	<u>\$ 209,420</u>	<u>\$ 235,184</u>	<u>\$ 25,764</u>

General revenues net of transfers out supporting business-type activities	3,165
<b>Change in net assets</b>	28,929
Net assets - January 1, 2006	560,423
Net assets - December 31, 2006	<u>\$ 589,352</u>



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City of Minneapolis uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**—The general government functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

During 2006, four governmental funds including the General Fund are presented as major funds. These funds include two Special Revenue Funds (Community Planning and Economic Development Fund, and Convention Center Fund), and the Permanent Improvement Capital Projects Fund. At December 31, 2006, the City's governmental funds reported combined ending fund balances of \$391,929 a decrease of \$23,613 compared with the prior year. Approximately 47 percent of this total

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amount (\$183,173) constitutes unreserved fund balance, which is available for spending at the City's discretion. The following presents the amounts of unreserved balances by various fund types:

<u>Fund Type</u>	<u>Unreserved Balance</u>
General fund	\$ 52,641
Special revenue funds	77,561
Debt service funds	47,526
Capital projects	<u>5,445</u>
Total	<u>\$ 183,173</u>

The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$20,045), 2) to pay for land development and specific projects (\$151,111) or 3) for a variety of other restricted purposes (\$37,600).

The following tables provide an overview of revenues by source and expenditures by function for all governmental funds:

Revenue by Source	Revenues by Source Governmental Funds				Increase/ (Decrease)
	FY 2006		FY 2005		
	Amount	Percent of Total	Amount	Percent of Total	Amount
Taxes	\$ 300,893	47.92	\$ 277,411	46.58	\$ 23,482
Licenses and permits	25,838	4.11	25,835	4.34	3
Intergovernmental revenues	175,981	28.02	169,558	28.47	6,423
Charges for services and sales	55,112	8.78	52,590	8.83	2,522
Fines and forfeits	9,249	1.48	10,680	1.79	(1,431)
Special assessments	12,363	1.97	11,503	1.93	860
Interest	14,517	2.31	13,292	2.23	1,225
Miscellaneous revenue	34,001	5.41	34,696	5.83	(695)
Total	<u>\$ 627,954</u>	<u>100.00</u>	<u>\$ 595,565</u>	<u>100.00</u>	<u>\$ 32,389</u>

Expenditures by Function	Expenditures by Function Governmental Funds				Increase/ (Decrease)
	FY 2006		FY 2005		
	Amount	Percent of Total	Amount	Percent of Total	Amount
General government	\$ 66,803	8.44%	\$ 58,880	8.44%	\$ 7,923
Public safety	220,346	30.03%	209,453	30.03%	10,893
Public works	39,171	5.62%	39,204	5.62%	(33)
Culture and recreation	15,851	6.99%	48,744	6.99%	(32,893)
Health and Welfare	14,613	1.90%	13,258	1.90%	1,355
Community & economic development	112,103	18.42%	128,464	18.42%	(16,361)
Capital Outlay	45,447	6.62%	46,141	6.62%	(694)
Debt service - principal retirement	72,768	13.02%	90,825	13.02%	(18,057)
Debt service - interest payment	63,490	8.96%	62,456	8.96%	1,034
Total	<u>\$ 650,592</u>	<u>100%</u>	<u>\$ 697,425</u>	<u>100%</u>	<u>\$ (46,833)</u>

(All dollar amounts are expressed in thousands unless otherwise indicated.)

## General Fund

The General Fund is the general operating fund of the City. As of December 31, 2006, unreserved fund balance in the General Fund was \$52,641, while total fund balance reached \$55,112. The fund balance of the City's General Fund increased by \$1,550 during the current fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The year-end fund balance is in compliance with the City's policy of maintaining a minimum fund balance of 15% of the following year's revenue budget for the General Fund.

The following table provides changes in revenues by source from 2005 to 2006:

General Fund					
Revenues By Source					
Revenues by Source	FY 2006		FY 2005		Increase/ (Decrease) Amount
	Amount	Percent of Total	Amount	Percent of Total	
Taxes	\$ 137,889	42.10%	\$ 125,203	42.02%	\$ 12,686
Licenses and permits	24,938	7.61%	25,044	8.40%	(106)
Intergovernmental revenues	91,614	27.97%	80,290	26.94%	11,324
Charges for services and sales	38,169	11.65%	33,976	11.40%	4,193
Fines and forfeits	8,598	2.62%	10,016	3.36%	(1,418)
Special assessments	3,008	0.92%	2,839	0.95%	169
Interest	907	0.28%	1,952	0.66%	(1,045)
Miscellaneous revenues	1,446	0.44%	693	0.23%	753
Total revenues	\$ 306,569	93.59%	\$ 280,013	93.97%	\$ 26,556
Transfers in	20,994	6.41%	17,981	6.03%	3,013
Total revenues and other financing sources	\$ 327,563	100%	\$ 297,994	100%	\$ 29,569

In 2006, General Fund revenues and transfers have increased by about 10% from the previous year. Some highlights included:

- Tax revenues increased by \$12,686 or 10.1%. This increase was primarily due to an increase in general property tax revenue of \$11,116; total assessed market value increased 10.6%.
- Intergovernmental revenues increased by \$11,324 or 14.1%, primarily due to an increase in local government aid.

The following table provides the changes in expenditures by function from 2005 to 2006.

General Fund					
Expenditures by Function					
Expenditures by Function	2006		2005		Increase/ (Decrease) Amount
	Amount	Percent of Total	Amount	Percent of Total	
General government	\$ 46,861	14.37	\$ 44,236	14.47	\$ 2,625
Public safety	193,813	59.45	171,002	55.92	22,811
Public works	38,734	11.88	38,754	12.67	(20)
Culture and recreation	200	0.07	-	-	200
Health and family support	3,693	1.13	3,649	1.19	44
Community & economic development	3,530	1.08	3,366	1.10	164
Total expenditures	286,831	87.98	261,007	85.36	25,824
Transfers out	39,182	12.02	44,777	14.64	(5,595)
Total expenditures and other financing uses	\$ 326,013	100.00	\$ 305,784	100.00	\$ 20,229

(All dollar amounts are expressed in thousands unless otherwise indicated.)

Overall, general fund expenditures increased by \$20,229 or 6.6% from the previous year.

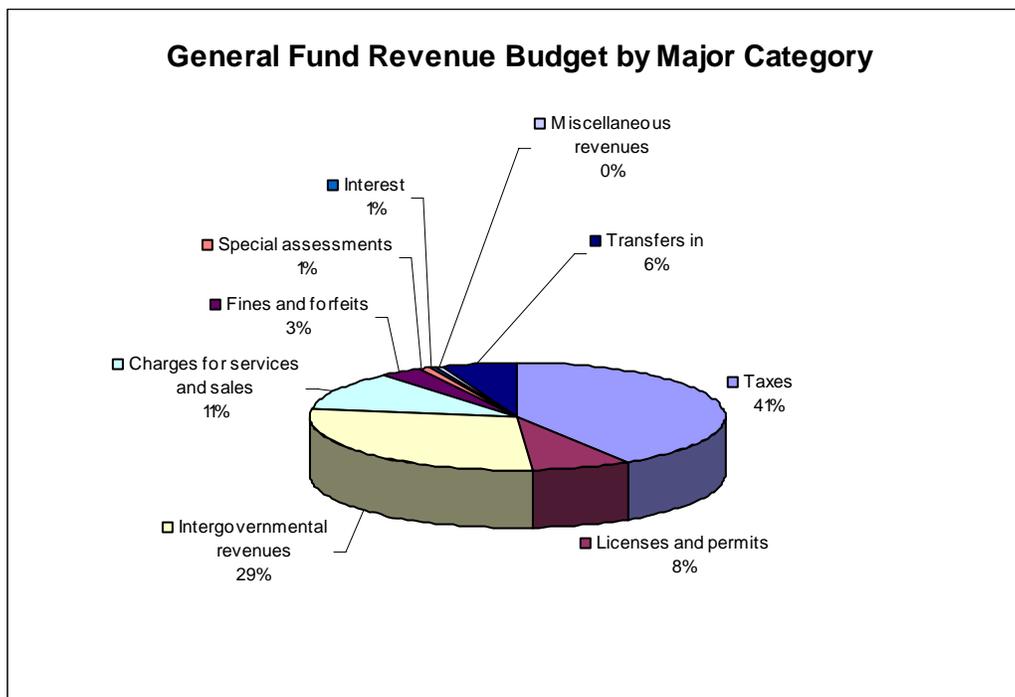
Despite the overall increase, expenditures for the General Fund are less than inflationary measures. This result was primarily due to the various cost reduction actions adopted by the Mayor and City Council.

**General Fund Budgetary Highlights:** The final budget for the City’s General Fund represents the original budget, any previously appropriated funds set aside for the purpose of honoring legally incurred obligations (prior year encumbrances and commitments), and any additional supplemental appropriations that may occur during the fiscal year. In 2006, the following were significant budget actions:

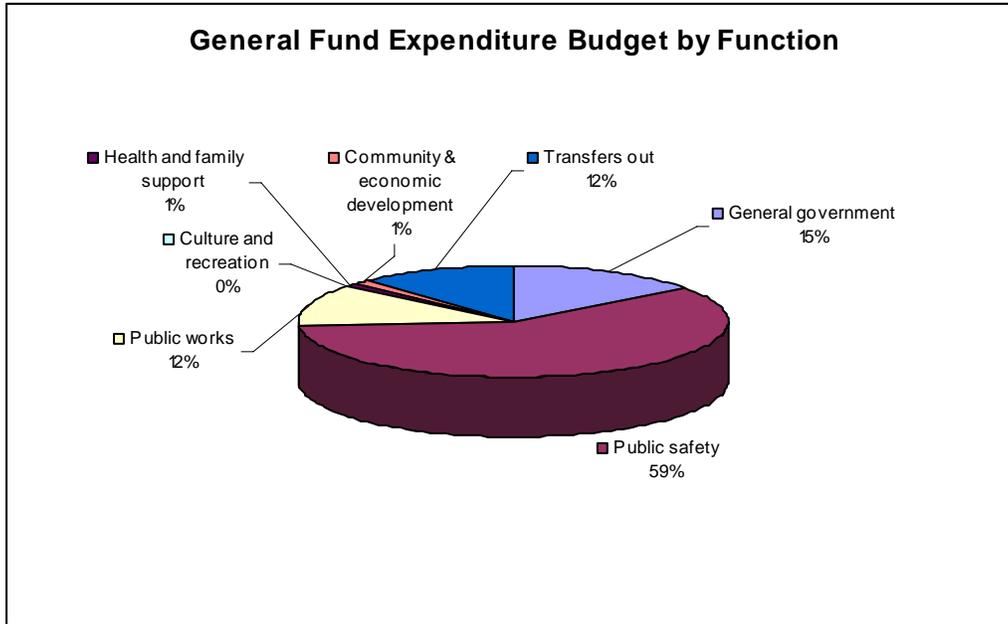
- \$4,900 of 2005 unspent appropriation was carried forward into 2006. This included \$3,100 which was transferred to the Self-Insurance Internal Service Fund to buy down variable rate debt.
- Police budget was increased by \$5,100 to cover overspending. This was primarily due to a significant increase in overtime, an \$800 increase in jail fees, and \$1,000 in technology fees.

The original General Fund appropriation for fiscal year 2006 was \$318,372, which included projected transfers out of \$35,417. The final appropriation was \$330,741, including transfers out of \$39,148. General revenues and other resources were originally estimated at \$318,474, which included projected transfers of \$18,850. The final revenue estimate was \$318,860 including transfers of \$18,850.

Current fiscal year revenue and expenditure budgets for the General Fund by major category or function are as follows:



(All dollar amounts are expressed in thousands unless otherwise indicated.)



### Community Planning and Economic Development (CPED) Special Revenue Fund

The Community Planning & Economic Development (CPED) Special Revenue Fund accounts for governmental fund proceeds that are legally restricted to expenditures for specific purposes in a series of housing and economic development programs. The range of programs operated within this fund are created to increase the City's economic competitiveness, to ensure an array of attractive housing choices, to support strong and diverse neighborhoods, and to preserve our historic structures. These programs are financed primarily through federal, state, and local grants, tax increment financing, and administrative fees collected for the issuance of housing and economic revenue bonds. A development account program provides loans and grants to outside organizations within the City to assist commercial and housing development. The program is capitalized with residual equities from development projects and UDAG repayments.

The total revenues of the CPED Special Revenue fund in 2006 were \$106,145. 67% of the fund's revenue was derived from property tax increment. An additional 8% of the revenue was from intergovernmental grants. The remaining revenue was derived from a variety of miscellaneous sources. The fund's revenue decreased 7.2% in 2006. There was a corresponding decrease in fund expenditures. The expenditures for the fund in 2006 were \$54,852. The fund's expenditures are primarily for contractual services for the housing and economic programs operated within the fund and for the staff costs to monitor and deliver these programs. The decrease in fund revenues and expenditures was primarily due to the declining use of grant funding sources in 2006, as well as the completion of development projects in the prior year.

In 2006 there was \$14,390 of transfers into the fund recorded during the year. Nearly all the transfers were pass-through grant proceeds from other City funds, and the collection of UDAG repayments. The fund's transfers out of \$77,738 were to provide resources for the debt service of obligations issued by the City for community development programs, and to transfer funds to pay for neighborhood revitalization projects.

At year-end the fund balance of the fund was \$224,538; a decline of 5.1% from the prior year. This decrease was primarily due to the use of fund resources to meet debt service requirements, and the disposition of land held for development. The unreserved portion of the fund balance at December 31, 2006 was \$48,755. The remaining fund balance was reserved primarily for property held for development, encumbrances, or for specific development projects.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

**Minneapolis Convention Center Special Revenue Fund**

Operations of the Minneapolis Convention Center are reported as a Special Revenue Fund in the fund statements. The Convention Center activity is funded from local taxes and Convention Center operating revenues. Local taxes for convention center activities include:

- 0.5 % citywide sales tax;
- 3 % food and liquor tax applied to core downtown establishments;
- 3 % citywide entertainment tax;
- 3 % citywide lodging tax for motels and hotels with 50 units or more.
- Overall tax proceeds for 2006 exceeded 2005 levels by 3% and have achieved 103% of the budget.

<b>Minneapolis Convention Center Tax Revenues</b>				
Taxes	2006		2005	
	Budget	Actual	Actual	
Sales and use	\$ 27,701	\$ 27,867	\$	27,404
Entertainment	9,109	9,248	9,193	
Food	9,248	9,993	9,474	
Liquor	3,606	3,627	3,487	
Lodging	5,147	5,990	5,506	
Total	\$ 54,811	\$ 56,725	\$	55,064

The total revenues of the Convention Center Fund in 2006 were \$72,563 and slightly exceeded 2005 levels by about 1% and the original budget by 2%. Much of the increase can be attributed to increases in local tax collections, catering commissions, and increases in services, such as audio visual, cleanup, labor, security, and utilities. For 2006, the Convention center fund’s expenditures of \$32,078 came in slightly 2% below 2005 levels. Thus, the ending fund balance is \$41,222 or \$5,372 more than the 2005 level of \$35,850.

**Permanent Improvement Capital Project Fund:**

The funding for the Permanent Improvement Fund is primarily from two sources. The first source includes bonds that are sold by the City of Minneapolis for capital projects. The second source is from the State of Minnesota. State revenues are primarily used for capital assets including bridges, streets, street lighting, traffic signals and specific projects.

The Permanent Improvement Fund is used to build infrastructure for the City including bridges, sidewalks, streets, traffic signals, street lights, and fund other capital projects. During 2006, \$45,447 of capital outlay occurred which was a 2% decrease from 2005. The key assets constructed with these funds included:

- Bridges - \$4,829
- Sidewalks - \$2,128
- Streets - \$20,853
- Street Lighting - \$2,154
- Traffic Signals - \$3,570
- Bike Trails- \$1,033
- Heritage Park (Near North) project - \$2,561

(All dollar amounts are expressed in thousands unless otherwise indicated.)

- Property Service - \$1,811

The fund balance decreased from \$21,500 in 2005 to \$6,034 in 2006. This decrease was due to the issuance of bonds in 2005 for the construction of the new library that were used during 2006. Additionally, revenues for the fund increased from \$23,939 in 2005 to \$26,187 in 2006 due to increased funding from the state.

### ***Enterprise Funds***

The City operates six enterprise funds: Sanitary Sewer, Stormwater, Solid Waste and Recycling, Water Works, Community Planning and Economic Development (CPED), and Municipal Parking.

Overall, the enterprise funds had a positive net asset of \$607,086 at December 31, 2006. Total net assets for all enterprise funds increased by \$29,266 during 2006.

The following table summarizes the total assets, total liabilities, operating income, changes in net assets, and net asset balances for each of the enterprise funds, from 2005 to 2006:

	<b>Enterprise Funds</b>						<b>Total</b>	
	<b>Key Balance Sheet Account Balances and Revenue and Expense Activities</b>							
	<b>December 31, 2006</b>							
	<b>Sanitary Sewer</b>	<b>Storm water</b>	<b>Solid Waste &amp; Recycling</b>	<b>Water Works</b>	<b>CPED</b>	<b>Municipal Parking</b>	<b>2006</b>	<b>2005</b>
Assets	87,139	264,875	24,194	250,194	108,474	376,128	1,111,004	1,098,880
Liabilities	1,258	41,649	2,505	105,496	63,790	289,220	503,918	521,060
Operating Income(loss)	(426)	8,308	1,633	8,697	3,539	11,606	33,357	27,896
Changes in net assets	(426)	6,822	1,441	7,136	(733)	15,026	29,266	3,128
Net Assets	\$85,881	\$223,226	\$21,689	\$144,698	\$44,684	\$86,908	\$607,086	\$577,820

### ***Sanitary Sewer Fund***

The Sewer Rental fund was split in 2005 into two funds, Stormwater and Sanitary Sewer. The Sanitary Sewer fund accounts for the majority of the payments to the Metropolitan Council Environmental Services (MCES) for sewage interceptor and treatment services. It also accounts for the sanitary sewer maintenance and design. Overall, the net asset balance as of December 31, 2006 was \$85,881.

### ***Stormwater Fund***

The Stormwater fund accounts for Stormwater activities including the Combined Sewer Overflow (CSO) program. As of December 31, 2006 the fund ended the year with a negative cash balance of \$1,400, which was covered by a loan from the Solid Waste fund. Overall, the net asset balance as of December 31, 2006 was \$223,226.

### ***Solid Waste and Recycling Fund***

The Solid Waste and Recycling Fund accounts for solid waste collection, disposal and recycling operations. The fund also includes “clean city” activities such as neighborhood clean sweeps, litter and graffiti removal, and litter control in the business districts. City crews provide approximately one-half of the solid waste collection services, while the remaining services are provided through contracts with private operators. At year end, loans of \$13,300 were issued to fund cash deficits

(All dollar amounts are expressed in thousands unless otherwise indicated.)

in the Municipal Parking Fund and the Stormwater Fund. The fund reported an increase in net assets of \$1,441 for 2006. The fund's net asset balance at December 31, 2006 was \$21,689.

#### ***Water Works Fund***

The Water Works Fund accounts for the operation and maintenance of a water delivery system for the City and several suburban city customers. The City sells water directly to the cities of Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal, and Edina. Net assets increased \$7,136 for the year, resulting in a net asset balance at December 31, 2006 of \$144,698.

#### ***Community Planning and Economic Development Enterprise Fund (CPED)***

The CPED Enterprise Fund operates a series of business-type activities designed to enhance housing options and economic development within the City. Within this fund there are programs that provide low interest home mortgages financed through the sale of bonds. There is also a program in which revenue bonds are issued to finance economic development. The program obtains lease or loan agreements from developers to meet the debt service requirements of the financing. This fund also operates a river terminal facility. Substantially all operating revenues are derived from fees charged to the users of the services provided. The river terminal accounts for the investment in capital assets of the fund.

Net assets decreased by \$733 during the year. An operating transfer in the amount of \$600 was made from the resources generated by the programs of the CPED Enterprise Fund to CPED's Special Revenue Fund for the benefit of other economic development activities of the City.

#### ***Municipal Parking Fund***

The Municipal Parking Fund accounts for the operation and maintenance of parking ramps, lots, on-street parking meters, municipal impound lot, and traffic/parking control system. The net asset balance for December 31, 2006 was \$86,908, which is an increase of \$15,026 from 2005 balance of \$71,882.

A parking fund financial plan was developed to address declining results of operations and cash deficits within the fund. The plan includes a business strategy to address the diminishing use of City parking facilities; updates to aging revenue control equipment; management practices; maintenance to prevent future capital expense; and a strategy to maximize revenue on the existing programs.

#### ***Internal Service Funds***

The City operates six internal service funds: Engineering Materials and Testing; Intergovernmental Services; Property Services; Permanent Improvement Equipment; Public Works Stores; and the Self Insurance fund. Internal service funds charge user fees to recover the cost of operations and accumulate equity for purposes of maintaining the on-going operations provided to the government.

While the financial condition of the internal service funds continue to represent a major financial challenge for the City, key financial management measures taken in 2001 have marked a turning point for these funds. The previous eight years, the financial condition of these funds had deteriorated, reaching a low point at year-end 2000 when the combined net asset deficit had declined to (\$54,407). Now at the end of 2006, the combined net asset deficit in the internal service funds has improved to (\$3,271). This improvement resulted largely from a change in accounting principle and prior period adjustments of \$17,555 from 2001, resulting from the implementation of GASB Statement No. 34. The restatement resulted in recognizing assets previously unrecorded within the internal service funds. The remaining improvement of \$33,581 can be credited to the deficit reduction plans that the Managers of their respective funds implemented. Another milestone reached is that all six Internal Service Funds had a positive cash balance at the end of 2005. If the Internal Service Funds continue on this pace of financial recovery, positive Net Assets will be achieved by the end of the year 2010.

The following table provides a summary of cash balances, total assets, total liabilities, operating income, changes in net asset and net asset balances for each of the internal service funds:

(All dollar amounts are expressed in thousands unless otherwise indicated.)

**Internal Service Funds**  
**Key Balance Sheet Account Balances and Revenue and Expense Activities**  
**December 31, 2006**

	Eng. Materials & Testing	Intergovt. Services	Property Services	Equipment Services	Public Works Stores	Self Insurance	Total	
							2006	2005
Cash	\$ 294	\$ 1	\$ 38	\$ 2,036	\$ 1	\$ 5,541	\$ 7,911	\$ 5,820
Assets	391	36,408	39,251	60,036	5,052	8,551	149,689	144,490
Liabilities	124	60,172	10,670	41,659	1,682	38,653	152,960	166,363
Operating Income(loss)	(82)	1,936	(1,503)	280	325	(7,927)	(6,971)	(13,296)
Changes in net assets	(104)	10,492	(1,024)	2,974	326	5,938	18,602	7,037
Net Assets	\$ 267	\$ (23,764)	\$ 28,581	\$ 18,377	\$ 3,370	\$ (30,102)	\$ (3,271)	\$ (21,873)

**Engineering Materials and Testing Fund**

This fund is used to account for operations of the City's Engineering Laboratory testing and inspection services along with the purchases of asphalt and ready-mix concrete. In 2003, the City Council took action to indefinitely discontinue operations of the asphalt plant. As a result, the Fund continues to account for the outside purchases of asphalt and ready-mix concrete.

The disposal of assets related to the discontinuation of operations of the asphalt plant was the major contributor to the losses of \$180, \$229, and \$104 in 2004, 2005 and 2006 respectively. Net Assets have been reduced from \$371 at the end of 2005 to \$267 at the end of 2006.

**Intergovernmental Services Fund (ISF)**

This fund accounts for information technology services, central mailing and printing services, and telecommunication operations. In 2003, the fund's beginning net asset balance was restated by \$7,866 to reflect corrections made to accurately present the fund's capital assets, accumulated depreciation, and related liability amounts. This positive adjustment reduced the beginning net asset deficit from (\$40,850) to (\$32,984). A loss in 2003 coupled with a net asset increase of \$2,307 in 2004, \$3,230 in 2005, and \$10,492 in 2006 leaves the fund's net asset deficit at (\$23,764). The deficit reduction plan forecasted that the fund would lose (\$3,798) at the end of 2006. This fund has performed better than projected the last two years.

**Property Services**

This fund accounts for the City's property and maintenance, including parking ramp maintenance, security, and space and asset management. During 2002, some of the City's properties were transferred to this fund from governmental funds, resulting in additional depreciation expense being incurred. Currently, the Property Services Fund does not have rental and other recovery rates sufficient to fully cover depreciation, which has resulted in a net asset decrease of \$1,024 for 2006. This amount represents a decrease of 3.5% from the 2005 balance of \$29,605 to an ending balance in 2006 of \$28,581.

**Equipment Services**

Equipment Services Fund is used to account for the City's fleet of vehicles and related equipment and accessories. The fund reported an increase in net assets of \$2,974 in 2006, or 19.3%, and closed the year with a net asset balance of \$18,377.

The updated Deficit Reduction Plan for this fund eliminates the sale of bonds to support the equipment purchases in 2006. The net asset balance of this fund is tracking close to the Deficit Reduction Plan for 2005 and 2006.

**Public Works Stores**

This fund is used to account for the centralized procurement, warehousing, and distribution of stocked inventory items, and the purchase of special goods and services. In addition, this fund stores an inventory of traffic signal components for

(All dollar amounts are expressed in thousands unless otherwise indicated.)

assembly for Public Works-Transportation. For 2006, the fund reported a net asset increase of \$326 with an ending net asset balance of \$3,370.

### **Self Insurance**

This fund accounts for employee medical, dental, and life insurance benefits programs, occupational health services, severance payments, tort liability program, workers' compensation program, and the related administrative costs. Net assets increased \$5,938 in 2006, which benefited the fund's net asset position by reducing the total net asset deficit balance to (\$30,102) at year end. In 2006 the City Council adopted a one-time use of General Fund reserve of \$3,082 to assist in the reduction of bond debt. At year end 2006, the total bond debt is \$1,380 a reduction of \$4,015 from the previous debt of \$5,395.

### ***BUDGET PROCESS***

Minneapolis has faced significant pressures on its general city resources due to reductions in local government aid (LGA) from the state, for 2003 to 2006. The Mayor and City Council continue to take a long-term view of the City's financial pressures. The following areas are those with the most significant future costs:

- Significant future costs are anticipated for funding gaps in the City's pension obligations and in its internal service funds.
- Another factor is employee wages and benefits, which make up over 60 percent of the City's general fund expenses. Health care costs are increasing. Prior to 2003, City employees received pay increases that averaged greater than four percent annually.
- In 2000, Minneapolis voters approved a levy to build a new Central Library and fund improvements to the community libraries.

Increased pension costs associated with City's three closed pension plans - Minneapolis Employee Retirement Fund (MERF), Minneapolis Fire Relief Association (MFRA), and Minneapolis Police Relief Association (MPRA) - continue to have a significant impact on the budget. The City's contributions to these funds have significantly increased, due to increased costs associated with these three plans.

MERF members have been retiring at a faster pace and at higher costs than originally forecasted by MERF actuaries. The City issued general obligation bonds in 2002 and 2003 to cover the estimated costs of retirement and may need to issue additional bonds for these costs, pending legislative action which might help with MERF payments.

The MPRA's unfunded liability has also increased, primarily due to the negative performance of the stock market. The City has to increase its contribution to cover the unfunded liability by issuing bonds. The MFRA, although previously 100 percent funded, now is experiencing a reduction in its funding levels due to poor investment performance. The City had to issue bonds in 2004 to cover these shortages. However, the Mayor and City Council have allocated one-time revenues and positive results in the general fund to avoid having to issue additional debt.

A major part of the budget planning efforts concentrated on consolidating all demands on the property tax into a ten-year projection. In order to continue to fund all of the City's current operations and debt service obligations, it is estimated that property tax revenues collected by the City would have had to triple by 2010. (This increase does not include revenue to provide additional services - these amounts reflect commitments for current programs only.)

In this context, in July 2002, the elected officials adopted a property tax policy, which limited annual increases for the City's share of property taxes to a maximum of 8%. Half of this increase was dedicated to supporting the City's debt payments for increased pension obligations, internal service fund deficits, and increased library capital projects as called for in a voter approved referendum in 2000. The other half of the increase was for the cost of providing existing services. This policy was also adopted by the City's Board of Estimate and Taxation, thus capping the annual operating increase for the Minneapolis Park and Library boards at 4%. These policies remained in place for 2006.

The 2006 budget also relied on the 2002 tax policy and a five-year financial outlook. In January 2003, the Mayor and City Council adopted a five-year financial direction and commitment to business planning. This direction established resource constraints within which departments were to prepare business plans for providing services with reduced funding. The combination of reduced spending and limited growth in property taxes addressed the City's existing challenges. The elected

officials also adopted a 2% cap on wage increases for City employees. The Mayor and City Council conducted strategic planning in the spring of 2006, setting goals and strategic directions for City services.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets:**

The City’s investment in capital assets for its governmental and business-type activities, as of December 31, 2006, was \$1,887,527 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, roads, highways, and bridges. The total increase in the City’s investment in capital assets for the current fiscal year was 1.5% (a 2.7% increase for governmental activities and a 0.3% increase for business-type activities).

The following table summarizes capital assets for governmental and business-type activities for 2006 and 2005:

**Capital Assets (Net of depreciation)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land and easements	\$ 111,632	\$ 111,632	\$ 135,076	\$ 135,076	\$ 246,708	\$ 246,708
Infrastructure	115,614	127,854	252,235	256,637	367,849	384,491
Construction in progress	250,992	201,433	88,423	85,780	339,415	287,213
Structures and improvement	407,318	417,493	456,492	451,702	863,810	869,195
Equipment	<u>62,367</u>	<u>64,763</u>	<u>7,378</u>	<u>7,397</u>	<u>69,745</u>	<u>72,160</u>
Total	<u>\$ 947,923</u>	<u>\$ 923,175</u>	<u>\$ 939,604</u>	<u>\$ 936,592</u>	<u>\$ 1,887,527</u>	<u>\$ 1,859,767</u>

Major capital asset transactions and events during the current fiscal year included:

- In 2002, the Water Department began an ultra filtration program with projected costs of approximately \$144,900 (expected completion date of 2007). This new system of water filtration will give the City’s water system necessary plant improvements. The ultra filtration program is the most extensive program that the Water Department has ever started.
- The Heritage Park project has a budget of \$76,605, with costs to date totaling \$57,359. This project has an estimated completion date of 2007. The Heritage Park project is for affordable housing, environmental recommitment, and neighborhood-scaled development.

Additional information on the City’s capital assets can be found in Note 4 on pages 55-57 of this report.

**Long-term debt.** As of December 31, 2006, the City had total long-term bonds outstanding of \$1,273,742 compared to \$1,345,617 in the prior year. Of this amount, \$883,527 related to governmental activities and \$390,215 related to business activities. The City had \$260,790 or 20.4% of the outstanding bonds in variable rate mode at year-end. In addition to bonded debt, the City had \$91,448 of long-term revenue notes outstanding at December 31, 2006, of which \$26,709 related to governmental activities and \$64,739 related to business activities.

The table below shows various classifications of the City’s bonded debt at December 31, 2006 and the amount of principal due in 2007.

(All dollar amounts are expressed in thousands unless otherwise indicated.)

Summary of Outstanding Bonded Indebtedness	1/1/2006	Additions	Retirements	12/31/2006	Due in 2007
<b>General Obligation (GO) Bonds:</b>					
Property Tax Supported GO Bonds	\$ 270,980	\$ 22,555	\$ 32,720	\$ 260,815	\$ 22,285
Self Supporting GO Bonds	258,340	-	7,995	250,345	7,945
Special Assessment GO Bonds	45,406	4,280	5,115	44,571	5,436
Tax Increment GO Bonds	189,360	-	11,035	178,325	12,115
Internal Service Fund Related GO Bonds	100,925	1,525	18,735	83,715	9,130
Enterprise Fund Related GO Bonds	351,891	11,114	30,775	332,230	30,781
Total General Obligation Bonds	1,216,902	39,474	106,375	1,150,001	87,692
<b>Revenue Bonds:</b>					
Economic Development Revenue Bonds	67,085	10,545	11,874	65,756	11,200
Other Community Development Related Bonds	61,630	8,400	12,045	57,985	2,665
Total Outstanding Bonds	1,345,616	58,419	130,294	1,273,742	101,557

The City maintained a “AAA” rating from Standard & Poor’s and Fitch Ratings and an “Aa1” rating from Moody’s for its general obligation debt throughout 2006. Fitch Ratings also removed the negative outlook from the City of Minneapolis bond rating in 2006.

Additional information on the City’s capital assets can be found in Note 5 on pages 57-62 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES**

### ***Budget Outlook***

The City’s future financial outlook is strong, but will require continued diligence in the management of significant funding pressures, including personnel costs, pension obligations, and internal service fund debt. The City has several policies in place to help address these pressures.

With the 2007 Budget, the City adopted a revised five-year financial direction. Specifically, growth in salary and wages are budgeted at two percent. Health premiums are budgeted to increase 15 percent from the 2006 budget, with costs increasing from \$43,700 to \$47,100. The five-year financial direction includes an average 18 percent annual health benefit premium increase through 2012.

Increases in the City’s pension liabilities continue to put pressure on the City’s financial situation. With obligations of approximately \$631,000 in through 2026, the City currently issued bonds to meet its pension obligations. The 2007 budget includes the use of \$3,000 in one-time resources to buy down and avoid additional pension debt. The City is pursuing legislative changes to the structure of its payments to the Minneapolis Employees Retirement Fund (MERF), which, if adopted, would reduce or eliminate the need to issue bonds to fund pension payments.

Although the City continues to have a deficit in its Internal Service Funds, future budgets will continue to address these deficits through the Council-adopted workout plans. The 2007 budget includes an additional \$2,200 in funding for internal city services: self insurance (*i.e.*, workers compensation, general liability), equipment services (squad cars, fire trucks, and computers), and information technology services. The Equipment Services Fund is no longer experiencing a deficit.

### ***Economic Outlook and Tax Trends***

Minneapolis has historically had a strong commercial and industrial tax base. For taxes payable in 1996, Minneapolis commercial and industrial property paid 54.7 percent of the total taxes for the city, with the central business district alone paying almost 40 percent. After the 2001 property tax changes, for taxes payable in 2005, the proportion of taxes paid by

(All dollar amounts are expressed in thousands unless otherwise indicated.)

commercial and industrial tax payers declined to 38.1% of the City's total, with the central business district paying approximately 28 percent.

For property taxes payable in 2010, the commercial/industrial share of taxes is projected to further decline, to a level of 31 percent. Corresponding percentages for residential property (defined as 1-3 dwelling units) show that this class paid 34 percent of the city's taxes in 1996, increasing to 44 percent for taxes payable in 2005, and projected to be 60 percent for taxes payable 2010. This represents almost a complete reversal in the share of the City's tax burden between the two property types. This shift highlights the local property tax burden on the residential homeowner.

### ***Downtown Office Space—Vacancy Rate:***

Because of the importance of real estate taxes as a source of local government revenue, real estate statistics are an important economic gauge for municipalities. Several commercial real estate companies compile and report real estate statistics. Colliers International reports on local real estate conditions twice annually. Collier's statistics indicate a decrease in vacancy rates in the Minneapolis Central Business District (CBD). Compared to 2005, the CBD Direct vacancy rate in 2006 decreased from 18.9% to 16.3%. The overall vacancy rate for the Twin Cities Office market went down from the 2005 rate of 18.7% to 16.7%.

Lower rental rates, excess space, and higher concessions imply lower cash flows from office buildings, which, in turn, lower their taxable value. Lower taxable values on business properties increases the amount of the real estate tax levy borne by residential properties. These factors were considered in preparing the City's budget for the 2007 fiscal year.

The downtown office vacancy rate continues to exacerbate the financial problems of the City's Parking Fund. The City Council adopted a workout plan in 2004 to address the deficiencies in this fund.

### ***Employment:***

The unemployment rate for the City of Minneapolis at the end of 2006, as released by the Minnesota Department of Employment and Economic Development, is 3.8%. This economic indicator is on par with comparisons including the State of Minnesota (4%) and the national unemployment rate (4.6%).

### **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Minneapolis' finances. Questions concerning any of the information provided in this report or the requests for additional financial information should be addressed to the City's Finance Officer at The City of Minneapolis, 350 South Fifth Street, Minneapolis, Minnesota, 55415. The annual financial report is also available on-line at [www.ci.minneapolis.mn.us](http://www.ci.minneapolis.mn.us).