City of Minneapolis
2012 Budget

Financial Policies

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City of Minneapolis
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Financial Management Policies

OPERATING BUDGET POLICIES

The objective of the operating budget policies is to ensure adequate levels of essential City services at reasonable costs.

Balanced Budget. The operating budget for the City shall be balanced. For each fund, ongoing costs are not to exceed ongoing revenues plus available fund balances used in accordance with reserve policies.

Self-Supporting Enterprises. All enterprise activities of the City shall be self-supporting, including those activities contained within the Internal Service Funds. To the extent that an activity is not self-supporting, long-term financial plans shall be created to secure a self-supporting state in the future.

Service Levels. Performance measurement and productivity indicators for services shall be integrated into the annual budgeting process. Changes in service levels shall be governed by the following:

- ***Budget Process***. The annual budget process is intended to weigh all competing requests for City resources within expected fiscal constraints. Requests for new programs should be made as a part of the annual budget process. New initiatives will be financed by reallocating existing City resources to the services with the highest priorities.

- ***Personnel Expenses***. Additional personnel shall be requested only after service needs have been thoroughly documented or after it is substantiated that the new employees will result in increased revenue or enhanced operating efficiencies.

- ***Grant Funded Programs***. Programs financed with grant monies shall be budgeted in special revenue funds, and the service program shall be adjusted to reflect the level of available grant funding. Individual grant budgets are controlled in the financial system at the cost category level. In the event of reduced grant funding, City funding sources shall be substituted only after all competing program priorities are considered during the annual budget process.

Basis of Budgeting. The basis of budgeting and accounting are the same, except as noted below. The budgets of all governmental funds are created using the modified accrual basis. Revenues are budgeted if they are measurable and available as net current assets. Major revenues that are determined to be susceptible to accrual and budgeted accordingly, include property taxes, special assessments, grants-in-aid, intergovernmental revenues, rentals, franchise fees, and intra-city charges.

Interest on investments, short-term notes and loans receivable are accrued, and budgeted. Interest on special assessments receivable is not accrued or budgeted. Major revenues that are determined not to be susceptible to accrual because they are not available soon enough to

pay liabilities of the current period or are not objectively measurable include delinquent property taxes and assessments, licenses, permits, fines and forfeitures. Delinquent property taxes are not budgeted, while the other categories are budgeted.

In the governmental funds, expenditures are generally budgeted when the related fund liability is incurred, except for principal and interest on general long-term debt, for which only the current portion is budgeted. Compensated absences, which include accumulated unpaid vacation, compensatory time and severance pay, are not budgeted, as they are not payable from expendable available resources, except for available resources in the Self-Insurance Internal Service Fund for vested severance pay. Compensated absences are considered expenditures when paid to employees. Salary expenditures are budgeted based on full time equivalents (FTEs), regardless of the type of pay.

Proprietary funds use the accrual basis, and revenues are budgeted as they are anticipated to be earned. Unbilled utility service receivables are recorded at year end. Utility service revenue estimates are based on the number of users, without a factor for delinquencies.

Budgetary Controls. The legal level of budgetary control is at the department level within a fund. The City Coordinator's Office, the Public Works Department and the City Clerk/Elections/ City Council areas are considered to be legal levels of budgetary control within a fund even though budgetary data may be presented at lower levels. Budgetary amendments at the department/fund level must be approved by the City Council. Appropriations lapse at year end, with the exceptions of approved encumbrances.

Purchase orders, contracts, and other commitments are recorded as encumbrances, which reserve appropriation authority. Encumbrances outstanding at year end are reported as reservations of fund balance. The appropriation for these encumbrances does not automatically transfer to the following year.

Five-Year Financial Direction. City departments will prepare business plans with a five-year planning horizon which reflect the allocation of general City revenues, including property tax and state aid revenue. This financial direction is based upon the City's shared revenue distribution policy which aligns the revenue growth of City departments and independent boards.

Grant Funding in the Five-Year Financial Direction. Any application for grant funding that will provide temporary funding for personnel and requires a minimum staffing level shall require Council approval. The department requesting the fund shall determine the amount of additional City resources that will be required to fund the positions once the grant funding expires and report those estimates to the Finance Department. As a condition of accepting the funds, the Council shall identify permanent resources and amend the Five-Year Financial Direction to reflect adequate resources to retain the positions once the funding ends.

REVENUE POLICIES

The objective of the revenue policies is to ensure that funding is derived from a fair, equitable, and adequate resource base, while minimizing tax burdens.

Revenue Structure and Sources. The City will maintain a stable and diverse revenue system to shelter programs and services from short-term fluctuations in any single revenue source. Services having a citywide benefit shall be financed with revenue sources generated from a broad base, such as property taxes and state aids. Services where the customer determines

the use shall be financed with user fees, charges and assessments related to the level of service provided.

Revenue Distribution. Major sources of revenue, including Local Government Aid (LGA) and property tax revenue, shall be treated together, allowing for changes to resources to be consistently aligned among the City and independent boards. Future increases will be aligned with available resources, and the annual percentage change in revenue available for activities of the City, Park Board and MBC will be the same for each entity.

Costs of shared services among the jurisdictions will be funded prior to determining the revenue available for general operating expenditures. These costs include closed pension obligations, previously approved internal service fund workout plans, the Bond Redemption Fund levy, the Permanent Improvement Fund levy, the Minneapolis Public Housing Authority special levy, the Teacher's Retirement Association special levy, the Library Market Value Referendum levy, the levy for the Board of Estimate and Taxation, and shared administrative costs.

City and independent board priorities that require an increase for one entity above others will be clearly funded to allow for maximum transparency.

The annual adjustment in revenues available to each entity in a given budget year for general activities will be based on the projected percentage increase in the Current Service Level. The dollars available for the activities will be based on the sum of the LGA, total tax collections, and total General Fund revenues after subtracting the funding needed for the costs of shared services outlined above. Available funding will also exclude dollars transferred to other entities, including the following:

For the Park Board, it will exclude the General Fund Overhead transfer to the City, the General Fund Administration Fee transfer to the City, and the costs of Park Board Capital Improvements funded from the Park Board levy.

For MBC, it will exclude the General Fund Overhead transfer to the City.

For the City's General Fund, it will exclude the General Fund Overhead not recovered from the Park Board, MBC, and others. It also excludes transfers to other funds including approved internal service fund workout plans, the Target Center Finance Plan, one-time capital project transfers, transfers to and from the pension management plan, and the transfer to Hennepin County per the Library Agreement.

The tax revenue percentage change for the City, the Park Board, and MBC may vary from year to year based on adjustments to LGA, total General Fund revenues, and adjustments to those items excluded from general activities and adjustments to the projected change in the Current Service Level.

User Fees. The City shall implement user charges in lieu of general revenue sources for identified services where the costs are related to the level of service.

Cost of Service. The City shall establish user charges and fees at a level that reflects the service costs. Components of the user charges shall include operating and capital costs, as well as the direct and indirect costs of providing the service. Full cost charges shall be imposed unless it is determined that policy, legal or market factors require lower fees.

Non-Resident Charges. User fees and other appropriate charges shall be levied for City activities, services or facilities in which non-residents participate, whenever practical. Non-resident fees shall be set at market levels to minimize the tax burden on City residents.

Enterprise Service Fees. User charges for Enterprise Services such as water, sewer, stormwater, and solid waste collection, shall be set at rates sufficient to finance all direct and indirect operating, capital, reserve/working capital and debt service costs. Overhead expenses and general government services provided to the enterprise activities shall be included as indirect costs. Rates will be set such that these enterprise funds are not in a cash deficit during the year.

Code Enforcement and License Fees. These activities shall be funded through user charges that reflect the cost of the services provided, including direct and indirect expenses, to the extent legally allowable.

Administrative Fees. The General Fund Overhead Allocation Model will be used to recover General Fund costs attributed to all non-General Fund activities, including capital projects.

Parking Fees. Hourly, daily, and monthly contract rates for City-owned parking facilities shall be adjusted at least annually to reflect market prices of privately-owned parking facilities. Fee adjustments shall also consider downtown objectives, such as development incentives, space availability, business promotion, traffic control, and mass transit patronage.

Fines. Levels of fines shall be set according to legal guidelines, deterrent effect, administrative costs and revenue potential.

Convention Center. The Convention Center will develop a profit and loss statement for each event. The Center shall be managed so that operating costs are financed through user charges to the greatest extent possible within the overall mission of the Convention Center.

Dedicated Revenues. All non-restricted revenues shall be deposited in the General Fund and appropriated through the annual budget process. Except where required by law or generally accepted accounting principles (GAAP), no revenues shall be dedicated for specific purposes.

Private Revenues. All private money donated, contributed or lent to the City shall be subject to grant solicitation and acceptance procedures, shall be deposited in the appropriate City fund and accounted for as public money through the City's budget process and financial system.

***City- Administered Special Assessments*.** The City Council has the authority to levy special assessments. There are three main areas of assessments:

- *Public Works:* Most common types of assessments are for sidewalks, street improvements, water and sewer line repairs and special service districts. (Assessments for unpaid utilities are handled by the City's Finance Department.)

- *Inspections:* Most common types are for rubbish removal, trees, grass and brush cutting inspection fees for inoperable vehicles towed from private property, re-inspection fees, administrative citations, vacant building registration fee and inspections, and Police boarding.

- *Park Board:* Most common types of assessments are for tree removal and parkway and sidewalk reconstruction.

Method of Payment (Public Improvement Assessments). Owners of benefiting properties shall have the option of paying their assessment all at once or in installments as part of their annual real estate taxes. The City Council shall determine the number of equal annual installments, not to exceed twenty, in which assessments may be paid. The City Council shall determine the interest rate to be paid annually on all unpaid installments; this rate shall not exceed the maximum rate of interest as provided for in statute (*MN Statutes*, section 429.061, Subd. 2). The first installment shall be payable in the year following completion of the project and in the same manner as real estate taxes.

Capital Improvements Fund. The Capital Improvements Fund is used to account for construction costs on basic governmental infrastructure projects. The fund is used to record both expenditures on projects and revenues received from outside funding sources and internal sources such as capital improvement tax levies, special assessments and proceeds of bonds issued for public infrastructure projects. All project costs not assessed shall be paid from this fund. If the amount of money raised through special assessments is insufficient to pay the maximum amount specified for the project, the balance shall be paid from the Capital Improvements Fund and offsetting revenue. City Council approval is required in order for the Capital Improvements Fund to cover insufficiencies.

Property Disposition Fund*.* The Property Disposition Fund was created in section 14.120 of City Ordinance, which requires proceeds from the sale of City property to be deposited into a Property Disposition Fund. The proceeds of this fund are to be used for implementing the City's strategic real estate plan, as developed and approved by the Facilities, Space, and Asset Management Committee.

Uniform Assessment Rate. The Uniform Assessment Rate is a standardized rate applied in street construction and street renovation projects. Assessments shall be part of the funding for all street paving construction/reconstruction projects for which the City is to bear any part of the cost, except for freeways. This rate shall be applied to the square footage per parcel in the project area to arrive at an assessment cost for each benefited property. The goal of the rate is to ensure an equitable distribution of costs between projects and to assess approximately 25% of project costs. The Uniform Assessment shall be calculated annually and submitted to the City Council's Transportation and Public Works Committee for approval. Separate rates must be established based on the type of project (construction or renovation), funding category (local or other) and benefited parcel category (non-residential or residential).

This rate shall be calculated no later than the end of September in the year preceding the commencement of project construction. Public Works and Finance shall review this rate annually to ensure it accurately reflects project costs. The uniform assessment rate used for public notification shall reflect the year in which the project is constructed. If the public notice has already been given for a project and the project is delayed into the following construction year, the uniform assessment rate in place at the time of public notification will be used and Public Works shall identify any gaps in project funding as a result of using the prior year's rate and identify the source of funding for the possible financial shortfall. If the source of funding for the shortfall exceeds the project contingency, City Council must approve the funding source. If a project delay is in excess of one construction season, a new public notice shall be given and a new public hearing held.

***Tax-Forfeited Properties*.** A portion of nuisance abatement special assessments may be cancelled for tax-forfeited properties.

- *Tax-forfeited properties sold to the general public –*
  - The portion of a property's post-forfeiture special assessments, pending assessments and charges in excess of fair market value shall be cancelled if Hennepin County has not sold the property within 90 days of the property's first offering to the public; and
  - The City will waive its right to assess or reassess pre-forfeiture and post-forfeiture special assessments, pending assessments and charges related to nuisance abatement activities under Chapters 227 and 249, and similar provisions of the Minneapolis Code of Ordinances.

- *Tax-forfeited properties located in targeted neighborhoods and purchased by the City for redevelopment purposes –*
  - The portion of a property's post-forfeiture special assessments, pending assessments and charges in access of fair market value shall be cancelled; and
  - The City will waive its right to assess or reassess pre-forfeiture and post-forfeiture special assessments, pending assessments and charges related to nuisance abatement activities under Chapters 227 and 249, and similar provisions of the Minneapolis Code of Ordinances.

Work for Others and Grant Funding. When tax and non-tax funds have appropriations based on income from Special Independent School District No. 1, government authorities, grants, donations or contracts, expenditures shall be limited to the amounts which can be supported by billings. Billings must be accompanied by an agreement with this granting authority. City officials should treat billings, grants and aids as revenues only to the extent they are collectible, or authoritatively assured.

RESERVE POLICIES

The objective of the reserve policies is to provide adequate working capital for cash flow and contingency purposes, while maintaining reasonable tax rates.

Cash Flow and Contingency. The City shall maintain a minimum unallocated General Fund balance of 15% of the following year's revenue budget amount to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs.

General Fund*	2009	2010	2011
Fund Balance - Policy	$55.7	$58.9	$56.9
Fund Balance - Actual	$68.3	$61.4	$63.0

** in millions; 2011 amounts are based on projections; 2011 General Fund policy does not include transfers in.*

To the extent that unusual contingencies exist as a result of state or federal aid uncertainties, or other highly variable factors, a balance larger than this minimum amount may be maintained.

These funds will be used to avoid cash flow interruptions, generate interest income, avoid the needs for short-term borrowing, and assist in maintaining a triple-A bond rating.

In the event a balance larger than the minimum amount exists as a result of state or federal aid, salary settlements, or other unknowns provided for in the budget, the City shall evaluate the need to transfer cash to the Internal Service Funds of the City to help reduce the negative cash balances or increase the net asset balances in these funds. When financial stability is returned to the Internal Service Funds of the City, the City shall reevaluate the Cash Flow and Contingency policy statement. Specifically, future changes shall address the level of balance that may be maintained above the minimum "base." [Internal Service Fund commitment adopted in December 2000, reaffirmed in 2006.]

Appropriate operating contingency reserves shall be maintained to provide for business interruption costs and other unanticipated expenditures of a non-recurring nature. Appropriate capital fund reserves shall also be maintained in enterprise funds for emergency improvements relating to new regulations, or emergency needs for capital repair or replacement.

For all other funds, appropriate balances shall be maintained reflecting the nature of the accounts, including the following:

General Fund Operating Contingency. Separate from the unallocated general fund reserve balance, the City shall budget an operating budget contingency of not less than 1% of all budgeted general fund expenditures in each of the applicable years planned for in the City's Five-Year Financial Direction.

Special Assessment Funds. The appropriate balance shall be the amount needed for revolving fund cash flow purposes.

Enterprise Funds. The appropriate balance shall be maintained to ensure adequate maintenance reserves, cash flow balancing requirements and legal restrictions. Where cost-effective access to capital markets is available and debt financing is regularly used, replacement balances shall not be maintained so current consumers are not required to pay for future facilities. The City shall maintain a minimum cash balance in its Enterprise Funds equal to approximately three months of operating expense.

Enterprise Fund Cash Requirements*	2009	2010	2011
Sanitary Sewer Fund - Policy	$9.6	$10.0	$10.4
Sanitary Sewer Fund - Actual	$9.6	$12.5	$13.6
Stormwater Fund - Policy	$4.5	$4.4	$5.1
Stormwater Fund - Actual	$14.4	$22.7	$16.6
Solid Waste Fund - Policy	$7.0	$7.4	$7.6
Solid Waste Fund - Actual	$18.5	$21.9	$21.5
Water Fund - Policy	$11.5	$11.9	$11.3
Water Fund - Actual	***-$2.0***	***$11.6***	$15.9
Parking Fund - Policy	$6.5	$10.8	$10.7
Parking Fund - Actual	$13.2	$12.8	***$9.4***

** in millions; 2011 amounts are based on projections*

Internal Service Funds. The appropriate balance shall be maintained to ensure adequate maintenance reserves, cash flow balancing requirements and legal restrictions.

- *Self-Insurance Fund* shall maintain a cash balance equal to the unpaid claims payable amount on its balance sheet plus 10% of the annual department operating budgets within the fund. Net assets within the fund should not fall below zero.
- *Fleet Services, Business Information Services and Property Services Funds*: If allocation model charges to customers are sufficient to cover debt service or depreciation expense then the minimum cash balance should be 15% of the fund's operating budget. If not, the reserve should be 15% of the fund's total budget. Net assets shall not fall below two times the fund's annual depreciation amount.
- *Stores and Engineering Materials & Testing Fund* shall maintain *cash and net assets* equal to 15% of the fund's annual operating budget.

Internal Service Fund Balance Requirements*	**2009**	**2010**	**2011**
Self Insurance Fund Cash Balance Policy	$44.6	$44.7	$49.8
Self Insurance Fund Cash Balance Actual	***$29.0***	***$42.1***	***$45.7***
Self Insurance Fund Net Asset Policy	$0.0	$0.0	0.0
Self Insurance Fund Net Asset Actual	***-$15.4***	***-$6.6***	***-$2.0***
Fleet Services Fund Cash Balance Policy	$3.8	$4.3	$4.3
Fleet Services Fund Cash Balance Actual	***$1.4***	$8.2	$10.3
Fleet Services Fund Net Asset Policy	$12.3	$12.9	$12.6
Fleet Services Fund Net Asset Actual	$26.5	$30.6	$35.6
Business Information Services Fund Cash Balance Policy	$5.9	$5.5	$6.0
Business Information Services Fund Cash Balance Actual	***$0.8***	$8.4	$11.5
Business Information Services Fund Net Asset Policy	$16.8	$22.1	$21.6
Business Information Services Fund Net Asset Actual	***$13.7***	***$16.9***	$23.4
Property Services Fund Cash Balance Policy	$2.4	$2.5	$2.5
Property Services Fund Cash Balance Actual	***$0.4***	***$0.1***	***$1.2***
Property Services Fund Net Asset Policy	$2.3	$2.3	$2.3
Property Services Fund Net Asset Actual	$27.2	$26.0	$25.9
Stores Fund Cash Balance Policy	$0.2	$0.2	$0.2
Stores Fund Cash Balance Actual	***-$1.6***	***-$0.8***	***-$1.1***
Stores Fund Net Asset Policy	$0.2	$0.2	$0.2
Stores Fund Net Asset Actual	$3.2	$3.2	$3.2
Engineering Materials & Testing Fund Cash Balance Policy	$0.3	$0.2	$0.2
Engineering Materials & Testing Fund Cash Balance Actual	$0.6	$0.8	$1.3
Engineering Materials & Testing Fund Net Asset Policy	$0.3	$0.2	$0.2
Engineering Materials & Testing Fund Net Asset Actual	$0.5	$0.7	$1.2

** in millions; 2011 amounts are based on projections*

Use of Fund Balances. Available fund balances shall not be used for ongoing operating expenditures, unless a determination has been made that available balances are in excess of required guidelines and that plans have been established to address any future operating budget shortfalls. Emphasis shall be placed on one-time uses that achieve future operating cost reductions. Fund balance is the cumulative years' excess or deficit of all revenues and expense. In the case of proprietary funds, this is termed unrestricted net assets. For the purposes of the budget, revenue and expense activity includes bond proceeds and debt service.

Annual Review. An annual review of cash flow requirements and appropriate fund balances shall be undertaken to determine whether modifications are appropriate for the reserve policy.

ACCOUNTING POLICIES

The objective of the accounting policies is to ensure that all financial transactions of the City and its boards, commissions, and agencies conform to the City Charter, Minnesota statutes, grant requirements, the principles of sound financial management and generally accepted accounting principles (GAAP).

Accounting Standards. The City shall establish and maintain accounting systems according to GAAP, which are set by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). The central system shall be used for financial transactions of all City departments, boards, and independent agencies.

Disclosure and Monitoring. Full disclosure is provided in all financial statements and bond representations. Financial systems are maintained to monitor expenditures and revenues on a daily, monthly, and year end basis. A Comprehensive Annual Financial Report (CAFR) is published by the City within six months of the following year.

INVESTMENT POLICIES

The investment policies of the City of Minneapolis are fully delineated in the Investment Guidelines Policy 01.P.01 approved by the Minneapolis City Council effective March, 2001. The policies maintain that all funds available for investment shall be invested according to the standards captured within the adopted policy, which have been simplified and outlined in the following paragraphs below. Relative to all considerations, a depository institution's domicile may be a factor with which investment decisions of the City are made.

The objective of the investment policies is to ensure that revenues received by the City are promptly recorded and deposited in designated depositories. If not immediately required for the payment of obligations, revenues shall be placed in authorized investments. Funds shall be deposited only in the types of investment instruments authorized by the City's Financial Management Policies, *Minnesota Statutes*, Chapter 118A, and City Council resolutions. Investments by the City shall conform to the following investment principles:

Safety. Safety of principal is the City's foremost objective. Each investment transaction shall seek to first ensure that capital losses are avoided, whether from securities defaults or from erosion of market value.

Liquidity. The City's investments shall be structured to provide liquidity to meet its obligations in a timely manner without loss of principal.

Yield. The investment portfolio shall be designed to attain a market-average rate of return through budgetary and economic cycles, taking into account the City's investment risk constraints, cash flow characteristics, and safety of principal.

Diversification. The City shall diversify its investments to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, a business sector (excluding U.S. Treasuries), a specific issuer or a specific class of securities.

Maintaining the Public Trust. The investment program shall be designed and managed with professionalism worthy of the public trust. The best investment vehicles for the City's objectives shall be sought through competitive processes. Investment officials shall avoid any transaction that might impair public confidence in City government.

Use of Derivatives. Derivative securities shall only be used after careful evaluation by knowledgeable staff regarding the benefits of the instruments as well as all of the associated risks including counterparty credit, market, settlement and operating risk. Internal controls shall be established to ensure adequate management for each type of derivative.

Standard of Care. The "prudent person" standard shall be applied in the context of managing the overall investment portfolio. Investment officers, acting in accordance with fiduciary standards and written procedures, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

Internal Controls and Safekeeping. The City Finance Officer shall establish a written system of internal controls. To protect against potential fraud and embezzlement, assets of the City shall be secured through third party custody and other safekeeping procedures. The City shall authorize the custodian financial institution to utilize security lending to maximize return on investments. Bearer instruments shall be held only through third party institutions. Investment officials shall be bonded.

Reporting. The City shall prepare an investment report describing the characteristics of the portfolio, including a summary of recent market conditions, investment performance and investment strategies. This report will be included with the quarterly financial reports that are presented to the City Council and Mayor.

Restricted Investments. From time to time the City Council may decide to limit or prohibit investments in securities of companies that do business with or engage in economic development in certain regions or entire countries of the world. These restrictions will expire three years from the initiation of the restriction unless it is re-authorized by the City Council. Finance will notify the City Council sixty days prior to the scheduled expiration. The City currently does not invest in the following countries: Northern Ireland, Burma (Myanmar), and Sudan. The prohibition from investing in these three countries shall expire at the end of 2013 unless renewed by subsequent Council action. The policy of divestment from South Africa shall end at the end of 2010.

DEVELOPMENT FINANCE AND TAX INCREMENT POLICIES

The objective of the development finance and tax increment policies is to provide public assistance to community development efforts in a manner that balances costs against benefits.

In addition to the City's Financial Management Policies, detailed guidelines have been adopted by the City to manage specific development resources and programs.

To the greatest extent possible, all development activities shall be self-supporting. City staff shall identify sufficient public and private resources at the time a project is approved to ensure feasible completion and operation of the project. All development financing proposals shall be reviewed to ensure that the proposed finance plan is reasonable, balanced, and the best means by which to achieve City objectives, while adequately protecting citywide financial interests.

Tax Increment Policy.

***Purpose of Policy*.** This Tax Increment Policy has been approved by City Council for the following purposes:

- To guide staff in forming recommendations regarding the use of tax increment financing and negotiating contract terms with developers.

- To provide a framework within which the City Council and Mayor can evaluate and compare proposed uses of tax increment financing.

- To inform the public of the City's position on the use of tax increment financing and the process through which decisions regarding the use of the tool are made.

  This policy supersedes the Tax Increment Policy approved by City Council on March 22, 2002 and revised on January 1, 2004, and earlier versions of said policy. This policy became effective on April 1, 2005.

Development Objectives. The City uses tax increment financing to accomplish these major objectives:

- Expand the Minneapolis economy to create more living-wage jobs, with an emphasis on providing job opportunities for the unemployed and underemployed.

- Attract and expand new and existing services, developments and employers in order to position Minneapolis and the region to compete in the economy of the 21st century.

- Increase the City's property tax base and maintain its diversity. Clean contaminated land to provide sites for uses that achieve City redevelopment objectives.

- Provide an array of housing choices that meet the needs of current residents and attract new residents to the city, with an emphasis on providing affordable housing.

- Eliminate blighting influences throughout the City.

- Support neighborhood retail services, commercial corridors and employment hubs.

- Support redevelopment efforts that enhance and preserve unique urban features and amenities, including downtown, the riverfront and historic structures.

General Guidelines in the Use of Tax Increment Financing.

- The City will comply with all requirements of the Minnesota Tax Increment Financing Act, as amended. The City will undertake a rigorous analysis to ensure that the proposed project satisfies the "but for" test embodied within the Tax Increment Financing Act.

- The City will use tax increment financing only when a clearly identified City development objective is served and only to the degree necessary to accomplish that development objective.

- Tax increment financing will only be used in cases where the City has the financial capacity to provide the needed public assistance, the City Council deems it fiscally prudent to provide such assistance and the developer can clearly demonstrate that the development will be able to meet its financial and public purpose commitments.

- The City will recapture the public subsidy to the maximum extent feasible after allowing the developer a reasonable return.

- Alternatives, such as "pay as you go" financing and reimbursing front-end public redevelopment costs with tax increment revenues, are preferable to bond financing and are to be considered and used when appropriate. The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, and the taxable development that will generate the tax increment used to pay all or a portion of the debt service on the bonds is either fully constructed and assessed by the City Assessor or is underway and subject to the terms and conditions of a development agreement with the City.

- Only those public improvements and public redevelopment costs directly associated with or needed to service the proposed development plan or project should be financed through tax increment.

- The City will analyze each potential new tax increment financing district and recommend whether it should be included in or excluded from the fiscal disparity contribution. The impact of the fiscal disparity election on the City's general tax base will be analyzed using the methodology prescribed by the Minnesota Department of Revenue and will be reported to the City Council in a manner understandable to the general public prior to approval of the proposed use of tax increment financing.

- As part of the annual budget process, the City will identify tax increment revenues deemed to be excess tax increment and will make related recommendations for decertification of parcels or districts and report on the total value of captured tax capacity expressed in both dollars and as a percentage of total tax capacity.

Economic Analysis and Risk Assessment Process.

- Proposed uses of tax increment financing will be subject to rigorous economic analysis and risk assessment. City Finance Department staff will be responsible for overseeing the analysis and assessment process. Consultants will be used to complete needed analysis and assessment as appropriate.

- The analysis and assessment of all proposed uses of tax increment financing will address the following questions as part of the standard format for reports to the City Council:

    - What is the public purpose of the financial assistance to the project?
    - Why is there a financial need for public investment and/or subsidy?
    - What is the total cost of the project?
    - What is the appropriate level of public participation?
    - What are the risks associated with the project?
    - What are the alternative plans for managing the risk?
    - How does the proposed project finance plan compare with previously approved comparable projects?
    - What is the project's impact on other publicly financed projects?

- The results of the economic analysis and risk assessment will be presented to the City Council at the time of the request for approval of the proposed use of tax increment financing. The report will identify any elements of the proposed project that are not in conformance with this Tax Increment Policy.

- Projects with an anticipated term of increment collection greater than 15 years or projects with tax increment principal in excess of $10 million will be subject to a more extensive analysis, including appropriate market analysis and review by City Finance Department staff.

Evaluation Criteria. The following items will be taken into consideration in the evaluation of any development proposal requesting tax increment assistance.

- ***Need For Public Assistance***. In all cases, it is required that the need for public assistance be demonstrated and documented by the developer to the satisfaction of the City Finance Department. All such documentation, including development budgets, cash flow projections, market studies and other financial and market information, must be submitted by the developer along with an application for public financial assistance. If the request is based on financial gap considerations, the developer will demonstrate the profitability and feasibility of the project (*i.e.* gross profit, cash flow before taxes, cash-on-cash return, internal rate of return (IRR), etc.), both with and without public assistance.

- ***Amount of Public Assistance versus Private Investment***. All development proposals should seek to maximize the amount of private investment per dollar of public assistance. Public assistance as a percentage of total development costs will be determined for each project (or discrete portion of a project receiving a subsidy) and compared to other development projects or subprojects of similar scope and

magnitude whenever possible.

- ***Term of Public Assistance***. The term of the public assistance shall be kept to a minimum. The proposed term of any public assistance shall be fully documented and explained to the City Council.

- ***Development Benefits and Costs***. The direct and indirect benefits of the development proposal shall be determined and quantified to the degree possible. Benefits shall include, but are not limited to, employment benefits (number of jobs retained or created, percentage of jobs held by City residents, wage and salary information, etc.), tax base benefits (estimated market value of new development, new property taxes generated, etc.), housing benefits (number of new rental or ownership units, number of affordable units, etc.), and other benefits relating to transportation, parking, blight remediation, environmental cleanup and historic preservation.

  Costs of the development proposal to the City shall also be identified to the degree possible. Such costs shall include, but are not limited to, additional required infrastructure, required local contributions by the City, and the impact on the City's general fund of the fiscal disparity contribution election if tax increment financing is used. The timeframe used for these cost estimates must equal the timeframe of the project finance plan and separately identify any projected recapture of public subsidy.

- ***Recapture of Public Subsidy***. It is the City's goal to recapture all, or a portion, of the public subsidy provided to the extent practical. Methods of recapture shall include, but are not limited to, long-term ground leases, subordinated loans, sale and/or refinancing provisions, and equity participation.

Tax Increment Special Revenue Funds and Internal Loans. State statute requires that tax increment (TI) revenues be segregated from all other revenues of the City and maintained in separate funds established for each individual TI district. As a result of this statutory requirement, a separate fund is established at the time a new TI district is approved. Qualifying expenses are charged to these individual district funds as they are incurred. This action could result in negative balances in a fund until TI revenues are generated from the district.

When a district has a negative fund balance, this is considered to be an internal loan by the Office of the State Auditor and the TI Act requires prior, specific action to be taken by the City to authorize these internal, inter-fund loans.

As part of the budget process, and for purposes of covering any temporary negative fund balances, the City authorizes the advance of revenues from other TI special revenue funds in the amount needed to offset any negative fund balances incurred within a TI fund prior to or in excess of the collection of sufficient TI revenue. The interest rate paid on any advance will be equal to the rate of interest those revenues would have earned in their respective fund. The term of any advances shall end upon termination of any TI district that carries the negative fund balance. As TI revenues are available in a TI fund that previously had a negative balance, the advance shall be offset by the amount available in that fund.

Capital advances needed for negative fund balances will not result in the actual movement of revenue between funds, but the positive balance of all the City's TI funds will offset any negative balance in a TI fund.

Development Account

Purpose. Revenues generated from CPED development and redevelopment activities which are otherwise not restricted under law, program guidelines or existing interdepartmental agreements are deposited into the Development Account to provide a source of discretionary funds to support any policy, goal, purpose, project or program which may, by law, be undertaken by CPED. Development Account expenditures are subject to appropriation by the City Council.

Hilton Fund

Investment. The status of the fund, expenditures and balances are to be reported annually as part of the City's budget process.

Use for the Infrastructure Acceleration Program. Capital commitments were made with money from the Hilton Fund in 2008 for the 2009-2013 Infrastructure Acceleration Program as appropriated in the annual budget process.

PUBLIC PARTICIPATION POLICIES

The objective of the public participation policies is to enhance the City's ability to meet financial and policy challenges by promoting a well-informed community and by encouraging public input in the decision-making process.

Financial and Performance Measurement Reports. Information regarding the City budget, financial statements and performance measurement shall be available to residents.

Budget and Service Priorities. Various methods shall be used to ensure public input into the budgeting process, such as informational hearings, surveys, resident-based review committees and community meetings.

ALLOCATION MODEL POLICIES

The City employs cost allocation models for a variety of purposes:

- Recovery of indirect costs for grants, capital projects, internal & external work-for-others.
- Internal Service Funds.
- Management Services provided by the General Fund to other fund types.

The primary methodology used is Activity-Based-Costing which links the cost of the service provided to the consumption of the service.

Recovery of indirect costs for grants, capital projects & internal & external work-for-others

- Cost allocation models should recover indirect labor, depreciation, general and administrative costs, and costs from other allocation models.
- Cost allocation models should abide by grant agreements, contracts and other applicable Federal, State and local guidelines.
- Cost allocation models should be reviewed and updated annually.

Internal Service Funds (ISF's): All ISF's use cost allocation models to recover operating costs.

- **Property Services Fund** includes:
  1. Rent for building occupants which combines historical expenses, indirect costs and inflationary increases to develop a square foot driver which it uses to allocate costs.
  2. Work-for-others is an on-demand construction and maintenance service that combines time and materials charges along with an indirect cost rate.
- **Business Information Services** allocates its costs to customers based on drivers such as PC and phone count, time & materials and indirect costs for on-demand projects and actual cost for department-specific software applications.
- **Fleet Services** assigns costs for equipment using several methods:
  1. Monthly rental rate combining historical cost, replacement cost and indirect cost.
  2. Hourly and spot rental rates for irregular usage using the above cost pools.
  3. Time and materials, and indirect costs for maintenance and repair.
- **Self Insurance Fund** assigns costs for:
  1. Benefits administration using FTE count as the driver.
  2. Attorney costs using litigation history, departmental assignment and a base premium as its cost driver.
  3. Risk Management uses historical workers compensation and tort claims as its primary drivers for assigning costs.
- **Central Stores & Engineering Materials & Testing** are much smaller funds that use indirect cost rates applied to over-the-counter sales along with time & materials charges.

All of the ISF's should adhere to the following policies:

1. Service providing departments will seek the advice and comment about the cost and pricing of internally provided services from consuming departments at least annually. Reasonable notice of changes in pricing terms will be provided to consuming departments.
2. The cost of internal services will be shared by consuming departments on the basis of expected (budgeted) or actual use. Double billing, value pricing, or opportunity pricing may not be used.
3. ISF's are responsible for developing a plan for funding capital improvements. If the plan includes increasing allocation model charges, the enterprise department should initiate service discussions with the departments receiving the service.
4. Cost allocation models should be developed in a manner that allows customers to actively manage this cost; wherever possible, fixed and variable costs should be identifiable.
5. ISF's should strike a balance between an allocation model that achieves business objectives and the cost of administering the model.
6. ISF's will establish ongoing communication with customer departments in order to articulate costs of service and effectively manage them. The provider of the service and the consumer of the service each have a duty to continually redesign business processes that minimize costs to achieve an agreed-upon level of service.
7. Changes made to department current service levels that affect specific allocation models will be reflected in the annual budget process. ISF's may not charge new fees or add costs to rate models to recover funds lost to budget cuts without notice to the Mayor and City Council and the consent of consuming departments.

8. ISF allocation models are self-balancing in nature; therefore, all of their operating costs must be recovered within the allocation model. Rates should be designed to achieve appropriate fund and cash balances.

***General Fund Allocation Model*.** The City will recover costs within the General Fund related to services it provides to non-General Fund departments. The following General Fund departments participate in the allocation model:

Finance	Coordinator Admin	Human Resources	Mayor
Civil Rights	IGR	CPED	Communications
City Clerk	311	Assessor	Internal Audit

The allocation of those costs will be based on a fair and consistent methodology, applied enterprise-wide and developed and administered by the Finance Department.

The General Fund overhead allocation model is not self-balancing in nature; costs that should be borne by one department will not be subsidized by another unless it is determined by the Finance Department that a phase-in period is necessary.

The General Fund allocation model will adhere to the applicable policies set forth for Internal Service Funds.

One-Time Costs Assessed. One-time cost increases may be assessed to the fund if the financial condition of the fund meets the City's financial policies.

Management Support Charges to Independent Boards. The management support charges to the Independent Boards will be based upon standard accounting practices for allocating costs. The method and procedure to calculate the prorated costs and collection of the charge will be finalized and communicated to the Independent Boards by December 31 of each year in accordance with the City's revenue policies.

PENSION POLICIES

Authorizing the City Pension Employer Deductions. The City Finance Department is directed to charge all funds under the City Council jurisdiction a percentage of covered payroll to reflect the costs to the Minneapolis Employees Retirement Fund (MERF) Division of PERA, and to charge the appropriate bi-weekly amounts, as provided for in state law, for each member of the Minneapolis Police Relief Association (MPRA) and Minneapolis Fire Relief Association (MFRA).

MERF Unfunded Liability. These liability amounts are included in the departmental appropriations and will be billed to the affected departments. Reinsurance amounts will be paid to a self-insurance pool funded through premiums paid by departments and tracked by department.

Pension Payment Adjustments. The Finance Director is authorized in December of each year, after review of the actual revenues received by the MPRA and MFRA in comparison to the budgeted revenues, if there is a shortfall to transfer funds from the "Pension Management Plan" to meet the "City's minimum obligation" to the funds.

DEPARTMENTAL POLICIES

***Approval of Payments and Procurements*.** All payments to or procurement of goods and services from external sources, regardless of dollar amount must be approved in advance within the City's financial system. Additionally, where applicable, the system-generated purchase order number will be communicated to the vendor prior to the order being placed.

[New in 2012] ***Central Requisitions and Receiving Policy.*** All departments must follow the City's official Central Requisitions and Receiving process as outlined on the Finance Department website. The process is designed to ensure that all requisitions have a correct coding string assigned "up front." Requisitions will not be processed without coding.

Exceptions: The "frontload" process will only be allowed to be bypassed in the following situations: emergency repairs to buildings, vehicles, and, more generally, the purchase of materials and services in situations where the purchase could not have been anticipated in advance. Concrete and Asphalt purchases, refunds, and Worker's Compensation Payments will also be allowed to bypass the frontload process. In an exception situation, the requester must fill out the requisition request and submit it to the Central Requisitions and Receiving/Central Stores within the next business day.

Overtime Limitation. The policy approved by the Mayor and Council limits all departmental overtime to 5% of personnel budgets.

[New in 2012] ***City Time Reporting.*** Every employee of City Departments must follow the City's Time and Labor guidelines for time reporting and approval of compensation, reporting both working and non-working compensable hours.

Charter Department Heads must approve time for their direct reports, and all City supervisors must approve time for their direct reports while serving as a backup approver for their direct reports who supervise other employees. With the exception of Charter Department Heads, every employee's timesheet must be approved by a supervisor, regardless of FLSA exemption status.

Elected Official Budgets. A year end deficit will be allowed for each ward and the Mayor's office budget with the exception of the final year of term (but not for two consecutive years). The deficit will be paid by March 31 or the Council Member or Mayor's office budget for the current year will be reduced at mid-year. If there is savings in a ward or Mayor's budget, these savings can be reappropriated from one year to the next, but cannot be reappropriated the final year of the term.

Fire Department Staffing Authorization. The Fire Department shall be authorized to exceed its authorized strength for firefighters for training purposes provided that the average strength for the year is at or below the total authorized and the department does not exceed its legal spending authority.

Police Department Staffing Authorization. The Police Department is authorized to exceed its authorized strength sworn officers in order to achieve a higher strength in the summer months provided that the average monthly strength for the year is at or below the authorized strength and the department does not exceed its legal spending authority.

911 Division Staffing Authorization. The 911 Division of the City Coordinator's Office is authorized to exceed its authorized strength in order to achieve a higher strength in the summer

months provided that the average monthly strength for the year is at or below the authorized strength and the department does not exceed its legal spending authority.

Regulatory Services Staffing Authorization. The Inspections Division of Regulatory Services is authorized to exceed its authorized number of Housing Inspectors to minimize service disruption to residents provided the department does not exceed its legal spending authority.

AUTHORITY OF THE FINANCE OFFICER

The Finance Officer or his/her designee has the following authority to approve technical changes:

- To make temporary loans to cover any cash deficits at the end of each fiscal year.
- To adjust appropriations in any fund to facilitate transfers for debt service which may be required, and to make all appropriate transfers and payments.
- To authorize the Director of Management and Budget and/or Controller to sign real estate and bond documents in the absence of the Finance Officer.
- To amend appropriations related to technical accounting treatment changes.
- To adjust re-appropriations for grant funds within cost centers as appropriate.
- To assign fund balance in accordance with GASB 54 based on analysis provided by Finance Department Staff.
- To allocate the State Insurance Aid payments received from the state for pension costs between the city and the Police and Fire Relief Associations. The City's allocation shall be for cost of Police and Fire PERA and shall be credited to the proper revenue account in the fund incurring the cost with the balance being allocated to the Relief Associations.
- To adjust the appropriations of the special revenue funds for payments to various pension organizations as may be required: Pension Fund (01990).
- To establish or adjust appropriations, transfer balances, or make payments to carry out the intent of any action or resolution Passed and Approved, or any legal agreement Passed, Approved and Executed, with respect to any inter-fund loans, advances, residual equity transfers, or operating transfers, or the repayment thereof.
- To make the necessary project and line item budget adjustments to periodically balance budgets and expenses between objectives within given programs and within normal CDBG program constraints.
- To make any necessary appropriation adjustments to allow departments to receive and spend NRP funds consistent with Council-approved NRP Action Plans, Early Access requests, and First Step Plans.
- To approve any and all transfers of eligible revenues into the Development Account (based on an eligibility assessment and analysis conducted by Finance Department staff).
- To approve any and all transfers of eligible revenues into the Property Disposition Fund (based on approval by the Facilities, Space and Asset Management Committee and eligibility assessment conducted by Finance Department staff).
- To appropriate available grant balances from the following grants:
  (i) HUD Rental Rehab grant to Fund 01310
  (ii) HUD HOME grant funds to Fund 01310 and 1500
  (iii) Federal Transit Administration (Trolley) grant funds to either Fund 01310 or City Fund 01300 for use by the GMCVA/Meet Minneapolis
  (iv) Eligible UDAG recapture funds to fund 01FNA
  (v) State Economic Recovery Grants to fund 01SMN
  (vi) HUD Special Purpose Grant MN47SPG507(TCOIC) funds to the Non-departmental Agency in the Fund (01400-1230000)

- To make appropriation adjustments to correct any errors, omissions or misstatements to accurately reflect the intent of the City Council in adopting the Operating Budget.
- To transfer appropriations between the parking fund and other funds upon request by the Public Works Department. Such transfers shall not change the fund and agency level totals as approved by the City Council and Mayor and shall not constitute approval of any policy change.
- To appropriate and transfer revenue within the Tax Increment and other special revenue funds consistent with the management of the City's tax increment districts, Common Project, Development Accounts and Preliminary Planning Fund: 01CLC (Local Contribution), 01CNR (NRP), 01SAD (NRP Planning & Implementation), and 01SPH (Community Development Revenue).
- To establish or amend appropriations related to technical accounting treatment changes and to establish and adjust accounts and appropriations, make payments and transfers, process transactions as necessary for the purpose of cash management of revenues and facilitate any technical corrections, adjustments and completions authorized for the following project/s:

    - Target Center Finance Plan as planned for adoption with the 2011 City budget and detailed in the Financial Plans section of this book.
    - To make adjustments to internal allocation models (General Fund Overhead, Internal Service Funds, etc…) and the appropriations attached to them for purposes of making technical corrections.
    - To reduce LGA payments to the Independent Boards if payment of the management support charge, or any other charges required by City Ordinance, are not received prior to the distribution of the December LGA payment. This reduction shall only occur after an affirmative vote of the Council to implement this authority.
    - To re-appropriate funds and certify that an encumbrance is eligible for re-appropriation at the end of the fiscal year. Additionally, the Finance Officer may reject re-appropriation requests based on the financial health of the fund or extenuating circumstances. This does not impact the requirement for a formal Request for Proposal for contracts over $50,000. To be eligible for re-appropriation, requests must meet the following criteria:

        1) a valid encumbrance;
        2) a one-time expenditure (not recurring budget item);
        3) a purpose consistent with the department's business plan;
        4) the budget year appropriation balance available for the encumbered item; and
        5) the financial position of the fund (status of the fund relative to work out plans; whether the fund's spending in the preceding year had expense in excess of revenue).

APPROPRIATION AND REAPPROPRIATION POLICIES

Reappropriation in Grant Funds. The balances of 2011 appropriations for the following grant funds are hereby re-appropriated in the year 2012:

01300 Grants - Federal
01400 CDBG/UDAG Fund
01600 Grants – Other

01410 CDBG (CPED)
01310 and 1500 HOME (CPED)
01320 Enterprise Zone (CPED)
01SMN State Grants (CPED)

The balances of 2011 appropriations for administration in the CDBG/UDAG Grant fund (01400) shall be re-appropriated to the Non-Departmental Agency in 2012, except for the administrative portion of Way to Grow in Health.

NRP Carryover Authorization. With the exception of NRP Administration, the balance of the 2011 appropriations for NRP projects within Fund 01CNR (NRP) are hereby appropriated for said purposes in 2012. Specific amounts re-appropriated will be determined after the close of the 2011 fiscal year and upon review and approval of the Finance Officer.

CDBG REPROGRAMMING POLICY

The City's current over-obligation of CDBG funds stands at $4.8 million. The City manages its over-obligation through its new annual allocations. The first priority for reprogramming eligible available balances is to reduce the deficit in the City's letter of credit with the Federal government. There are four sources for reprogramming funds:

1) unspent annual administrative appropriations,
2) unspent and not legally obligated public service funds over two years old,
3) cancelled, ineligible or unspent capital funds,
4) program income.

Administrative Allocations. The intent of the reprogramming policy and the footnotes is to limit administrative fund expenditures to the amount that was appropriated for that calendar year, regardless of the amount that is available from the grant balances. The limitation applies to the City Department's non-contractual, internal costs.

Funds that are allocated to grant recipients for administrative purposes are exempt from this provision (*e.g.:* Legal Aid, Public Housing Citizen Participation). These projects are legal obligations and would not become part of the administrative reprogramming calculation unless the projects were finalized without fully expending the funds.

Public Service Allocations. The amounts that are awarded from and appropriated for public service activities expire two years from the original award date for that CDBG program year that starts on June 1. The Department can roll over appropriations from the prior year, as needed to carryout these activities. After two years any unspent amounts and those that are not legally obligated are available for reprogramming and will be referred to the reprogramming process.

Capital Allocations. Beginning with the Year 32 (2006) approved Consolidated Plan, authorization for capital project allocations expired for those projects that have not moved forward toward implementation as enumerated by meaningful financial obligation activity indicated by a minimum of 75% of appropriation expended on tangible project activities by the end of 2009 for appropriations authorized in 2006.

Program Income. Fifty percent of program income not obligated by pre-2009 contracts is applied to reducing the deficit in the City's letter of credit with the Federal Government. The balance is available for reprogramming.

Projects with a twelve-month period of inactivity shall be cancelled if the project has been authorized for more than three years.

ADMINISTRATIVE POLICIES

Year end Report. Not later than January 31st of each year the Finance department will report to the Ways and Means/Budget Committee on preliminary year end expenditures and revenues by departments compared to authorized allocations for the prior fiscal year. This report will identify departments with expenditures in excess of authorized appropriations and/or revenues less than budgeted amounts.

Departments with actual expenses in excess of authorized appropriations and/or revenues less than budgeted amounts will report to the Ways & Means/Budget Committee each month for the year following the year of overspending or under-collection of revenues, beginning with the first committee meeting in February. This report should report actual spending and revenue collection to date for the current year and forecasts for the balance of the year compared to allocations. If forecasted spending exceeds authorized appropriations the department will present a plan that reduces spending to authorized appropriations.

Operating Costs for Technology. Departments are directed to clearly identify within existing resources the funds that would be used to finance the ongoing costs related to the purchase or development of technology prior to the expenditure of funds for the purchase or development of that technology. The sponsoring department should prepare a Receive and File notice for consideration by the respective home committee and the Ways and Means/Budget Committee when the annual operating and maintenance cost of any technology project exceeds $50,000. This notice should be submitted as soon after the sponsoring department has identified the ongoing costs and funding sources. BIS and Finance should work with departments to ensure those costs are identified and included in the contract for technology services.

Fund Balances for Technology Projects. When the overall fund balance at year end meets the level in the adopted financial policies, General Fund revenues over the budgeted amount for the year that can be attributed to a department's activities and which exceed direct expenses, up to $1 million per year, would be reallocated to a dedicated account to fund Council-approved multi-departmental technology projects led by the revenue generating department.

Contract Management. Prior to committing to conditions requiring a minimum purchase under any contract, the department/departments involved must clearly identify the specific funding sources dedicated for such purchases.

Gift Acceptance. Any gifts with a value of $15,000 or less can be received by individual City departments with written notice to the Finance Officer or his/her designee. The Finance Department shall submit a quarterly gift report to the City Council's Ways and Means/Budget Committee for approval. Consistent with Minnesota Statutes, section 465.03, the department may not use the gift until it has been approved by a two-thirds vote of the City Council.

The quarterly gift report shall contain the following information on each donation:

1) Name of recipient department;
2) Name of entity making gift;
3) Description of gift (including date received and special designations on gift, if any); and
4) Funding strings for revenue and expense appropriation increases.

For any gifts with a value exceeding $15,000, the recipient department shall submit a request for authorization to accept the gift to the City Council's Ways & Means/Budget Committee directly.

CAPITAL BUDGET POLICIES

The objective of the capital budget policies is to ensure maintenance of public infrastructure in the most cost-efficient manner.

Capital Improvement Program. The City prepares and adopts a five-year Capital Improvement Program (CIP) that details each capital project, the estimated cost and funding sources. An adopted point rating system is used to rank and prioritize recommended projects.

Operating Budget Impacts. Operating expenditures/savings of each capital request are included in the cost of implementing the CIP and reflect estimates of all personnel expenses and other operating costs attributable to the capital outlays. Departments receiving capital funds must account for the increased operating costs resulting from capital projects.

Repair and Replacement. The City strives to maintain its physical assets at a level that protects the City's capital investments and minimizes future maintenance and replacement costs. Where possible, the capital budget shall provide for the adequate maintenance, repair and replacement of the capital plant and equipment from current revenues.

DEBT MANAGEMENT POLICIES

Objective. The debt management policies provide a framework for managing the City's capital financing and economic development activities in a way that preserves the public trust and balances costs to current and future taxpayers without endangering essential City services.

Authority and Oversight. Management responsibility for the City's debt program is delegated to the Chief Financial Officer. The Debt Management Committee advises the CFO on the use of debt financing and debt management activities. The Debt Management Committee meets periodically at the call of the CFO and includes the following persons:

- Chief Financial Officer
- City Attorney
- Director of Management and Budget
- Director of Capital & Debt Management
- Executive Secretary, Board of Estimate & Taxation
- Director, Development Finance or designee
- Independent Bond Counsel as needed
- Independent Financial Advisor as needed

Guiding Principles for City of Minneapolis Debt Issuance

Method of Sale. The three primary methods of selling bonds include competitive sale, negotiated sale and private placement. The City uses the competitive sale method for its general obligation bond sales unless factors such as structure, size or market conditions compel the use of a negotiated sale. The City may use the negotiated sale method on economic development related projects when the characteristics of the transaction require a more specific

marketing plan and/or the issue lacks an investment grade rating due to complex security provisions or other factors.

Selection of Independent Advisors. The City uses competitive processes to select all service providers involved in the bond issuance process.

- ***Short-term Debt/Use of Derivatives***. The City limits issuance of short-term debt for cash flow purposes, generally using cash reserves and investment practices to ensure adequate liquidity exists to pay for expenditures during the year. Derivative-based financing arrangements shall only be used after careful evaluation by knowledgeable staff regarding the benefits of the instruments as well as all of the associated risks including counterparty credit, market, settlement and operating risk.

- ***Variable Rate Debt***. The City uses variable rate debt to provide debt structuring flexibility and potential interest savings to the total debt portfolio. Generally, the City maintains no more than 25% of its total debt obligations in variable rate mode. It also manages no more than 25% of the debt in variable rate mode within the major business functions that issue debt such as the Stormwater, Sanitary Sewer, Water and Parking funds or the Convention Center.

Variable Rate Debt by Fund	2009	2010	2011
Total General Obligation Debt	14.6%	14.9%	5.2%
Stormwater Fund Debt	0.0%	0.0%	0.0%
Sanitary Sewer Fund Debt	0.0%	0.0%	0.0%
Water Fund Debt	0.0%	0.0%	0.0%
Parking Fund Debt	22.6%	24.4%	***26.5%***
Convention Center Fund Debt	***27.4%***	***29.1%***	0.0%

Policy: No more than 25%; 2011 amounts are based on projections

- ***Conduit Debt Financings***. The City has an active program of conduit business financings. Development proposals are reviewed to determine if they meet program objectives as determined by City Council financing guidelines and whether the proposal is financially feasible. Items reviewed during due diligence reviews include narrative on the company and owners, past three years of financial statements, personal financial statements, tenant and lease data, market feasibility studies, business plans, project pro formas, appraisals, plans and specifications, environmental reviews, insurance covenants, etc. Additionally, the project will be evaluated for consistency with other City measures related to land use, job creation and compliance with affirmative action, civil rights, job linkage and other equal employment opportunity requirements.

Bond Specifics.

General Obligation Bonds, Property Tax Supported. General obligation, property tax supported bonds finance only those capital improvements and long-term assets that have been determined to be essential to the maintenance or development of the City.

General Obligation Revenue Bonds. The City issues general obligation revenue bonds to finance assets associated with its primary enterprise businesses including storm water and sanitary sewers, waterworks and parking ramps. Financial feasibility of capital projects is

reviewed each year, including a review of the cash basis pro formas for these funds. Five-year business plans detailing projected operating costs and prior debt obligations are reviewed as well as revenue performance and rate setting analysis to ensure that adequate bond coverage ratios are achieved.

Tax Increment Bonds. The City uses tax increment bonds only where projects can be shown to be self-liquidating from tax increments arising in sufficient amounts, or where secured guarantees are provided for potential shortfalls, and with appropriate timing to avoid, to the maximum extent possible, the use of citywide property tax revenues and where maximum allowable guarantees are obtained.

The City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, and the taxable development that will generate the tax increment is either fully constructed or is underway and subject to the terms and conditions of a development agreement with the City. Alternatives, such as “pay as you go” financing and reimbursing front-end public redevelopment costs with tax increment revenues, are preferable to bond financing and are to be considered and used when appropriate.

Special Obligation Revenue Bonds. Special obligation revenue bonds, those bonds for which the City incurs no financial or moral obligation, are issued only if the associated development projects can be shown to be financially feasible and contributing substantially to the welfare and/or economic development of the City and its inhabitants.

Bond Term. The City shall issue bonds with terms no longer than the economic useful life of the project. For self-supporting bonds, maturities and associated debt service shall not exceed projected revenue streams.

Feasibility. The City shall obtain secured guarantees for self-supporting and tax increment supported bonds to the extent possible. The City shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds.

CAPITAL & DEBT ADMINISTRATION POLICIES

Appropriation and Reappropriation

Approvals for Bond Issuance. The amounts appropriated in any City fund to be financed by bond proceeds are contingent upon the necessary approvals for issuance. The Finance Officer is authorized to establish or adjust any bond-financed appropriations when the necessary approvals for issuance of bonds are obtained. Further, the Finance Officer is authorized and directed to adjust assessment appropriations set forth in this resolution to reflect the actual amount to be assessed. Total amounts assessed will be established by a future Council action approving the assessment public hearing and the amount assessed for the project.

Creation of Appropriations. The Finance Officer is authorized to create or adjust certain appropriations subsequent to the sale of bonds, including all appropriate fund transfers and payments necessary to comply with arbitrage rebate and reporting to the federal government required under the Tax Reform Act of 1986 and revisions to debt service budgets resulting from new bond sales and refunding bonds issued during the year.

Reduction of Appropriations if revenues do not materialize. The amounts appropriated in the various funds to be financed from various revenue sources are hereby appropriated contingent only upon the reasonable expectation of the receipt of the required financing. The Finance Officer is authorized and directed to reduce any capital appropriation whenever a revenue source is determined to be not collectible for whatever reason.

Capital Project Closure. The Finance Officer is authorized to approve the closure of non-bond funded capital projects and the adjustment of said appropriations as identified and requested by the City Engineer for those projects under Public Works.

Independent Boards: Appropriations and Capital Advances. The Finance Officer is authorized to establish or adjust appropriations, make payments and transfers, and process transactions as necessary for the purpose of providing departments, boards and commissions an internal financing alternative to lease/purchase agreements with external vendors. The Finance Officer may provide capital advances from individual funds to the extent funds are actually available. The Finance Officer shall establish the term and interest rate applicable to the capital advance. The principal amount of the capital advance can be transferred to the fund of the department, board or commission after the purchase of the asset and execution of an Internal Lease/Purchase Agreement, signed between the department, board or commission and the Finance Officer. Prior to issuing the capital advance, the Finance Officer shall determine that the department, board or commission has made a commitment in their annual budgets to provide the funds necessary to repay the advance, with interest, over the term of the agreement.

Reappropriation of Capital Projects. The Finance Officer is authorized to adjust re-appropriations to capital project funds as appropriate. The balances of prior year appropriations in Capital funds are hereby re-appropriated with the following exceptions:

Fund	Project or Operating Organization
City-Capital Impr Fund	Transportation Planning & Engineering
City-Capital Impr Fund	Sidewalk Inspection
City-Capital Impr Fund	Reimbursable Paving
City-Capital Impr Fund	Reimbursable Transportation

Balances of capital projects in the equipment, property services and information technology internal service funds and sanitary sewer, stormwater, water and municipal parking enterprise funds are also hereby re-appropriated with the exception of the reimbursable sewer and storm drains projects and reimbursable watermain projects.

Reallocation of Capital Resources. The Finance Office should work with departments to ensure the timely closeout of capital projects. Generally, projects should be closed within four years of original bond issuance. Bonds should not be reallocated until a project is completed or canceled. At the time of project closing, any excess funds should be reallocated according to the following priorities:

1. completed projects with existing deficits;
2. approved capital programs with projected deficits; and
3. returned to the debt service fund to increase capacity for future capital programs.

Reallocation of excess bond proceeds must follow applicable charter and statutory provisions related to the issuance of those resources and consistency with the City's comprehensive plan.

[New in 2012] Excess net debt bond proceeds returned to the debt service fund through priority number "3" listed above will be tracked and used to increase net debt bond programming in the following year. In addition, unissued net debt bond authorizations from closed or abandoned projects will not be allowed to be reprogrammed to new projects without going through the formal annual Capital Budget Process but will be used to expand net debt bond programming in the following year.

Cancellation of Bond funded Reallocation of Capital Resources.

Expiration of Capital Project funding for certain projects. For certain capital projects, the funding is replenished annually due to the source of funding and/or recurring major maintenance nature of the projects. For these projects, the expenditures are to be paid from funds of the appropriation year in which the work occurs. These projects will not have their appropriations carried forward since they are replenished annually. Bond appropriations authorized for these programs will carry over.

The projects follow:

SWK01	Defective Hazardous Sidewalks – Assessed portion
SA001	Sanitary Tunnel & Sewer Rehabilitation Program
SA036	Infiltration & Inflow Removal Program
SW004	Implementation of US EPA Storm Water Regulations
SW005	Combined Sewer Overflow Improvements
SW011	Storm Drains and Tunnels Rehabilitation Program
SW030	Alternative Stormwater Management Strategies
SW039	Flood Mitigation with Alternative Stormwater Mgmt
WTR12	Water Distribution Improvements
WTR23	Treatment Infrastructure Improvements
RMP01	Parking Facilities – Repair and Improvements

Accounting Adjustments. The Finance Officer is authorized to approve adjustments to Capital Appropriations between different capital departments for the same project within the same fund and revenue sources. Such appropriation adjustments shall not constitute approvals of any policy change.

Adjustments Related to Cost of Bond Issuance and Maintenance Fees. The Finance Officer is authorized to establish or adjust appropriations and fund transfers to pay all costs associated with authorized City bond sales including costs of issuance and annual bond maintenance fees from the Bond Redemption Fund with the expenditures then being allocated to other funds as appropriate.

Funding of Capital Models and Studies. The Finance Officer is authorized to fund from investment earnings generated from capital project balances studies related to long-term financial planning models and related debt management activity.

Authorization of Transfers for Bond Proceeds and Investment Income. The Finance Officer is authorized to establish and adjust appropriations to provide for the transfer of funds to include bond proceeds and investment income for capital projects.

Correction of Errors. The Finance Officer is authorized to make corrections for errors of omission and misstatements in order to accurately reflect the current budget year of the adopted Five-Year Capital Program.

Appropriation of Debt Service. There is hereby appropriated in the various Debt Service Funds sufficient funds to pay debt service requirements.

ARBITRAGE AND INTERNAL SERVICE REGULATIONS

Use of Investment Earnings. The investment earnings from unspent bond proceeds shall be accounted for in separate arbitrage funds and will be allocated to debt service on net debt bond issues and shall be transferred on the scheduled debt service payment dates. The exception to this is that investment earnings on unspent tax increment bonds are to be used only for tax increment eligible purposes related to that specific tax increment bond issue.

Tax-Exempt Bonds. The annual capital budget resolution constitutes an official declaration pursuant to IRS Treasury Regulations Section 1.150-2 that the City intends to reimburse expenditures which may be made for those projects designated herein to be funded with bond proceeds by incurring tax-exempt debt of the City. The expenditures to be reimbursed include all preliminary expenses for planning, design, legal, consulting services and staff costs reasonably allocated to the project as well as costs incurred and paid for the design and construction of the projects after approval of the capital budget. In addition, as approved by resolution 2008R-133, the City hereby declares its official intent to reimburse itself for expenditures for projects described as bond funded in the annual adopted capital resolution in an amount up to 125% of the original project budget. The projects are more fully described in the Capital Budget Request forms on file in the office of the Director of Capital and Debt Management. The reasonably expected source of funds to pay debt service on the tax-exempt bonds to be issued by the City consists of the following according to the designated bond type:

Bond Type	**Source**
Net Debt	Property Taxes
Equipment, Property Services or Information Technology	Internal User Fees
Sanitary Sewer	Sanitary Sewer revenues
Stormwater Sewer	Stormwater Fund revenues
Water	Water Fund revenues
Parking	Parking Fund revenues
Assessment	Special Assessments
Tax Increment	Tax Increment revenues

Reimbursement Intent. The Finance Officer is authorized to make further declarations of official reimbursement intent in connection with the projects described herein pursuant to IRS Treasury Regulations Section 1.150-2 on behalf of the City consistent with budgetary and financial circumstances. Copies of any such further declarations shall be filed with the Ways & Means/Budget Committee and the Board of Estimate and Taxation.

STAFF DIRECTIONS REGARDING THE CAPITAL BUDGET PROCESS

Completion of Major Repair Items in Public Facilities. Public Works Property Services is directed to provide CLIC a one-page summary of major repair items completed in the prior year as part of their PSD01 Facilities Repair and Improvements capital program. This document must accompany the annual capital submittal for this program.

Status of Art in Public Places Program. Staff responsible for the Art in Public Places capital program are directed to provide CLIC a report on the status of projects currently in the planning phase or under construction as part of their annual capital submittal.

Park Board Request. Park Board needs to provide CLIC a report showing where capital expenditures were incurred by project for the prior year and details of what projects are planned by year and by funding source as part of the Park Board capital submittal.

Planning Direction Provided. The adoption of the Five-Year Capital Program is to assist in planning and provide direction for City departments including Public Works Engineering Services, but it does not establish permanent Council commitment to the out-year projects either in scope or timeline of construction.

CAPITAL PROJECTS STATUS REPORT AND BOND AUTHORIZATION

***Annual Capital Projects Status Report*.** Once a year, no later than April 30th, the Finance Department will report to the City Council's Ways & Means/Budget Committee on the status of capital projects. This annual capital projects status report shall contain the following information by project and capital program year:

1) A list of all capital projects for which bonds or City funding sources have been authorized but have not been closed;
2) The amount of revenue received to date;
3) The current, expended and remaining appropriations;
4) The balance of project shortfalls or funds available for reprogramming; and
5) A list of outstanding capital projects with the amount of bond authorization and appropriation that will be considered for expiration in the following year.

The Finance Department shall also report on fund appropriations for capital projects, bond authorizations and proceeds balances that may be cancelled because projects have been completed or otherwise concluded, or because the purposes for which money was appropriated or bonds authorized or issued have been cancelled, completed, or otherwise concluded.

Expiration of capital project funding. Beginning with the 2006 City Council approved Capital Improvement Plan and for all such Plans authorized thereafter, the City Council authorizations for bond issuance and project appropriation will expire for those projects that have not moved forward toward implementation as enumerated by meaningful spending activity indicated by a minimum of 75% of appropriation expended on tangible project activities within three years of original project authorization.

The expiration of project appropriations under this policy will automatically take place unless a request for extension is specifically made and reauthorized by the City Council. Projects funded with bond proceeds that expire under this section shall require City Council reauthorization.

TRANSFER POLICIES

The objective of the transfer policies is to ensure the transfer of money between funds is done in a fiscally sound manner.

Municipal Parking Fund to General Fund. The municipal parking fund is a City enterprise fund used to account for the operation, maintenance and construction of the City's parking facilities as well as on-street parking and the municipal impound lot.

***Transfer Criteria*.** Transfers into and out of the City's Municipal Parking Fund should meet the following criteria:

1. Be consistent with state laws, City ordinances and City Council approved finance plans and financial policies;
2. Maintain and support favorable financial results among all affected funds;
3. Be sustainable to allow long-term financial planning.

Finance and Public Works will recommend to the Mayor and City Council the amount of the transfer based on an analysis of the financial history of the fund; this recommendation will be part of the annual presentation of the Five-Year Financial Direction.