

**2010
City of Fridley
Budget Message**



2010 BUDGET MESSAGE
TABLE OF CONTENTS

I.	Introduction	BM-1
II.	Budgeting Context and Issues	BM-2
	A. The Legislative Context	BM-2
	B. Budget Issues	BM-4
III.	The Budget in Perspective	BM-7
	(<i>Table 1 – All Funds - Budgeted Expenditures</i>)	BM-7
	A. General Fund	BM-7
	(<i>Table 2 – General Fund - Budgeted Expenditures</i>)	BM-8
	B. Special Revenue Funds	BM-8
	(<i>Table 3 – Special Revenue Funds – Budgeted Expenditures</i>)	BM-9
	1. Cable Television Fund	BM-9
	2. Grant Management Fund	BM-9
	3. Solid Waste Abatement Fund	BM-9
	4. Police Activity Fund	BM-10
	5. Springbrook Nature Center Fund	BM-10
	C. Capital Improvement Funds	BM-10
	(<i>Table 4 – Capital Improvement Fund – Budgeted Expenditures</i>)....	BM-10
	D. Enterprise Funds	BM-11
	(<i>Table 5 – Enterprise Funds - Budgeted Expenditures</i>)	BM-11
	1. Water Fund	BM-12
	2. Sewer Fund	BM-12
	3. Storm Water Fund	BM-12
	4. Liquor Operations Fund	BM-13
	E. Debt Service	BM-13

2010 Budget Message
Table of Contents
(Continued)

IV.	Tax Impact	BM-13
	(<i>Figure 1 – Property Tax Changes</i>)	BM-15
V.	Financial Health of the City	BM-15
A.	Fund Balances	BM-15
	(<i>Table 6 - Fund Balances</i>)	BM-15
B.	Revenues	BM-16
	(<i>Table 7 - External Revenues vs. Expenditures</i>)	BM-16
	(<i>Table 8 - General Fund - Revenue Sources</i>)	BM-17
C.	Expenditures	BM-17
	(<i>Table 9 - General Fund Expenditures</i>)	BM-18
VI.	The Economic Environment	BM-18
A.	New Construction	BM-19
B.	Employment	BM-19
C.	Property Values	BM-20
D.	Public Assistance	BM-20
E.	Crime Rates	BM-21
VII.	Conclusion	BM-21

I. Introduction

As in past years, the 2010 budgeting process was a year-long project that began with the Council/Commission issues survey and departmental goal setting early in the year. With the identification of general direction on issues identified in the survey and the establishment of operational goals and objectives, department managers then worked with their staff to prepare departmental budgets. The City Manager next worked with the department managers to review and revise the budgets and to assemble the entire budget for City Council review. Council's review of the budget began with a budget work session in June and continued with the adoption of a preliminary budget and tax levy in August. They met again in a work session in October to resolve remaining issues and to review changes that had occurred. Ultimately, the finished product was prepared for the public hearing on December 7, 2009. The budget resolution and resolution certifying the final tax levy requirements will be considered at the Council meeting on December 14, 2009.

As the budget is presented, I again want to thank department managers and their staff for preparing responsible and thoughtful budgets. The City Council also deserves thanks and credit for reviewing the budget and for their leadership and cooperation in the entire budgeting process. I also want to thank Finance Director Rick Pribyl, Budget Accountant Craig Ellestad and Human Resources Director Debbie Dahl for compiling the numbers, making budget changes, and for assisting me in the preparation of this message. Roberta Collins, Administrative Assistant to the City Manager, also deserves credit and thanks for collecting the information on the City's external environment and for editing this message.

II. Budget Context and Issues

A. The Legislative Context.

The partisan tensions that characterized the 2008 legislative process were very strong again in 2009. Unlike 2008, however, there was no last minute compromise between the Legislature and the Governor on spending and taxing. The Legislature and Governor agreed to spending cuts, shifts, etc., that offset \$1.9 billion of the \$4.6 billion deficit. The Governor then used his power to unallot budgeted expenditures to single-handedly address the State's remaining \$2.5 billion budget deficit. At the same time, as he unallotted \$825,939 in Fridley's 2010 Local Government Aid (LGA), he maintained State-mandated levy limits for Minnesota cities. While he did allow cities to add 2009 unallotments to the base on which the State's 3.9% levy limit was calculated, he did not allow them to include 2010 unallotments in their levy limit base for 2010. This left Fridley with State levy limits that were more restrictive than the levy limits contained in the Fridley City Charter. In the end, Fridley's levy was \$179,545 less under the State's levy limit than it would have been under our Charter limit.

Although the LGA/levy limit scenario had the greatest fiscal impact of all legislative actions, there were a number of other legislative outcomes that were of great interest to the City. They included failed legislation that would have moved responsibility for the State's Building Code from the Department of Labor and Industry to a board made up primarily of building industry representatives (a move that was strongly opposed by local building and fire officials).

The outcomes also included another failed bill that would have enabled cities to use money from existing Tax Increment Districts to address foreclosure-related issues on scattered sites. Although this provision was included in the House's omnibus tax bill, the lack of an agreement between the Legislature and the Governor on the state's overall deficit resulted in no final tax bill.

Additionally, the legislative outcomes included legislation that allows local police to issue administrative fines for very minor traffic offenses. Although cities sought the new police authority, the legislation provided that one-third of the money from the fines must be paid to the State. The legislation also included numerous other limitations that make the use of the new authority unattractive. The final bill was a compromise between cities and the state, but needs further work.

Other City-related legislative outcomes included the Governor's veto of legislation that would have increased local election administration costs for absentee balloting and voter registration. These outcomes also included failed legislation that would have eliminated State income tax deductions for interest paid on municipal bonds. The same legislation would also have allowed a new, ½% county sales tax that would have applied to municipal purchases. Additionally, legislation that would have required cities to use the State's cooperative purchasing system was watered down to provide that cities may use the State's purchasing system for purchases under \$25,000 and must consider prices offered under the State's cooperative purchasing system for goods valued at more than \$25,000. Cities had resisted the initial legislation by pointing out that they are already engaged in numerous cooperative purchasing arrangements with other cities that are often more attractive than the State's cooperative purchasing system.

While the State of Minnesota is facing what is estimated as a \$4.4 billion deficit (this does not include inflation, but it does include "buying back" one of the K-12 payment shifts that were agreed to by the Governor and the Legislature this year) for the 2012-2013 biennium, our legislators' focus in 2010 will likely shift from major policy issues, such as solving structural budget imbalance, to shorter-term "management issues" and the State's bonding bill. Much of this deceleration is attributable to the fact that 2010 is an election year for all members of the legislature and the Governor. According to Patricia Nauman, Executive Director of Metro Cities, while this lower-key legislative agenda could possibly generate some discussion of revenue options needed to address the impending budget shortfall in the next biennium, chances of any major tax reform in Minnesota are very unlikely. The same may also be said of Local Government Aid reform or other efforts to increase the revenue flexibility of local governments, such as allowing a county-wide or local sales tax. It is also very unlikely, in the context of an election year, that state-mandated levy limits will be repealed.

While there could be additional unallotments associated with a revised 2010-2011 budget deficit, the current prognosis is that any upward revisions of the deficit are likely to be small and manageable. Also, given the unprecedented nature of the Governor's unallotments at the end of the 2009 legislative session and the resulting criticism from many circles, the Governor is expected to resist further unallotments for the current biennium unless the budget deficits for this biennium become significantly higher than those currently projected.

Although there are never any guarantees when it comes to predicting legislative outcomes, our resource at Metro Cities, does feel there is a good chance the 2010 legislature will consider changes in both Tax Increment Financing (TIF) and eminent domain legislation which would allow cities to deal more effectively with foreclosed or abandoned properties. Given the strong position of the groups opposed to relaxing eminent domain standards, however, the passage of TIF changes appear to be better than those related to eminent domain.

According to our source, other traditional areas of municipal interest are unlikely to see significant action in 2010. These include efforts to allow the sale of wine in grocery stores, changes in requirements for absentee voting, voter registration changes, and efforts to eliminate or add local mandates. While Fridley was less than enthused with 2009 legislation that gives cities a very restricted ability to levy administrative fines for minor traffic violations, our source doubts there will be further efforts to make this legislation more city-friendly in 2010.

B. Budget Issues.

Both the June and October budget work session discussions focused very heavily on budget cuts and revenue adjustments needed to accommodate Local Government Aid (LGA) reductions and projected reductions in various other City revenue streams for 2009 and 2010. These reductions include \$418,214 in Local Government Aid that was unallotted by the Governor at the end of 2008 and nearly \$1 million in Local Government Aid (LGA) that was unallotted for 2009 and 2010. Other projected revenue losses included a \$90,000 reduction in interest earnings, a \$150,000 loss in revenues transferable from the City's Liquor Fund, and a loss of \$141,000 in license and permit revenue.

The list of General Fund cuts for both 2009 and 2010 included about \$1.2 million in expenditures. Among these were cuts in employee wellness program contributions, elimination of travel and conference expenses not associated with maintenance of employee licenses, the freezing of four full-time employee vacancies, a 25% reduction in seasonal Parks maintenance costs, the freezing of employee salaries for 2010, the elimination of the 2010 employee leave sell-back, the removal of IT depreciation charges to City departments, reductions in contract building inspection, decreases in funding for summer code enforcement and engineering interns, and cutbacks in expenditures for our geographic information systems (GIS) contract.

Revenue adjustments included the redirection of proceeds from the annual Parks Capital Improvements levy to the General Fund; the adjustment of the overhead charge from the General Fund to the utility funds; adjustments to numerous fees, including the City's rental inspection fees; and increases in the General Fund portion of the City's property tax levy to the extent allowed by our City Charter and State of Minnesota levy limits.

One of the major discussions had to do with employee health insurance benefits for 2010. Under the proposed plan, the City's employee health insurance costs rose by 19.8%. The base plan that was accepted by Council maintained the same provider network, the same City contribution (70% for family plans and 95% for single plans), and the same plan design, but increased employee deductibles by 25%. It also raised the prescription drug co-pay by \$2.

During the October budget work session, Council also took a look at savings associated with the freezing of four employee vacancies. The net savings for these four positions (two in the Finance Department and two in the Police Department) for 2010 is \$224,400.

Council also addressed the restoration of dues and subscriptions and step increases at their October budget work session. The City Manager proposed restoring \$16,800 to the budget for dues and subscriptions that had been removed from the budget at the June work session. His justification was that the City expects professional involvement from its staff. Also, in view of cuts to travel and conference expenses, the restoration of national and state professional association memberships seemed justified. Council agreed with the change.

The City Manager also proposed allowing \$53,000 for step increases in 2010. He pointed out that exclusion of these increases would be difficult to maintain in contract negotiations with employee bargaining groups in light of the fact that other cities were allowing them.

At the October budget work session, Council also reviewed the Public Works Director's recommendations for suspending plans for \$50,000 in building improvement projects and \$225,000 in street improvement project in 2010. The largest single project to be suspended was the 2010 sealcoating project. All of the suspended projects were funded entirely by local funding.

The discussion at the October work session also included consideration of two newly identified sources of unexpected revenue. The City's Finance Director, Rick Pribyl, reviewed actual 2009 revenues and expenditures with Council. While revenues (as of October 16) were down \$820,409, expenditures were (as of the same date) under budget by \$1,453,177. By

projecting to the end of the year, he found that the City would begin 2010 with a \$541,375 balance from 2009.

The Finance Director also offered that by paying off bonds for Tax Increment Financing Districts 1 through 3, we could realize another \$438,000 in unexpected revenue. He was quick to point out, however, that both the tax increment revenue and the better than expected year-end balance revenue were one-time injections that could not be counted on longer term.

The discussion then turned to utility rate adjustments. The City's Finance Director pointed out that due to debt structure, staff was able to reduce 2010 water rate increases from 10.8% to 5% and still cover all costs for 2010. Unfortunately, MCES treatment increases made it impossible to reduce projected sewer increases to 5%.

Following the utility rate discussion, the budget work session turned to potential new sources of General Fund revenue. Once again, the City's Finance Director offered information on two such sources. These included the enactment of a street lighting levy that could potentially generate an additional \$250,000. The other would have the City use a bonding process to purchase Public Safety and Public Works equipment. In 2010, this strategy would free up \$241,795 in General Fund revenue. While there was some Council interest in the bonding option, Council decided to wait before taking a serious look at either option.

The City Manager then turned the discussion to consideration of a voted levy increase or a voted franchise fee that would cover most of the lost LGA. In so doing, he pointed out the short-term nature of the unexpected sources of revenue, the growing demand for City services, and the temporary nature of most of the expenditure cuts. He added that while there were those who wanted to resolve the City's financial problems through further reductions in employee salary and fringe benefits, the employees had already absorbed a substantial burden through wage freezes, increased health insurance costs, elimination of their vacation sell-back privilege, and the elimination of travel and conference expenses. He ended by saying we have no frills to cut and some very good, low-cost services that we should maintain through modest tax or fee increases. While Council did not disagree, they determined to discuss the issue again in early 2010.

III. The Budget in Perspective

The budget that emerged from the staff and Council reviews provides for the expenditure of \$15,997,377 or 9.5% less than was budgeted for all funds for 2009. The decrease in budgeted expenditures amounts to \$1,679,395. We have displayed the distributions of these budgeted expenditures on Table 1.

	Budget 2009	Budget 2010	Change	% Change
General Fund	\$ 14,920,090	\$ 14,127,235	(\$ 792,855)	(5.3%)
Special Revenue Funds	1,253,482	1,160,942	(92,540)	(7.4%)
Capital Projects Funds	1,497,000	703,000	(794,000)	(53.0%)
Agency Fund (Six Cities)	6,200	6,200	0	0.0%
Total	\$ 17,676,772	\$ 15,997,377	(\$ 1,679,395)	(9.5%)

A. General Fund.

General Fund expenditures for 2010 will decrease by \$792,855, or by 5.3%. Table 2 displays these expenditures by broad expenditure category. Of the \$14,127,235 budgeted, \$10,667,048, or 75.5% is dedicated to personal services. The \$293,990 decrease in personal service costs includes \$251,527 in full-time and temporary employee salaries. It also includes a \$63,976 decrease in the cost of employee health insurance, and a \$24,954 increase in the cost associated with the City's cash benefits payments in lieu of health insurance. Other personnel changes include a \$3,378 decrease in FICA contributions, a \$2,123 decrease in PERA contributions, and a \$2,075 decrease in dental insurance costs.

Table 2
General Fund
Budgeted Expenditures

	Budget 2009	Budget 2010	Change	% Change
Personal Services	\$10,961,038	\$10,667,048	(\$293,990)	(2.7%)
Supplies	963,097	877,919	(85,178)	(8.8%)
Other Services & Charges	2,685,709	2,340,513	(345,196)	(12.9%)
Capital Outlay	310,246	241,755	(68,491)	(22.1%)
Total	\$14,920,090	\$14,127,235	(\$792,855)	(5.3%)

The cost of supplies for the General Fund departments has decreased by \$85,178, or by 8.8%. This reflects a \$100,821 reduction in the projected cost of fuel and a \$17,577 increase in the projected cost of repair parts for City vehicles and equipment. These are listed as "work order transfers - parts."

The \$345,196 decrease in the cost of "other services and charges" includes a temporary reduction of \$154,169 for IS Fund charges, a \$72,196 reduction in the amount budgeted for professional services, a \$57,506 reduction for conferences and schools, a \$14,290 reduction for non-professional services contracted, and an \$11,210 reduction in dues and subscriptions. It also includes numerous other smaller adjustments.

Capital outlay expenditures of \$241,755 are also down by \$68,491 from those budgeted for 2009. The money that is budgeted includes funding for a turf sweeper for the Parks Maintenance Division, a truck for pothole patching for the Streets Division, and three squads for the Police Department.

B. Special Revenue Funds.

Spending for all Special Funds in 2010 has been budgeted at \$1,160,942 or \$92,540 less than was budgeted for 2009. The decreases are attributable to projected expenditure reductions in the Cable Television Fund, the Solid Waste Abatement Fund, and the Police Activity Fund. All of the changes in these funds are listed in Table 3.

Table 3
Special Revenue Funds
Budgeted Expenditures

	Budget 2009	Budget 2010	Change	% Change
Cable TV Fund	\$ 155,495	\$ 146,334	(\$ 9,161)	(5.9%)
Grant Management	114,149	116,812	2,663	2.3%
Solid Waste Abatement	487,272	426,991	(60,281)	(12.4%)
Police Activity Fund	117,528	87,938	(29,590)	(25.2%)
Springbrook NC Fund	379,038	382,867	3,829	1.0%
Total	\$ 1,253,482	\$ 1,160,942	(\$ 92,540)	(7.4%)

1. Cable Television Fund.

Most of the decrease is explained by the absence of expenditures for capital outlay items and small tools.

Revenues of \$261,000 (+4%) more than offset expenditures. The money is derived from franchise fees and interest earnings.

2. Grant Management Fund.

Expenditures of \$116,812 are up by \$2,663, or 2.3%. All of these costs are for the City's Section 8 Housing Program, and the Chores & More Program that is run out of the Senior Center. They are all reimbursed through federal grant programs.

The revenues include \$88,057 for the Section 8 Housing Program and \$28,755 for the Chores & More Program.

3. Solid Waste Abatement Fund.

Expenditures for this fund are projected to decrease by \$60,281, or by 12.4%. The decrease reflects the end of "revenue sharing" with our hauler of recycled materials. The reduction of \$56,306 for drop-off and paper shredding events is somewhat offset by a projected \$11,304 (4%) increase in contract costs for collection of recycled items.

Revenues of \$426,991 are derived from recycling fees (\$308,724), SCORE funding (\$65,000), recycling penalties (\$7,800), and miscellaneous revenue (\$10,000). They also include a \$35,467 transfer from the City's Closed Bond Fund.

4. Police Activity Fund.

Expenditures from this fund are projected at \$87,938, or \$29,590 (25.2%) less than we budgeted for 2009. These expenditures cover the cost of one entry-level officer who replaced an officer who was assigned to the Drug Task Force.

5. Springbrook Nature Center Fund.

Expenditures for 2010 are projected at \$382,867, or \$3,829 more than we budgeted for 2009. Expenditures include \$1,847 associated with increasing hours for the part-time building maintainer from 17 hours per week to 20 hours per week. The expenditures also include an additional \$1,407 for water and sewer charges by the City of Coon Rapids.

Revenues of \$402,100 include \$314,400 in levy proceeds and \$87,700 in program revenue, donations, etc.

C. Capital Improvement Fund.

Capital Improvement Fund expenditures for 2010 are projected at \$703,000. This amount is \$794,000 less than the amount budgeted for 2009. Table 4 shows the distribution of these expenditures among the three Capital Improvement categories. There are expenditure reductions in each of the three categories, including a \$592,000 reduction in street improvement spending and a \$130,000 reduction in parks spending.

Table 4
Capital Improvement Fund
Budgeted Expenditures

	Budget 2009	Budget 2010	Change	% Change
General	\$ 108,000	\$ 36,000	(\$ 72,000)	(66.7%)
Streets	1,192,000	600,000	(592,000)	(49.7%)
Parks	197,000	67,000	(130,000)	(66.0%)
Total	\$ 1,497,000	\$ 703,000	(\$ 794,000)	(53.0%)

The street projects that will be built in 2010 include projects that will be funded entirely by federal stimulus dollars, state aid to highways funding, and property owner assessments. These include the 2010 mill and overlay project which will occur in the Rivers Edge Way neighborhood, as well as on streets that lie between Gardena Avenue on the south, Mississippi Street on the north, Old Central Avenue on the west, and Stinson Boulevard on the east. The anticipated cost of these upgrades is \$875,000. This amount includes \$205,000 in water, sewer and storm water upgrade costs.

While not included in the 2010 budget, the City will also be spending another \$463,000 for the milling and overlaying of 61st Avenue and Moore Lake Drive. Of this amount, \$182,000 will be paid for through property owner assessments. The remaining \$281,000 will be provided through federal stimulus funding.

Other 2010 street improvement expenditures include a \$75,000 contribution to the County's upgrading of signals at 85th Avenue and Springbrook Drive and a \$30,000 expenditure for state-mandated signage upgrades.

Other planned Capital Improvements for 2010 include \$21,000 for replacement of an HVAC unit at the Municipal Center, and \$15,000 for design of alternative energy improvements. We also anticipate spending \$50,000 for court resurfacing in City parks, and \$17,000 for parks furnishings and fencing replacement.

D. Enterprise Funds.

The City accounts for revenues and expenditures of four groups of City activities/services that are supported entirely by rate or sales revenue. These include the Water Fund, the Sewer Fund, the Storm Water Fund, and the Municipal Liquor Fund. Projected 2010 expenditures for these funds are displayed in Table 5.

	Budget 2009	Budget 2010	Change	% Change
Water Fund	\$ 2,595,022	\$ 2,605,547	\$ 10,525	0.4%
Sewer Fund	4,221,559	4,553,526	331,967	7.9%
Storm Water Fund	380,710	413,410	32,700	8.6%
Municipal Liquor	6,119,997	5,380,492	(739,505)	(12.1%)
Total	\$ 13,317,288	\$ 12,952,975	(\$ 364,313)	(2.7%)

1. Water Fund.

We are projecting \$2,605,547 in Water Fund expenditures for 2010. This amount is \$10,525 higher than the amount budgeted for 2009. The amount includes a reduction of \$29,385 in Water Administration expenditures. These are largely attributable to a \$42,820 reduction in depreciation costs for water improvement projects.

The Water Fund budget also includes a \$19,069 increase in water system operating costs. All of this increase is found in the "other services and charges" expenditure category. Most of these cost increases are associated with higher gas and electric rates as well as higher MCES charges for sewage disposal.

The net increase in debt service costs for the various bond issues used to retire debt on water improvement projects has increased by \$20,841.

This increase in Water Fund expenditures, together with revenue losses for 2009, requires a 5% increase in water rates.

2. Sewer Fund.

We are projecting a \$331,967 (7.9%) increase in Sewer Fund costs for 2010. This includes a \$44,317 (8.4%) increase in sewer administration costs, and a \$287,650 (7.8%) increase in sewer operating costs. The administrative increases include a \$24,000 increase in administrative charges from the General Fund, a \$14,000 increase in liability insurance costs, and a \$5,492 increase in depreciation costs. The operating cost increase is due almost entirely to a \$308,824 (9.8%) increase in utility costs including a very large increase in our MCES charge for regional sewage treatment.

These increases together with revenue losses from 2009 are requiring a 9.5% increase in sewer rates.

3. Storm Water Fund.

We are projecting a \$32,700 (8.6%) increase in Storm Water Fund costs for 2010. The additional cost includes \$12,300 in additional administrative charges from the General Fund, \$11,000 in additional depreciation charges, \$13,500 in increased costs for services contracted, and \$3,500 in increased repair and maintenance supply costs. We are not projecting any increase in storm water utility fees.

4. Liquor Operations Fund.

We are projecting \$5,380,492 in Liquor Fund expenditures in 2010. This amount is \$739,505, or 12.1% less than we budgeted for 2009. The decrease in expenditures is directly related to revenues, which are expected to decline by \$789,251 or by 13% in 2010. We attribute much of the revenue loss and the subsequent loss of \$150,000 in transfers to the General Fund to the vacation of a huge space adjacent to our 57th Avenue liquor store that was formerly occupied by Gander Mountain.

E. Debt Service.

In addition to operating funds, the City maintains a number of funds that have been established for the administration of debt service. In 2010, we expect to pay \$727,391 on debt service for water system improvements. We also anticipate \$977,899 for 2010 street improvement debt service. Additionally, we have \$604,906 in general obligation bond debt that is supported by tax increment financing revenue.

IV. Tax Impact

The City's 2010 property tax levy is \$10,120,162. The amount is \$647,675, or 6.8% more than the amount levied for 2009. Of the total, \$9,101,421 represents the General Fund portion of the property tax levy. Another \$698,141 covers the City's bonded indebtedness for street improvement projects. The remainder includes \$314,400 in property tax levy for the Springbrook Nature Center and \$6,200 for the Six Cities Watershed District.

The 6.8 % increase in property taxes is almost entirely attributable to a \$748,947 increase in the General Fund portion of the levy. This, in turn, is largely explained by the levying back of lost Local Government Aid for 2008 and 2009 and the inclusion of the Parks Capital Improvement levy in the General Fund levy amount.

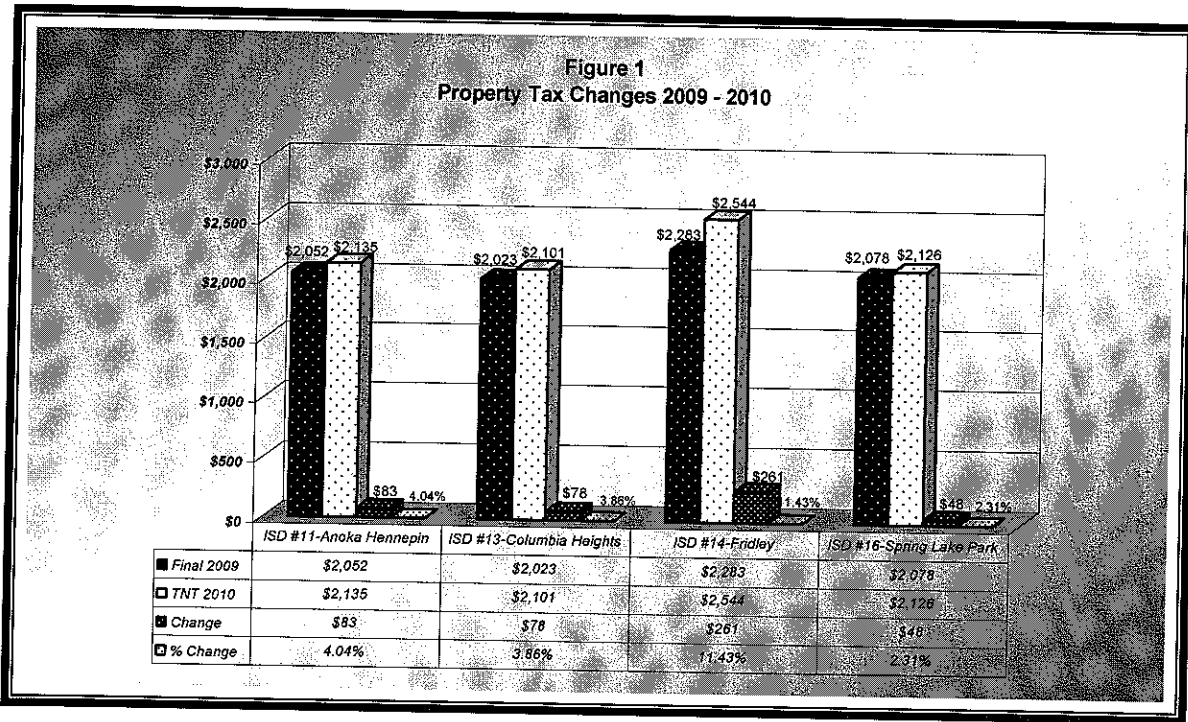
The impact of the City's levy on property taxes for Fridley property is affected by differences in property valuation rates for different classes of property. These values saw considerable shifting in 2009. The most significant of the shifts was a marked decline in residential values accompanied by a lesser decline in commercial and industrial values. This shift in values has the tendency of transferring additional property tax burden on the commercial and industrial properties.

In order to determine the tax impact of these changes on residential property, one must first calculate the value of tax capacity that may be attributable to a particular home (in this case, the average value home). This is done by applying the class rate for single family homesteaded property to the estimated market value of a home. In the case of our average value home, we would multiply the first \$500,000 of the value of the home by 1%. We would then multiply the remainder of the value by 1.25% and add the two products. The result, or tax capacity, is multiplied by the sum of the tax capacity rates for Fridley, Anoka County, the school district in which the home is located, and other units of local government that have jurisdiction in the area occupied by the property.

After doing all of this, we are still not through. We must also add the value of any market rate levies approved by voters in any of the school districts and subtract the value of the Residential Market Value Homestead Credit. This credit is determined by multiplying the market value of the property by .4% to a maximum of \$304. The maximum is achieved at a market value of \$76,000. Any value in excess of \$76,000 is multiplied by .009 and subtracted from the \$304 credit.

Having completed these transactions for the average value Fridley home (valued at \$196,200), we learned the City's 2010 levy will cause taxes on the house to increase from \$555 to \$592, or by 6.7%. The property taxes in each of the four school districts that include parts of Fridley will rise by different amounts in 2010, depending on the district.

Figure 1 depicts what staff believes will be the 2010 changes in property taxes for the owners of a \$196,200 home in all four school districts. The change in property taxes ranges between + \$48 in the Spring Lake Park School District to +\$261 in the Fridley School District. While residents of the Columbia Heights School District will see a \$78 increase in property taxes, those in the Anoka-Hennepin School District will see an \$83 increase in property taxes.



V. Financial Health of the City

A. **Fund Balances.**

Table 6 displays the most recent calculations of fund balances. As was the case in 2009, this table demonstrates that Fridley is rapidly using its cash reserves to cover its General Fund operating deficits as well as to cover Solid Waste Abatement Fund and General Capital Improvement Fund deficits.

TABLE 6
Fund Balances

Year	Unreserved General Fund	Unreserved Governmental Funds
2005	\$4,020,285	\$17,997,691
2006	3,863,023	17,924,272
2007	5,206,778	17,820,831
2008	4,538,224	17,718,217
2009	3,723,143	16,525,884
2010	3,511,862	16,356,442

* Projected Estimate

Although we commonly refer to these balances as discretionary, most of them are reserved for specific purposes. Of the projected balance for 2010, \$5,369,227 is reserved for street reconstruction, parks improvements, and building/facility upgrades. Another \$5,900,000 is reserved for working capital, and \$1,298,544 is restricted by our cable franchise to expenditures for cable television operations and improvements. We also rely on internal transfers of \$500,000 to \$1,600,000 to balance the General Fund in any given year.

B. Revenues.

Table 7 compares General Fund revenues with General Fund expenditures from 2005 to 2010. The "excess" line represents the amount of money that must be transferred from other funds to balance the General Fund budget. While actual transfers seldom occurred before 1999, since then, we have been transferring between \$648,000 and \$1,565,081 each year. In 2010, we expect to transfer \$811,281 (including transfers from the General Fund Reserve). The transfer amounts include \$350,000 from the Liquor Fund, \$250,000 from the Closed Bond Fund, and \$211,181 from the General Fund Reserve.

	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Budget 2009	Budget 2010
Revenues	\$ 10,904,833	\$ 11,686,573	\$ 12,920,219	\$12,570,624	\$13,355,009	\$13,315,954
Expenditures	12,237,052	13,135,791	13,567,852	14,066,686	14,920,090	14,127,235
Excess	(\$ 1,332,219)	(\$ 1,449,218)	(\$ 647,633)	(\$1,496,062)	(\$1,565,081)	(\$ 811,281)

Table 8 depicts changes in various sources of General Fund revenue between 2005 and 2010. While most sources of revenue have remained stable over this period, the table does reveal that the City's dependence on property taxes in 2010 has jumped from 56.5% of General Fund revenue in 2009 to 65.1% of General Fund revenue in 2010. At the same time, intergovernmental revenues have dropped from 13.4% of General Fund revenues to 9.9% of General Fund revenues. As recently as the year 2000, property taxes comprised just 35% of General Fund revenue. That same year, intergovernmental revenues amounted to 30.8% of General Fund revenue.

Source	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Budget 2009	Budget 2010
Taxes	55.4	58.3	55.0	57.9	56.5	65.1
Licenses and Permits	5.6	5.2	5.9	5.2	4.6	3.9
Intergovernmental	12.9	10.3	10.8	10.0	13.4	9.9
Charges for Services	10.6	10.5	10.0	11.7	10.6	11.5
Fines and Forfeits	1.3	2.0	1.8	2.1	1.7	1.9
Special Assessments & Miscellaneous	3.2	2.8	3.2	2.7	2.7	2.0
Other Financing Sources & Fund Balance	10.9	11.0	13.3	10.6	10.5	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

C. Expenditures.

Table 9 displays expenditures in actual and constant dollars and demonstrates that Fridley's General Fund has grown very little in constant dollars since 1995. The table shows that when we control for inflation, actual General Fund expenditures have risen by \$746,833, or by 7.7% between 1995 and 2008. The constant dollar increase amounts to about .6% a year. The reader should keep in mind that we have included Springbrook Nature Center expenditures as General Fund expenditures in all of these calculations.

Table 9
General Fund Expenditures
In Actual and Constant Dollars

Year	Actual Dollars	Constant Dollars**
1995	\$ 9,647,338	\$ 9,647,338
1996	9,790,481	9,468,903
1997	10,030,524	9,479,248
1998	10,059,889	9,318,291
1999	10,932,370	9,862,631
2000	11,310,395	9,794,385
2001	11,544,546	9,608,516
2002	12,156,024	10,016,546
2003	12,056,581	9,713,656
2004	11,824,220	9,140,029
2005	12,240,603	9,215,145
2006	13,135,791	9,906,886
2007	13,929,188	10,368,861
2008	14,460,491	10,394,171
2009	15,299,128	10,958,535 ***
2010	14,510,102	9,889,750 ***

* Budgeted Numbers

** Constant dollars are based on the value of 1995 dollars.

*** We have assumed an annual inflation rate of 2.0%

Note, prior to 2006, SNC was a part of the General Fund. Beginning in 2006, we added SNC to the General Fund expenses to complete this table.

VI. The Economic Environment.

Like the legislative environment, the economic environment in which the City of Fridley operates often has a very important impact on local government services and costs. As the local economy deteriorates, crime often rises; property values on which taxes are based go down; and demand for services, such as code enforcement and medical assists, goes up.

The 2009 economic context is once again a mixed bag. While new construction is up, much of the new construction is for public sector projects. Although unemployment has increased, the level of local unemployment is not nearly as high as the level of unemployment at the national level. Undoubtedly, however, property values are down significantly in nearly all

property categories, including single family residential, multi-family residential, commercial, and industrial categories. This mixture of economic changes seems to have generated a marked increase in demands for public assistance as represented by the number of Fridley residents receiving cash assistance and/or food stamps from Anoka County and the number of students receiving free or reduced lunches from School District #14.

Although the demand for public assistance is up significantly, the City's crime rates have fallen by nearly 14%. This includes a 16% reduction in more serious, Part I Crimes. At this point, there does not seem to be a good explanation for this improvement of crime rates within the context of general economic decline. We do know, however, that our neighboring communities appear to be experiencing the same phenomenon.

A. New Construction.

The value of all new construction for the first ten months of 2009 was \$42,160,851. This compares with \$37,334,466 for the first ten months of 2008, and \$36,652,274 for the first ten months of 2007. Much of the new construction value for 2009 is attributable to the addition of the dewatering plant for the Minneapolis Water Works, which is valued at \$18,953,000. Other large projects that were built in 2009 include an addition to Totino-Grace High School valued at \$4,728,700, the Northstar Station improvements valued at \$3,000,000, the new Minneapolis Police Command Center valued at \$2,434,630, and two new Cummins Power Generation projects valued at \$2,100,000. Unity Hospital also remodeled their second floor at a cost of \$975,000, and Timmerman Finishing, Inc., remodeled their Main Street facility at a cost of \$685,000 after suffering extensive fire damage. These eight large projects (defined as costing at least \$500,000) in 2009, compare with three large projects in 2008, and six large projects in 2007.

B. Employment

Fridley's unemployment rates grew from 6.5% as of the end of September 2008 to 7.7% at the end of September 2009. This compares with a seasonally-adjusted state unemployment rate of 7.3%, and a national unemployment rate of 9.8%, as of the end of September 2009.

The increase in unemployment has been accompanied by a decrease in the number of jobs available in Fridley. The number, including public sector jobs, has fallen from 23,005 to

22,486, or by 2.3%. Based on data provided by the Minnesota Department of Employment and Economic Development (DEED), the number of manufacturing jobs in Fridley jumped from 8,480 to 9,182, or by 8.3%. The same report indicates that the number of retail jobs decreased from 2,334 to 2,097, or by 10.2%. The report also shows that the number of wholesale jobs decreased from 2,031 in 2008 to 1,827, or by 10.0% in 2009. Additionally, other service sector jobs decreased from 8,438 in 2008 to 7,545, or by 10.6% in 2009.

C. Property Values.

Property values have continued to change at rates that vary considerably among different property categories. In 2009, the estimated market value of all Fridley property decreased from \$2,697,031,200 in 2008 to \$2,561,859,400, or by 5%. This compares with a .2% decrease we reported last year.

The assessed value for single family homesteaded property decreased by 8.5%. In 2008, we reported a 4.2% decrease in the value of this property. At the same time, values for non-homesteaded apartment buildings having three or fewer units rose by .8%. Much of this increase is attributable to the conversion of an additional eighty-four single family homesteaded units to non-homesteaded units. As the value of the smaller non-homesteaded properties increased, the value of non-homesteaded property having four or more units decreased by 2.7%.

Decreases in residential property values have been accompanied by decreases in the assessed values for commercial and industrial property. This includes a 1.7% decrease in commercial values, and a 1.8% decrease in industrial values. These decreases in property values have been accompanied by a 4.3% decrease in tax capacity, the amount available for local property taxation. This compares with a 1.1% increase in tax capacity in 2008.

D. Public Assistance

Anoka County reports that the number of Fridley households receiving cash assistance and/or food stamps has increased from 1,023 cases through September of 2008 to 1,329 cases through September of 2009. This represents a 29.9% increase over last year.

Our report from School District #14 indicates that the number of District #14 students who are receiving free or reduced lunches has risen from 1,376 students in October of 2008, to 1,600 students in October of 2009. This represents a 16.3% increase over the number reported last year. While the number of students on the free or reduced lunch program has increased

dramatically, the percentage of students on this program has actually been reduced from 56.3% in 2008 to 48.4% in 2009.

E. Crime Rates.

Crime reports for the first nine months of 2009 indicate that the level of Part I and Part II crimes in Fridley decreased substantially in nearly all categories when compared to the same period in 2008. According to Public Safety Director Don Abbott, there were 3,309 Part I and Part II crimes reported to police between January 1 and September 30 of 2009 compared to 3,852 during the first nine months of 2008. The number of reported crimes in 2009 represents a reduction of just over 14% when compared to 2008.

There were 1,072 Part I crimes in the first three quarters of 2009 vs. 1,274 through the first nine months of 2008, a 16% reduction. The five-year average for Part I crimes is 1,227. These more serious crimes included 76 violent crimes in 2009, down nearly 10% from 84 in 2008.

The only offenses to show an increase in the 2009 data were rape (25 in 2009 vs. 11 in 2008), kidnapping (4 in 2009 vs. 3 in 2008), forgery (58 vs. 46), domestic crimes (38 vs. 31), negligent fires (5 vs. 3), stolen property (57 vs. 56), prostitution/obscenity (14 vs. 12), and trespass (81 vs. 71). The most serious of these offenses, the 25 reported rapes, showed a return to the 5-year average incidence of this crime of 25.8, following a very low number of reports (11) in 2008.

Director Abbott reports that preliminary information from other area law enforcement agencies reflects similar decreases in reported crimes in many of our neighboring communities.

VII. Conclusion

Like the 2009 budget, the 2010 budget was drafted and considered within a very partisan state legislative context. Unlike the 2008 legislative outcomes which were mixed, the 2009 legislative outcomes for Minnesota cities were mostly negative. The biggest of these negatives for Fridley was an \$825,939 reduction in Local Government Aid for 2010.

As we head toward the 2010 legislative session, there is not a lot of reason for optimism. Given the fact that 2010 is an election year for the Governor and all of the legislators, and knowing that the even numbered year portion of state legislative sessions is normally dedicated

to consideration of the State's bonding bill, we can expect that the legislature will not meaningfully address the State's fiscal imbalance or reform of the State's Local Government Aid (LGA) formula. While further unallotments of LGA remain possible, our sources at Metro Cities believe that they are unlikely within the 2010 political context.

There is also a bit of gloom and doom that lingers in Fridley's economic context for 2009. Fridley's unemployment rate is now up to 7.7% compared with 6.5% last year and 5.1% in 2007. We have also seen another 5% decline in the value of all property in Fridley, and marked increase in the number of residents receiving various forms of public assistance. Although the value of new construction in Fridley in 2009 is 12.9% higher than last year, we also know that nearly 58% of this year's new construction is attributable to public sector projects. While Fridley's crime rates for 2009 are down by 14%, they remain among the highest in the metropolitan area.

The budget that was drafted within these contexts is 9.5% lower than the budget that was prepared for 2009. Of the \$1,679,395 decrease, \$792,855 is attributable to General Fund reductions. Another \$794,000 is attributable to decreases in Capital Improvements Fund spending. Special Revenue Fund expenditures for 2010 account for another \$92,540 in budget reductions.

While enterprise funds are not included in the "officially budgeted" numbers for all funds, the City does budget for these funds. Although as a group, the expenditures for these funds are down by \$364,313, or by 2.7%, all of the reduction may be attributed to a \$739,505, or 12.1% reduction in Liquor Fund expenditures. While Water Fund expenditures are about where they were last year, Sewer Fund expenditures are projected to grow by \$331,967, or by 7.9%. As in prior years, much of this increase may be attributed to additional costs that are passed on to Fridley for its share of regional sewage treatment costs.

The reduction in General Fund expenditures includes a \$293,990 decrease in costs for employee salaries and benefits. This number reflects a \$251,527 decrease in the cost of employee salaries that is largely attributable to employee wage freezes for 2010 and the freezing of four full-time vacancies. It also reflects a \$63,976 reduction in employee health insurance costs.

The cost of General Fund expenditures has also been heavily impacted by reduction in the cost of "Other Services and Charges." The \$345,196 reduction in this category includes a

temporary reduction of \$154,169 for IS Fund charges, a \$72,196 reduction in professional services cost, and a \$57,506 reduction in costs for employee conferences and schools.

Expenditures for General Fund supplies and capital outlay items are also down significantly. Reductions include an \$85,178 reduction in supplies that is entirely attributable to a reduction in costs for fuel. They also include a \$68,491 reduction in costs for vehicle purchases.

General Fund expenditures of \$14,127,235 are supported by \$13,315,954 in revenue from property taxes, Local Government Aid, charges for service, license revenues, and a variety of other sources of annual income. The remaining \$811,211 is covered by transfers from other funds and the use of General Fund reserves.

The City's 2010 property tax levy will be \$10,120,162, or 6.8% more than the 2009 property tax levy. The levy includes \$9,101,421 for the General Fund, \$314,400 for the Springbrook Nature Center operations, and \$698,141 for the retirement of street improvement bonds. The levy, in combination with changes in property values, will increase taxes on the average value Fridley home (a home having a value of \$196,200) from \$555 in 2009 to \$592 in 2010.

As we examine the 2010 budget, it is important to look at the overall financial health of the City. Although our General Fund deficit of \$811,281 is only about half of what it was for the 2009 budget, many of the revenue and expenditure adjustments that have been made for 2010 should be considered short-term or temporary. On the revenue side, the adjustments include temporarily shifting \$107,300 from the Parks Capital Improvement levy to the General Fund. They also include a one-time infusion of \$438,000 in proceeds from the calling of bonds for Tax Increment Districts #1-3 and the infusion of \$541,375 in anticipated savings from 2009 General Fund expenditures.

On the expenditure side, the adjustments include the freezing of employee salaries for a savings of \$293,990, the freezing of four General Fund full-time positions for a savings of \$224,421, and the temporary suspension of IS depreciation charges amounting to \$154,169. The expenditure adjustments also include a \$57,506 reduction for the elimination of employee travel and conference costs, a \$25,000 reduction for mowing the University Avenue corridor, and a \$68,491 reduction in costs for vehicles and equipment.

The addition of these short-term adjustments amounts to \$1,086,675 in revenue adjustments and a minimum of \$823,086 in expenditure adjustments that should be considered

temporary. Added together, these adjustments amount to \$1,909,761. Although not a certainty, there is also a very good possibility the State will again cut Local Government Aid in 2011 as they deal with what has been conservatively estimated as a \$4.4 billion deficit for their 2012-2013 biennium. This could mean a loss of another \$759,414 in General Fund revenue.

Within this context of uncertain revenues and expenditures, demand for municipal services in Fridley is either growing or holding steady, depending on the service area. Fridley, for example, has one of the four or five highest crime rates (depending on the year) in the metropolitan area. Calls for medical assistance and response to fires in Fridley have also risen sharply from 2,293 calls for service in 2001 to 2,923 calls for service in 2008. At the same time, the City's Community Development Department has seen dramatically increased code enforcement activities, as their total number of code enforcement inspections has risen more than 82% since 2005. The Fridley Fire Department has also seen a marked increase in rental inspections with the conversion of many single family properties to rental units. At the same time, there have been no reductions in the work for Public Works crews on City streets or in City parks; and maintenance, material, and fuel costs continue to rise as the community's infrastructure ages. While demand for Recreation programs is not growing, these services are particularly important to seniors and youth during tough economic times.

The City also needs to be concerned about the relationship between the City's cash flow requirements and its cash balances as it evaluates future budget decisions. City Finance Director Rick Pribyl estimates the City needs to maintain cash balances of \$5,857,996 in order to meet the City's cash flow requirements and avoid borrowing from outside sources to meet the day-to-day obligations of the City. This is based on our knowledge that property tax settlements and Local Government Aid distributions are distributed on a semiannual basis rather than on a continuing basis. He also reports that based on his calculations, we will have drawn down the City's Closed Bond Fund, General Fund Reserve and Liquor Fund reserves to the point where we will no longer be able to meet cash flow requirements after 2011. He further estimates that after 2013, the City will have exhausted all three of these sources of transfers to the General Fund.

These financial challenges should lead the City to be looking long and hard for alternative sources of revenue in the coming months. While the current economic climate does not favor support for higher costs of government, it also does not favor cutbacks in local

government services. Given these circumstances, the choices for Council and the residents of Fridley will be difficult as the City budgets for 2011 and beyond.

While the choices are difficult, we can take some solace in the fact that Fridley still has a strong employment base and can look forward to the numerous benefits of the Northstar Commuter rail and its Fridley station site. We also have very hard-working and talented City employees who continue to provide high quality municipal services, as well as a strong, team-oriented Council which works very cooperatively with staff and citizens to resolve issues and plan for the future.

With this sense of reality, optimism, and pride in our City government, I present the 2010 budget for Council's consideration.