

**2011
City of Fridley
Budget Message**

(Revised December 13, 2010)



2011 BUDGET MESSAGE
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I. Introduction

The 2011 budgetary process was, once again, a year-long endeavor that began with the Council/Commission issues survey and departmental goal setting early in the year. Thereafter, the City Manager met with department managers on several occasions to develop additional strategies for addressing budget deficits. They met with the City Council in April to review a two- part list of recommended changes. With the identification of budget adjustment strategies 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's review. This began with a budget work session in June and continued with the adoption of a preliminary budget and tax levy in August. Council subsequently met with the City's management team in October to resolve remaining issues and to review changes that had occurred since June. Ultimately, the finished product was prepared for the public meeting on December 6, 2010. The budget resolution and resolution certifying the final tax levy requirements were considered by Council at their December 13 meeting.

As the budget is presented, I again want to thank Fridley's department managers and their staff for preparing responsible and thoughtful budgets. I would also like to thank the department managers for their help in the development of additional budget adjustment strategies. The City Council also deserves thanks and credit for reviewing staff's budget adjustment strategies and the budget as well as for its leadership and cooperation throughout the entire budgeting process. I also want to thank Acting Finance Director Al Folie, 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. Legislative Context.

Although the Minnesota Legislature did make some significant changes that impact cities in 2010, as expected, they did not deal with the projected \$6.1 billion deficit facing them in the 2012-2013 biennium. Nor did they deal with state-mandated local levy limits or with the reform of the Local Government Aid formula.

They did, however, restore half of Fridley's Local Government Aid that had been unallotted by Governor Pawlenty earlier in the year. Other legislation that had a financial impact on Fridley includes legislation that affects the City's cost for regional sewage treatment levied by the Metropolitan Council's Environmental Services Division (MCES). This legislation allows MCES to roll over shortfalls in connection charges for new development into sewage treatment charges it levies against all cities. This rollover is expected to cost Fridley's Sewer Fund \$76,900 in 2011.

Yet another financial impact item to emerge from the 2010 legislative session has to do with state public employee retirement system shortfalls. Under this legislation, the City will be assessed an additional .25% for non-public safety retirement benefits and a .3% increase for public safety retirement benefits. These changes will cost Fridley an additional \$12,786 in 2011.

Other 2010 legislative changes affecting Fridley include new laws that apply to the conduct of local and statewide elections. These impact the timing of the state's primary election, filing dates for local candidates, the recruitment and training of election judges, and new laws governing the absentee balloting process.

While the City saw its bonding bill for Springbrook Nature Center improvements vetoed by the Governor, it did succeed in getting special legislation passed for Fridley and six other cities that permits the City's Housing and Redevelopment Authority to purchase and demolish substandard properties and to fund these projects through Tax Increment Financing revenues.

Given the results of the 2010 election, including uncertainty over the choice of a new governor, it would seem that any speculation about what will happen in 2011 is purely guesswork. We do know that fixing the \$6-7 billion state deficit for 2012-2013 will be a top priority. Given the Republican control of both legislative houses, we might also guess that the deficit will be addressed through expenditure cutbacks and government reorganization rather

than through new revenues. Although it is not possible to predict where the budget cuts will come from, it is very likely that, under these circumstances, local governments can expect large reductions in Local Government Aid (LGA). This will no doubt mean that Fridley will see little of the \$1.9 million in LGA that it is scheduled to receive in 2011. It is also very likely that all efforts to study reform of the LGA distribution system will be suspended (again) given the absence of LGA resources.

While there is likely to be an effort to expand local sales taxing authority as an offset to lost LGA, chances for approval of any new local taxing authority in the current legislative climate appear to be slim. Other legislation expanding the ability of cities to use Tax Increment Financing to address problems associated with foreclosures and vacant properties seems more likely as do the chances of new TIF allowances for transit-oriented TIF districts and the use of TIF to assist in the creation of jobs.

While there has been little effort in recent years to allow the sale of wine in grocery stores, it would seem likely that with a Republican controlled legislature the grocers association will renew their efforts in this direction. Should they be successful, their efforts will greatly undermine a major source of General Fund revenue now gained through the City's municipal liquor operations.

Although Governor Pawlenty's local levy limits expire in 2011, it is also likely, given the Republican controlled legislature, that there will at least be efforts to reinstate them. Much of the success in this endeavor will depend on who is ultimately selected as governor as well as when that selection process has been completed.

While the future of levy limits is uncertain, there is far more certainty that there will be strong legislative efforts to eliminate barriers to local government collaboration and to streamline government at all levels. At this point, there is no indication as to what form that effort will take. It is, however, something that Fridley and other Minnesota cities will want to keep a close eye on as the legislative session progresses.

B. Budget Issues.

Once again, Council's June and October budget work sessions focused largely on budget cuts and revenue adjustments, including those already in place for 2010. They include the freezing of employee salaries, the elimination of employee travel and conference expenses not

associated with licensure or certification, the freezing of five full-time employee vacancies, the reduction of seasonal parks maintenance expenditures, the elimination of employee leave sellback, suspension of IT depreciation charges, and the elimination of University Avenue corridor mowing.

In addition to the 2010 adjustments, Council added several new revenue and expenditure adjustments for 2011. These include a one-time transfer of an additional \$420,000 in funding from expiring TIF Districts, the use of \$550,000 in equipment certificates for the purchase of vehicles and other large equipment in 2010 and 2011, the transfer of an additional \$80,000 in state aid to streets money (MSAS money) to fund street maintenance, an additional \$20,000 in seasonal workforce adjustments, the elimination of tennis and basketball court lighting in most City parks, and the transfer of \$58,500 in new antenna lease revenue to the General Fund. Council also agreed to raise the inter-fund charge assessed to the Storm Water Fund by \$108,000 to cover the cost of 1.5 positions in the City Public Works Department.

Perhaps the largest of all budgeting issues in 2010 related to the size of the City's General Fund property tax levy for 2011. Ultimately, and after much debate with the Minnesota Department of Revenue, Council agreed not to levy additional property taxes for the General Fund. Total property taxes, including those for debt service on public improvement bonds and equipment certificates were raised from \$10,120,162 to \$10,509,317, or by 3.85%.

Another budgeting issue of some magnitude had to do with the size of utility rate increases. The end result of discussions was a 5% utility rate increase for the City's water, sewer and storm water utilities. While the increase will leave the City with significantly reduced cash balances in all three utility funds, Council determined that the increases were sufficient given the economic climate.

Other budget issues include those associated with the hiring of a summer code enforcement intern, the restoration of a School Resources Officer position, and employee health insurance. Council wound up restoring the \$8,354 for the summer code enforcement intern, but did not budget for an additional police officer that would enable the restoration of the City's second School Resources Officer position. They also agreed to continue current employee health insurance benefits that are expected to cost approximately 2.0% more than 2010 health insurance benefits.

Although the budgetary impact for storm water improvements in the areas of Fridley covered by the Six Cities Watershed Management Organization were not determined during Council's budget work session discussions, Council did devote considerable time to discussing Fridley's future involvement in that organization and the cost implications associated with other organizational options. As a result of these discussions, it would appear that Fridley will end its participation in the Six Cities WMO and will seek to include the territory now covered by the Six Cities WMO in one or more nearby watershed districts. As the City evaluates these options, it will seek to avoid adding more than \$56,000 in costs associated with required storm water improvements to the City's property tax levy.

One final issue discussed by the City Council during budget work sessions was an Alexandra House request for a \$25,023 contribution. While Council expressed its sincere appreciation for the work of Alexandra House, it determined not to renew contributions to outside organizations in view of current fiscal constraints.

III. The Budget in Perspective

The budget that emerged from staff and Council reviews provides for the expenditure of \$124,932 or .8% less than was budgeted for all funds in 2010. We have displayed the distribution of these expenditures among the various fund categories in Table 1.

Table 1				
All Funds				
Budgeted Expenditures				
	Budget 2010	Budget 2011	Change	% Change
General Fund	\$ 14,127,235	\$ 13,940,049	(\$ 187,186)	(1.3%)
Special Revenue Funds	1,160,942	1,195,196	34,254	3.0%
Capital Projects Funds	703,000	731,000	28,000	4.0%
Agency Fund (Six Cities)	6,200	6,200	0	0.0%
Total	\$ 15,997,377	\$ 15,872,445	(\$ 124,932)	(0.8%)

A. General Fund.

1. Expenditures:

General Fund expenditures are \$187,186, or 1.3% less than the amounts budgeted for 2010. Table 2 displays these amounts by broad category of expenditure.

	Budget 2010	Budget 2011	Change	% Change
Personal Services	\$ 10,667,048	\$ 10,558,265	(\$ 108,783)	(1.0%)
Supplies	877,919	859,259	(18,660)	(2.1%)
Other Services & Charges	2,340,513	2,272,765	(67,748)	(2.9%)
Capital Outlay	241,755	249,760	8,005	3.3%
Total	\$ 14,127,235	\$ 13,940,049	(\$ 187,186)	(1.3%)

Of the \$13,940,049 budgeted, \$10,558,265, or 75.7%, is dedicated to personal services. The \$108,783 decrease reflects several changes in personal service categories including a \$92,395 reduction in the cost of temporary employees, a \$12,786 increase in PERA contributions, a \$16,689 reduction in Workers' Compensation costs, and an \$11,984 increase in employee health insurance costs.

The cost of supplies for the General Fund departments has decreased by \$18,660, or by 2.1%. This amount includes a projected increase in fuel costs of \$8,074 and numerous reductions in other supply costs.

Other services and charges budgeted for General Fund departments are also down. The reduction amounts to \$67,748, or 2.9%. While the cost of professional services has increased by \$49,645, the cost of non-professional services has been reduced by \$91,654. Of this latter amount, \$42,507 is associated with the absence of an election in 2011. Another \$20,138 in non-

professional service cost is linked to reductions in costs for recreation programming. Reductions in other services and charges include utility service costs (-\$15,800), advertising costs (-\$4,600), transportation costs (-\$4,135), and costs for dues and subscriptions (-\$3,730).

Capital outlay costs are up slightly from what they were in 2010. The \$249,760 budgeted includes the purchase of four police squads and related equipment (\$113,760), a 3/4 ton pickup truck with a plow for the Parks Maintenance Division (\$35,000), a small paving roller for the Street Division (\$19,000), a 48" turf sweeper for the Parks Maintenance Division (\$30,000), a 4x4 pickup truck for the Street Division (\$35,000), and a plow for another Street Division truck (\$7,000). There is also \$10,000 in this budget for replacement of the roof at Fire Station #2.

2. Revenues:

General Fund revenues for 2011 are expected to be 1.7% less than they were for 2010. This year we are anticipating \$13,915,954 in revenues from all sources. We anticipate that these revenues will decrease to \$13,672,095 in 2011. While the amounts are similar, there are some noteworthy changes in revenue line items.

The most significant change is a \$305,785 increase in property tax revenues. The other very significant change is the elimination of \$759,414 in Local Government Aid (LGA) that had been budgeted in 2010.

B. Special Revenue Funds.

Spending for all Special Revenue Funds in 2011 is \$1,195,196, or \$34,254 (3.0%) more than was budgeted for 2010. Table 3 on the next page reveals budgeted amounts for each of the City's five special revenue funds for 2010 and 2011.

Table 3
Special Revenue Funds
Budgeted Expenditures

	Budget 2010	Budget 2011	Change	% Change
Cable TV Fund	\$ 146,334	\$ 165,603	\$ 19,269	13.2%
Grant Management	116,812	144,407	27,595	23.6%
Solid Waste Abatement	426,991	410,579	(16,412)	(3.8%)
Police Activity Fund	87,938	84,177	(3,761)	(4.3%)
Springbrook NC Fund	382,867	390,430	7,563	2.0%
Total	\$ 1,160,942	\$ 1,195,196	\$ 34,254	3.0%

1. Cable Television Fund:

Expenditures are expected to increase by \$19,269, or by 13.2%. Most of the increase is explained by plans to do webcasting of Council meetings on the Internet and employee training videos on the City's Intranet. The associated expenditures include \$3,500 for a webcast hosting service and \$15,000 for purchase of a cable channel server. All of the money consists of Cable Franchise fee revenue that must be used for cable casting purposes.

Cable Franchise fee and interest revenues for 2011 are estimated at \$241,050.

2. Grant Management Fund:

We project \$144,407 in expenditures for this fund. The amount is \$27,595, or 23.6% greater than the amount budgeted for 2010. Nearly all of the increase is in the personal services area. It includes \$51,993 for the Section 8 Housing Coordinator and \$12,702 for the portion of the Environmental Planner's salary that is covered by our SHIP grant. It also includes \$14,806 for SHIP grant contractual expenses.

Revenues of \$144,407 come from the Section 8 Housing Program (\$83,275), the Title III federal grant for the Chores and More Program (\$28,755), and the State's Health Improvement Program (\$32,377).

3. Solid Waste Abatement Fund:

We are projecting expenditures of \$410,579. The amount is \$16,412, or 3.8 % less than we budgeted for this fund for 2010. The decrease is largely explained by the shift in a portion of the Environmental Planner's salary to the Grant Management Fund. The budget also reflects a reduction in costs for supplies associated with reductions in revenue sharing income from the City's recycling hauler. It does include a \$12,333 increase in costs for a new curbside collection contract.

All of the expenditures are offset by revenues from various sources. These revenues include \$308,724 from recycling fees we charge Fridley residents, \$71,350 in SCORE funding, and \$16,705 in transfers from the City's Closed Bond Fund. Due to the SHIP grant funding, this latter amount is less than half of what it was in 2010.

4. Police Activity Fund:

We are projecting expenditures of \$84,177. The amount is \$3,761, or 4.3% less than the amount budgeted for 2010. These costs represent the costs for one officer who was hired to replace the officer sent to the Federal Drug Enforcement Agency (DEA) Task Force.

This program was originally expected to pay for itself through drug enforcement forfeiture revenue. The amounts received include \$14,167 for 2009, \$18,583 for 2010, and pending proceeds of \$41,787 for 2011.

5. Springbrook Nature Center Fund:

We have budgeted \$390,430 for the Springbrook Nature Center Fund for 2011. This amount is \$7,563, or 2.0% more than we budgeted for 2010. The increase reflects a \$1,498 amount for employee step increases, and the cost of a new contract with the Columbia Heights School District. The \$5,941 amount will cover the services of a part-time naturalist who will provide environmental education in the Columbia Heights elementary schools.

The expenditures are more than offset by revenues from the Springbrook Nature Center levy and various program revenues, including contract revenues from the various school districts. We are projecting levy revenues of \$314,400, and program revenues of \$89,900. These program revenues amount to 22% of program expenditures.

C. Capital Improvement Fund.

We have budgeted \$731,000 in capital improvements expenditures for 2011. The amount is \$28,000, or 4.0% more than the budgeted amount for 2010. Table 4 shows the distribution of these expenditures among three project categories.

The General Capital Improvements portion of these expenditures includes \$21,000 for replacement of one of a dozen HVAC units for the Municipal Center.

	Budget 2010	Budget 2011	Change	% Change
General	\$ 36,000	\$ 21,000	(\$ 15,000)	(41.7%)
Streets	600,000	610,000	10,000	1.7%
Parks	67,000	100,000	33,000	49.3%
Total	\$ 703,000	\$ 731,000	\$ 28,000	4.0%

The Streets portion of the General Capital Improvements budget includes \$610,000. This amount includes \$580,000 in MSAS revenues for the 2011 street improvement project and \$30,000 in local funding for state-mandated traffic sign upgrades.

The street improvement project will include the milling and overlaying of an area bounded by Main Street on the west, University Avenue on the east, 57th Place on the south, and 61st Avenue on the north.

The Parks portion of this budget includes \$40,000 for court resurfacing, \$5,000 for replacement of park furnishings, \$10,000 for replacement of playground equipment, and \$45,000 for carpet and flooring replacement at the Fridley Community Center.

Projected revenue for the three capital improvement areas include \$8,638 in interest income from funds held for General Capital Improvements, \$39,389 from funds held for street improvements, and \$580,000 in revenue for 2011 projects. The Parks portion of the revenue includes \$39,981 in interest income and \$10,000 from various park fees.

D. Enterprise Funds.

We have budgeted \$13,414,919 for the City's four enterprise funds. The amount is \$461,944, or 3.6% more than the amount budgeted for 2010. The changes for each fund are highlighted in Table 5.

Table 5
Enterprise Funds
Budgeted Expenditures

	Budget 2010	Budget 2011	Change	% Change
Water Fund	\$ 2,605,547	\$ 2,782,704	\$ 177,157	6.8%
Sewer Fund	4,553,526	4,762,991	209,465	4.6%
Storm Water Fund	413,410	553,540	140,130	33.9%
Municipal Liquor	5,380,492	5,315,684	(64,808)	(1.2%)
Total	\$ 12,952,975	\$ 13,414,919	\$ 461,944	3.6%

1. Water Fund:

The \$177,157 increase for this fund includes \$117,329 in cost for Water Administration. Of this amount, \$96,863 is for increased depreciation charges for new water system projects. The other major contributor to the Water Administration increase is \$15,888 associated with the addition of one family health insurance plan.

The second portion of the overall increase in the Water Fund budget is attributable to Water Operations. There are three main contributors to a \$48,758 increase in this area. They include a \$9,752 increase for something called OPEB (Other Post Employee Benefits). New accounting standards require that we budget for the projected impact of having retired employees on our health insurance plan. Therefore we must calculate the impact of this older population on our rate structure.

The second major reason for the Water Operations increase is explained by a \$30,700 projected increase for chemicals and a \$7,500 estimated increase for asphalt used to repair water main breaks. The third contributor to additional operating costs is a projected \$8,670 increase for utility costs.

Overall Water Fund costs will also be impacted by additional debt service costs for water system projects. The 2011 debt service will be \$11,070 higher than the debt service budgeted for 2010.

A 5% water rate increase will generate \$2,595,787 in operating income that will be used to offset \$2,515,842 in 2011 operating expenses. The combination of operating and non-operating revenues and expenses will leave us with \$2,458,192 in cash or cash equivalents. This amount is \$668,801 less than the cash and cash equivalent balance that we project for January 1, 2011.

2. Sewer Fund:

We project that Sewer Fund expenditures for 2011 will amount to \$4,762,991, or 4.6% more than we budgeted for 2010. The major contributors to the \$209,465 increase include \$172,300 (+5%) for MCEs treatment charges, an additional \$36,470 in personal service costs, and \$14,133 in additional depreciation costs.

The increased operating costs, along with other changes in our income/expense projections for the Sewer Fund, create a need for a 5% increase in sewer rates for 2011. This increase will leave us with cash and cash equivalents of \$1,799,540 by the end of 2011. This amounts to \$321,802 less than we expect to have at the end of 2010.

3. Storm Water Fund:

We project that Storm Water Fund expenditures for 2011 will amount to \$533,540, or 33.9% more than the amount budgeted for 2010. The major contributors to the \$140,130 increase includes \$108,000 associated with the transfer of costs for one Street Division employee, and portions of costs for the City's engineering staff from the General Fund to the Storm Water Fund. The move, along with a 2% increase in the costs for other General Fund services, raises the administrative overhead charge to the Storm Water Fund from \$125,200 in 2010 to \$235,700 in 2011.

Other contributions to the increase in expenditures for the Storm Water Fund include \$7,100 in additional depreciation charges for capital improvements and other fixed assets, and a \$10,000 increase in costs for professional services. The latter costs include costs for additional GIS services and costs associated with the preparation of the City's Storm Water Pollution Prevention Plan.

The increased cost for the Storm Water Fund in 2011 will generate a need for a 5% rate increase, which will leave the fund with \$1,013,314 in cash and cash equivalents at the end of 2011. This amounts to \$134,818 less than we expect to have at the end of 2010.

4. Liquor Operations Fund:

We are projecting \$5,315,684 in Liquor Fund expenditures for 2011. The amount is \$64,808, or 1.2% less than the amount budgeted for 2010. The decrease in expenditures reflects our decision to hold up on the filling of one full-time position. Budgeted expenditures include the transfer of \$350,000 to the General Fund.

Our two liquor stores are expected to generate revenues of \$5,285,900, or \$29,784 less than the amount needed to balance expenditures. This imbalance will be addressed through the use of cash balances.

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 2011, we expect to pay \$787,284 on debt service for water system improvements, \$15,867 for sewer system improvements and \$11,912 for storm water improvements. We also anticipate \$1,058,135 in 2011 for street improvement debt service. Additionally, we have \$13,834 in general obligation equipment certificates debt service that is supported by property tax revenue.

IV. Tax Impact

The City's 2011 property tax levy is \$10,509,317. The amount is \$389,155, or 3.85% more than the amount levied for 2010. Of the total, \$9,407,206 represents the General Fund portion of the property tax levy. Another \$781,511 covers the City's bonded indebtedness for street improvement projects and equipment certificates. The remainder includes \$314,400 in property tax levy for the Springbrook Nature Center and \$6,200 for the Six Cities Watershed District.

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 2010. The most significant of the shifts was another 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.

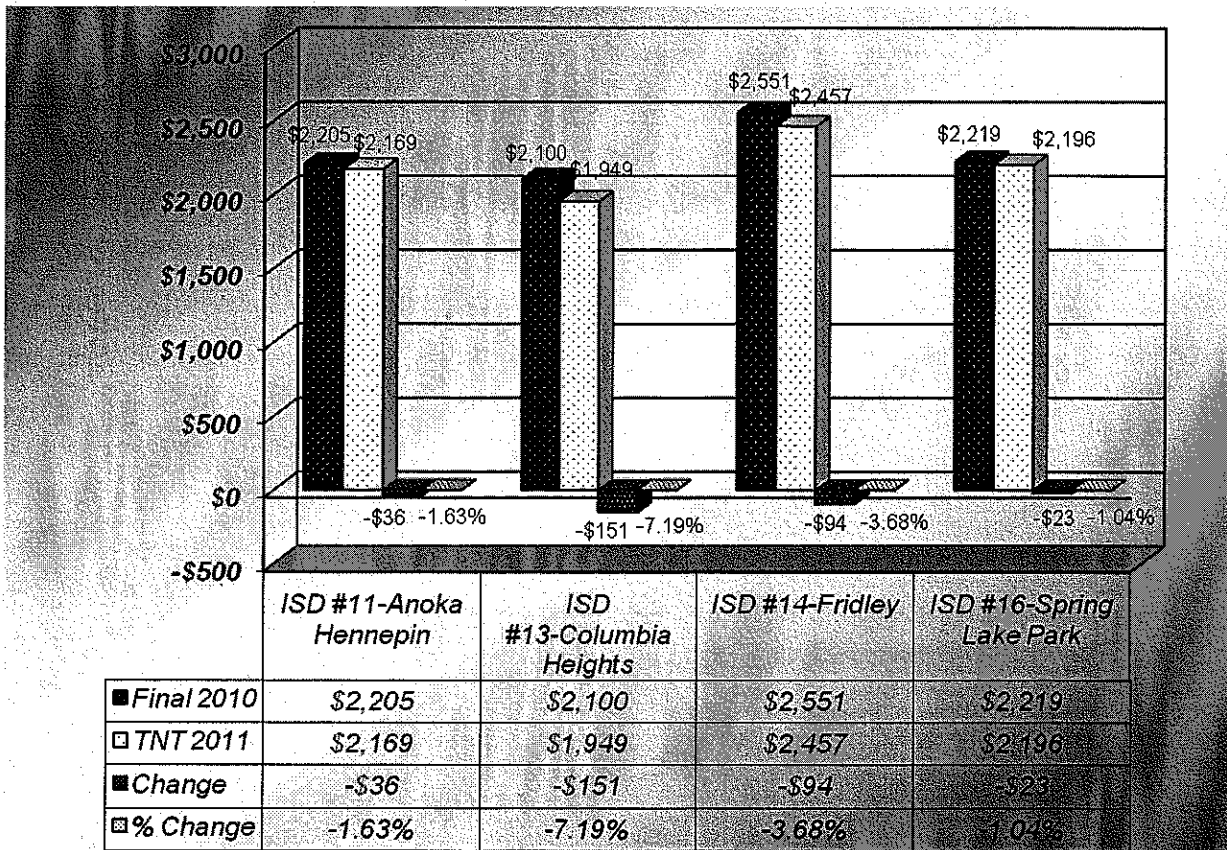
After doing all of this, we are still not through. We must also add the value of any market rate levies approved by voters in any of the school districts, and subtract the value of the Residential Market Value Homestead Credit. This credit is determined by multiplying the market value of the property 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 \$175,200), we learned that the City's 2011 levy will not generate a tax increase for the owners of this property. This means that local property taxes for this property will remain at \$602 for the

year. The property taxes in each of the four school districts that include parts of Fridley will actually decline by varying amounts.

Figure 1 depicts what staff believes will be the 2011 changes in property taxes for the owners of a \$175,200 home in all four school districts. The change in property taxes ranges between -\$151 in the Columbia Heights School District to -\$23 in the Spring Lake Park School District. Residents of the Fridley School District will see a \$94 decrease in property taxes, and those in the Anoka-Hennepin School District will see a \$36 decrease in property taxes.

**Figure 1
Property Tax Changes
2010 - 2011**



V. Financial Health of the City

A. Fund Balances.

Table 6 displays the most recent calculations of fund balances. It reveals that our Unreserved Governmental Funds will increase by \$15,058 in 2011.

While we commonly refer to these balances as unreserved, most of them are earmarked for specific purposes. Of the projected balance for 2011, \$4,424,000 is reserved for street reconstruction, parks improvements, and building/facility upgrades. Another \$6,200,000 is reserved for working capital, and \$1,358,045 is restricted by our cable franchise for cable television operations and improvements.

Year	Unreserved General Fund	Unreserved Governmental Funds
2006	3,863,023	17,924,272
2007	5,206,778	17,820,831
2008	4,538,224	17,718,217
2009	4,600,988	16,788,469
*2010	4,389,707	16,619,027
*2011	4,121,753	16,634,085

* Projected Estimate

B. Revenues.

Table 7 on the next page compares General Fund revenues with General Fund expenditures from 2006 to 2011. 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 the City has typically transferred between \$500,000 and \$1,600,000 in any given year. The 2011 budget will require the transfer of \$867,954 from the General Fund Reserve, the Closed Bund Fund and the Liquor Operations Fund.

Table 7
General Fund
External Revenues vs. Expenditures

	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Budget 2010	Budget 2011
Revenues	\$ 11,686,573	\$ 12,920,219	\$ 12,570,624	\$ 13,005,058	\$ 13,315,954	\$ 13,072,095
Expenditures	13,135,791	13,567,852	14,066,686	13,718,772	14,127,235	13,940,049
Excess	(\$ 1,449,218)	(\$ 647,633)	(\$ 1,496,062)	(\$ 713,714)	(\$ 811,281)	(\$ 867,954)

Table 8 depicts various sources of General Fund revenue between 2006 and 2011. While most sources of revenue have remained stable over this period, the table does reveal that the City's dependence on property taxes has jumped from 58.3% in 2006 to 68.2% in 2011. At the same time, intergovernmental revenues have dropped from 10.3% of General Fund revenues in 2006 to 5.2% of General Fund revenues in 2011. 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.

Table 8
General Fund
Revenue Sources
(By Percentage)

Source	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Budget 2010	Budget 2011
Taxes	58.3	55.0	57.9	58.8	65.1	68.2
Licenses and Permits	5.2	5.9	5.2	5.4	3.9	4.2
Intergovernmental	10.3	10.8	10.0	14.7	9.9	5.2
Charges for Services	10.5	10.0	11.7	12.1	11.5	12.8
Fines and Forfeits	2.0	1.8	2.1	1.6	1.9	1.8
Special Assessments & Miscellaneous	2.8	3.2	2.7	1.6	2.0	1.6
Other Financing Sources & Fund Balance	11.0	13.3	10.6	5.7	5.7	6.2
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 \$487,762, or by 5.1% between 1995 and 2009. The constant dollar increase amounts to .36% 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	14,131,198	10,135,100
* 2010	14,510,102	10,377,570 ***
* 2011	14,330,479	10,060,148 ***

* Budgeted Numbers
 ** Constant dollars are based on the value of 1995 dollars.
 *** We have assumed an annual inflation rate of 1.0%

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

VI. Economic Environment

The Fridley socio-economic environment in which the budget was prepared has been mostly negative in 2010. Although crime rates were down for the second year in a row and new construction values were at generally healthy levels, most other economic variables were negative. These include employment, the number of jobs in Fridley, property valuations, and the use of public assistance.

A. New Construction.

The value of all new construction for the first ten months of 2010 was \$27,878,505. This compares with \$42,160,851 for the first ten months of 2009. Major projects for 2010 included the construction of the new medical center on the Unity Hospital campus, which is valued at \$7,498,000. Other new construction includes the new generator testing facility at Cummins Power Generation valued at \$3,520,000 and an assisted living project which is being built by Faulkner Construction near Moore Lake Plaza valued at \$3,189,000. Medtronic Corporation has also done additional renovation on their Rice Creek campus valued at \$1,190,000.

In comparing the 2010 numbers with the 2009 numbers, the reader should take into consideration that much of the new construction value for 2009 was attributed to the construction of a new dewatering facility at the Minneapolis Water Works valued at \$18,953,000. Also, although the value of new construction for 2009 was considerably higher than the value for 2010, according to Chief Building Official Ron Julkowski, the 2010 number compares favorably with other recent years.

B. Employment.

Fridley's unemployment rate dropped from 8.1% at the end of September, 2009, to 7.7% at the end of September, 2010. This compares with a seasonally-adjusted state unemployment rate of 7.0%, and a national unemployment rate of 9.6%, as of the end of September, 2010.

The decrease in unemployment has been accompanied by a decrease in the number of jobs available in Fridley between the first quarters of 2009 and 2010, the latest available data. The number, including public sector jobs, has fallen from 22,269 to 21,143, or by 5.1%. Based on data provided by the Minnesota Department of Employment and Economic Development (DEED), the number of manufacturing jobs in Fridley declined from 8,939 to 8,179, or by 8.5%.

The same report indicates that the number of retail jobs decreased from 2,374 to 2,110, or by 3.9%. The report also shows that the number of wholesale jobs decreased from 1,760 in 2009 to 1,483, or by 2.7% between the 1st quarters of 2009 and 2010. Additionally, other service sector jobs decreased from 8,706 in 2009 to 8,551, or by 1.8% over the 12 months.

C. Property Values.

Property values have continued to change at rates that vary considerably among different property categories. The estimated market value of all Fridley property decreased from \$2,561,859,400 in 2009 to \$2,364,436,900 in 2010. The 7.7% decrease compares with a 5% decrease in 2009.

While the number of homesteaded single family properties rose in 2010 to 7,005 from 6,982 in 2009, the assessed value of these homes decreased by 9.2%. This was on top of an 8.5% decrease in 2009. Values for non-homesteaded apartment buildings having three or fewer units decreased by 13.8%. The value of apartments having four or more units decreased by 4.5%.

Decreases in residential property values have been accompanied by decreases in assessed values for commercial and industrial property. This includes a 6.1% decrease in commercial values, and a 5.9% decrease in industrial values. These decreases in property values have been accompanied by a 7.5% decrease in tax capacity, the amount available for local property taxation. This compares with a 4.3% decrease in tax capacity in 2009.

Readers should keep in mind that all of these values are assessed values rather than current fair market values. Also keep in mind that the assessment process, as defined by state law, usually leaves us with values that are about eighteen months behind current fair market values.

D. Public Assistance.

Anoka County reports that the number of Fridley households receiving cash assistance and/or food stamps has increased from 1,329 through September of 2009 to 1,553 through September of 2010. This represents a 16.9% increase over last year and a 51.8% increase since September of 2008.

Our report from School District #14 indicates that the number of students receiving free or reduced lunches has risen from 1,600 students in October of 2009 to 1,661 in October of 2010.

This represents a 3.8% increase over the number reported last year and a 21.4% increase since October of 2008. At the same time, the percentage of students on free and/or reduced lunches has increased from 48.4% in 2009 to 59.5% in 2010.

E. Crime Rates

Crime reports for the first nine months of 2010 indicate that total reported crimes in Fridley decreased over 5% compared to the same period in 2009. According to Public Safety Director Don Abbott, there were 3,140 Part I and Part II crimes reported to police between January 1 and September 30 of 2010 compared to 3,309 during the first nine months of 2009. The number of reported crimes in 2010 represents the second year in a row that overall crime has decreased from the five-year high of 3,852 reported crimes in 2008. This equates to an 18.5% reduction from the 2008 peak.

Part I crimes did increase slightly in the first three quarters of 2010 to 1,078 vs. 1,072 through the first nine months of 2009. Worthy of special note here is that vehicle thefts decreased from 70 to 58. Director Abbott points to the grant funded county-wide vehicle theft task force that Fridley manages on behalf of all Anoka County law enforcement agencies as playing a significant role in this reduction.

The five-year average for Part I crimes is 1,190. These more serious crimes included 70 violent crimes in 2010, down from 76 in 2009. The only Part 1 offenses to show an increase in the 2010 data were felony assault (42 in 2010 vs. 38 in 2009), robbery (up 2 from 13 to 15 in 2009 vs. 2010), and burglary (101 in 2010 vs. 100 in 2009). Part 2 crimes decreased from 2,237 in 2009 to 2,062 in 2010--a reduction of 7.8% or 175 crimes.

VII. Conclusion

The 2011 budgeting process is a year-long process that has occurred within numerous contexts. The state legislative context is one of the most important. As is typically the case in election years, the state legislature made very little headway toward addressing projected deficits for the coming biennium. Nor did it address other major issues affecting local government in Minnesota. Cities were, however treated to several new mandates including those that affected the cost for sewage treatment, public employee retirement benefits, and the conduct of local and statewide elections.

While legislative outcomes for 2011 remain uncertain, given the huge task of balancing the state's budget for the 2012-2013 biennium, there is little reason to expect that the legislature will increase Fridley's Local Government Aid (LGA) or restructure the Local Government Aid formula in a manner that benefits Fridley. There is good reason to expect that Fridley's LGA allocation for 2011 will be greatly reduced. The new legislative context (following the 2010 elections) also strengthens the possibility of the extension of state-imposed levy limits and new efforts to allow the sale of wine in grocery stores. This latter move would undoubtedly undermine the profitability of our City's liquor operations. Additionally, while there are no particulars at this point, there is also reason to be concerned about future legislative efforts to restructure local governments in Minnesota during the 2011 legislative session.

Changes in the local economic context in which the City of Fridley operates have been mostly negative. While new construction remains relatively strong and crime rates are down, unemployment levels in Fridley remain high and the number of jobs based in Fridley has declined sharply. At the same time, there has been a 7.7% decrease in the assessed valuation of all City property. Additionally, there has been a sharp increase in the number of Fridley residents receiving various forms of public assistance.

Under these circumstances, preparation of the budget was once again an exercise in fiscal restraint. For the second year in a row, budget work sessions focused on budget cuts and revenue adjustments that included the continued freezing of employee salaries, the maintenance of five full-time employee vacancies, the elimination of employee leave sellback, and the suspension of IT depreciation charges. Budget discussions also led to the issuance of equipment certificates (bonds) for the purchase of City equipment.

The budget that emerged from these discussions provides for the expenditure of \$15,872,445 for all funds (not including enterprise funds) and \$13,940,049 in General Fund expenditures. Both of these amounts are less than those budgeted for 2010 and 2009. Enterprise Fund budgets, which include the Water, Sewer, Storm Water, and Liquor Funds, amount to \$13,414,919, or 3.6% more than we budgeted for 2010. We have provided many of the details for these changes earlier in this message.

The budgets, including changes in property taxes, will allow the City's portion of property taxes on a \$175,200 home in Fridley to remain at \$602. Water, sewer, and storm water rates, however, will rise by 5%.

The expenditure and revenue changes found in the 2011 budget will leave the City with an estimated \$16,364,085 in unreserved governmental funds. The City's Finance Director also projects, based on conservative assumptions, that the City can meet its cash flow requirements (about \$6 million) through the year 2016. While these numbers are somewhat comforting, the reader should realize that many of the revenue and expenditure adjustments that have enabled the City to survive the current economic crisis are temporary. Wage freezes, the suspension of IT depreciation charges, elimination of most travel and conference expenses, the freezing of employee vacancies (including three police officer vacancies), and the suspension of mowing the 5.1 mile University Avenue corridor are all adjustments that are subject to change as the City moves forward. Additionally, there are other uncertainties such as those concerning the future availability of state aid, the cost of employee health insurance, mandated costs for employee pension programs, and future wage and benefit contracts with employee bargaining units that could have future negative impacts on the City's cash balance and cash flow projections.

Finally, it is important to point out that while we are projecting solvency over the next few years, we are also projecting dwindling cash balances that will be very difficult to recover. Unless we protect these cash balances, we are likely to be forced to make major cuts in City services, and our ability to invest in capital improvements for buildings, streets, and parks will be compromised.

Additionally, we should point out that the current economic circumstances, along with City Charter restrictions on property tax levies and fees, have forced the City to begin borrowing for vehicles and other major equipment purchases in 2010. Dwindling cash balances will also, at some point, force the City to borrow money to meet cash flow needs for all City operations.

Although the City's financial picture is less than rosy, we have many things to be proud of, including a very hard-working and talented group of City employees and 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, I present the 2011 budget for Council's consideration.