



**2012**  
**City of Fridley**  
**Budget Message**



**2012 BUDGET MESSAGE**  
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## **I. Introduction**

The 2012 budgetary process was, once again, a year-long endeavor that began with a Council-Commission issues survey and departmental goal setting early in the year. Thereafter, the City Manager met with department managers and other staff to review departmental budgets for 2012. He then brought a preliminary budget to Council in a June budget work session, at which time Council had an opportunity to review the budget and budget issues, as well as to ask questions and direct further research. The preliminary budget came back to Council in August and was approved along with a preliminary tax levy. 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 5, 2011. Following citizen input, the budget resolution and resolution certifying the final tax levy will be considered by Council at its December 12 meeting.

As the budget is presented, I want to thank Fridley's department managers and their staff for once again preparing responsible and thoughtful budgets. Thanks also to Finance Director Darin Nelson, Budget Accountant Craig Ellestad and Human Resources Director Debbie Dahl for compiling 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 of the City's external environment and for editing this message. Finally, thank you very much to the Fridley City Council for their hard work in reviewing the budget and for accommodating staff's needs through the budgetary process.

## **II. Budget Context and Issues**

### **A. The Legislative Context.**

As expected, much of the 2011 legislative process focused on the elimination of a \$6 billion General Fund budget deficit for the 2012-2013 biennium. The failure to resolve this budget imbalance during the regular legislative session led to a state government shutdown between July 1 and July 20. Although the shutdown interrupted state-funded grant projects, it was much less disruptive for local government than originally expected. Moreover, the final settlement of the budget imbalance issue was much more advantageous to Fridley City government than originally expected at the outset of the session.

The final settlement preserved Fridley's 2011 Local Government Aid (LGA) allocation of \$759,414 and extended it to 2012. The settlement also resulted in the elimination of the Market Value Homestead Credit program, which, in the last two years cost the City more than \$400,000 per year when the state greatly reduced its reimbursement to cities for this program. Fridley, along with other Minnesota cities, will also benefit from the elimination of the state's levy limits on local governments, as well as from legislation that gives them additional freedom to allow zoning variances and new authority to use Tax Increment Financing (TIF) proceeds in areas with high levels of mortgage foreclosures.

As in most years, Fridley City government also benefited from actions that were not taken by the legislature. While there were efforts to require photo identification from voters in local elections, neither this legislation nor any other legislation affecting the administrative costs for local elections made it through the legislative process. The same was true of legislation limiting local salaries and fringe benefits. There were also no successful efforts to allow the sale of wine in grocery stores, a move that would negatively impact municipal liquor profits. While cities would like to see more authority to levy administrative fines, as well as greater authority to acquire property for public projects through eminent domain, there were no changes in either of these areas.

Where is the legislature headed in 2012? According to Patricia Nauman, Executive Director of Metro Cities, the overall tone of the legislative process in 2012 will again be impacted by very strong ideological differences among legislators. She also projects there will be efforts in both the House and Senate to place a number of state constitutional amendments on the ballot. These include an amendment that would require photo identification in state and local elections, as well as an amendment that would establish local spending and taxing restrictions.

While there will be strong efforts to amend the Minnesota Constitution, our source does not expect there will be major efforts to address budget imbalances in 2012. She also points out that although we may disagree with the temporary fixes that were adopted in 2011, the budget is technically balanced. Moreover, any further budget balancing efforts are likely to be postponed until 2013, when the budget for the 2014-2015 biennium is crafted.

Our source also expects that other efforts, such as those aimed at restoration of the Market Value Homestead Credit program and the reestablishment of local levy limits will see little traction in 2012. She says the same for other legislation aimed at establishing local option sales taxes, the sale of wine in grocery stores and the relaxation of restrictions on administrative

finances. The legislature simply declines to address major structural issues in election years. As in all election years, the legislature is likely to limit its 2012 efforts to passage of a bonding bill. Since the legislature approved a \$500,000 bonding bill in 2011, she expects that the 2012 bill will be smaller than usual.

Regardless of this limited focus in 2012, it seems reasonable that Fridley and other Minnesota cities should remain very cautious knowing that the temporary fixes applied to the huge budget deficits in 2011 will not be available in 2013. Assuming there is a large budget deficit facing the legislature in 2013, it seems logical to expect that the legislature will once again be looking at LGA as a source of state funding, as well as to reason that it will be seeking to limit local government revenues and expenditures in other ways. In the best of all worlds, the national and state economies will have improved to the point where these cautions are no longer relevant.

## **B. Budget Issues.**

Council's June and October budget work sessions consisted primarily of review and discussion of expenditures and revenues for funds within the City's four funding categories. These include the General Fund, the Special Revenue Funds, the Capital Projects Funds, and the Enterprise Funds. In general, the budgets represent a continuation of spending levels and spending restraints that have been in effect since 2010. There were no major program expansions in any of the funds and very few issues regarding fund expenditures or revenues.

As in past years, Council and staff spent considerable time discussing changes in employee salaries and benefits in the budget work sessions. Unlike 2010 and 2011 when salaries were frozen, the 2012 budget provides for a 1% increase in non-union salaries. The budget also provides for step increases for 24 of 130 employees. While the costs for health insurance are capped by contract at 15%, the actual cost of health insurance increases after shifts in employee plans is 9.89%. The City's contribution to the dependent care health insurance plan remains at 70% of cost. Overall, costs for General Fund personal services are up by \$417,361 or by 3.95%.

Perhaps the most significant of the changes for 2012, outside of changes in personal service costs, was the creation of a Capital Equipment Fund that will be used for tracking expenditures and revenues for General Fund equipment purchases. The net effect of this change is that capital outlay expenditures will be moved out of the General Fund beginning in 2012. While there was some discussion regarding the purchase of a fire engine in 2012, that purchase

was moved to 2013 in order to allow time for the processing of a FEMA grant application for 50% of the cost.

Another change that emerged late in the budgeting process was a decision to budget for the reinstatement of a second school resources officer in the Fridley schools. School District #14 has agreed to a contract for two school resource officers that will cover \$56,000 of a replacement officer's \$69,000 salary and benefit costs, leaving the City with \$13,000 in additional General Fund expenditures for the new position. Another change affecting the Police Department budget was the transfer of funding for a police officer position from the Police Activity Fund, a special Revenue Fund, to the General Fund. This transfer of \$101,922 occurred as a result of the City's decision to discontinue participation in the Federal DEA Task Force.

Yet another change affecting General Fund expenditures was the decision to restore 50% of the IS Fund charge for depreciation of information technology. The charge was suspended for both 2010 and 2011. Return of 50% of the charge will create an additional \$71,390 in General Fund expenditures for 2012.

There were also a few changes on the revenue side of the General Fund budget. The most significant of these changes was the inclusion of \$759,414 in unbudgeted LGA revenue into the 2011 General Fund receipts. Since cash balances for capital improvements are running very low, however, the same amount of LGA for 2012 will be deposited in the Building Capital Improvements Fund rather than the General Fund. Other revenue changes for 2012 include a 2.03% increase in the General Fund levy and a 1.85% increase in all property tax levies.

Other budget discussions focused on proposed expenditures for capital improvement projects. These expenditures included \$410,000 in improvements to the Fridley Municipal Center, and \$870,000 for 2012 street improvement projects, including a major mill and overlay project in the Rice Creek Terrace section of Fridley.

While there were no real expenditure issues associated with the City's Water, Sewer and Storm water Funds, there was considerable discussion of user rates for the three utilities in 2012 and beyond. After reviewing various cash flow scenarios provided by Finance Director Darin Nelson, Council ultimately opted to raise sewer rates by 5% or by \$15.49 and water rates by 8% or by \$10.95 for the year. Both of these amounts apply to households using an average amount of water. They also opted to raise storm water rates by \$3.63 for residential properties.

Altogether increases in rates will amount to just over \$30 for 2012 and will enable the City to avoid future borrowing costs for operation of the three utilities.

### **III. The Budget in Perspective**

The budget that emerged from staff and Council reviews provides for the expenditure of \$17,294,542, or \$1,422,097 (9.0%) more than the amount budgeted for 2011. We have displayed these expenditures by fund in Table 1.

|                          | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> | <b>Change</b>       | <b>% Change</b> |
|--------------------------|------------------------|------------------------|---------------------|-----------------|
| General Fund             | \$ 13,940,049          | \$ 14,258,403          | \$ 318,354          | 2.3%            |
| Special Revenue Funds    | 1,195,196              | 1,265,989              | 70,793              | 5.9%            |
| Capital Improvement Fund | 731,000                | 1,429,000              | 698,000             | 95.5%           |
| Capital Equipment Fund   | 0                      | 341,150                |                     |                 |
| Agency Fund (Six Cities) | 6,200                  | 0                      | (6,200)             | (100.0%)        |
| <b>Total</b>             | <b>\$ 15,872,445</b>   | <b>\$ 17,294,542</b>   | <b>\$ 1,422,097</b> | <b>9.0%</b>     |

#### **A. General Fund:**

##### **1. Expenditures.**

General Fund expenditures are projected at \$14,258,403, or \$318,354 (2.3%) more than the amount budgeted for 2011. Table 2 displays these amounts by broad category of expenditure.

|                          | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> | <b>Change</b>     | <b>% Change</b> |
|--------------------------|------------------------|------------------------|-------------------|-----------------|
| Personal Services        | \$ 10,558,265          | \$ 10,975,626          | \$ 417,361        | 4.0%            |
| Supplies                 | 859,259                | 882,298                | 23,039            | 2.7%            |
| Other Services & Charges | 2,272,765              | 2,400,479              | 127,714           | 5.6%            |
| Capital Outlay           | 249,760                | 0                      | (249,760)         | (100.0%)        |
| Other Financing Uses     | 0                      | 0                      | 0                 | 0%              |
| <b>Total</b>             | <b>\$ 13,940,049</b>   | <b>\$ 14,258,403</b>   | <b>\$ 318,354</b> | <b>2.3%</b>     |

Of the amount budgeted, \$10,975,626, or 77.0% is dedicated to personal services. The \$417,361 increase in personal service costs reflects several changes in personal service categories including a \$263,679 (3.78%) increase in the cost of full-time salaries and a \$33,905 (4.34%) increase in retirement benefits. Other increases in personal service costs include a \$59,180 (9.89%) increase in employee health insurance costs, and a \$40,820 (17.5%) projected increase in cash benefits paid in lieu of health insurance.

The cost of supplies for the General Fund departments has increased by \$23,039 (2.7%). By far, the biggest part of this projected increase is for fuel, which is expected to increase by \$27,425 (11.61%). The budget also projects a \$6,449 (5.3%) increase in operating supplies.

Expenditures in the other services and charges category are projected to increase by \$127,714 (5.6%). The increases include \$71,390 (100%) for IS depreciation charges, \$29,557 (4.6%) for non-professional contractual services, \$13,189 (3.27%) for utility services, and \$11,646 (27.68%) for conferences and schools expenses.

The capital outlay portion of the General Fund budget has been moved to a separate fund, the Capital Equipment Fund. The projected expenditure for this equipment has increased from \$249,760 in 2010 to \$341,150 in 2012.

## **2. Revenues.**

General Fund revenues for 2012 are projected at \$14,194,871 or 3.8% more than we projected for 2011. These revenues include \$9,724,309 in property tax revenues, \$712,150 in license and permit fee revenue, \$804,082 from various state programs, \$1,938,630 from charges for service, \$175,000 from fines, \$42,200 from special assessments, and \$53,000 from interest on investments. We have also budgeted another \$145,500 from miscellaneous sources, and \$600,000 in transfers from outside funds. For the second year in a row, we have not budgeted any LGA revenue.

### **B. Special Revenue Funds:**

Spending for all Special Revenue Funds in 2012 is \$1,265,989, or \$70,793 (5.9%) more than was budgeted for 2011. Table 3 on the next page reveals budgeted amounts for each of the City's five special revenue funds for 2012.

**Table 3**  
**Special Revenue Funds**  
**Budgeted Expenditures**

|                       | Budget<br>2011      | Budget<br>2012      | Change           | % Change    |
|-----------------------|---------------------|---------------------|------------------|-------------|
| Cable TV Fund         | \$ 165,603          | \$ 342,145          | \$ 176,542       | 106.6%      |
| Grant Management      | 144,407             | 104,890             | (39,517)         | (27.4%)     |
| Solid Waste Abatement | 410,579             | 418,381             | 7,802            | 1.9%        |
| Police Activity Fund  | 84,177              | 0                   | (84,177)         | (100.0%)    |
| Springbrook NC Fund   | 390,430             | 400,573             | 10,143           | 2.6%        |
| <b>Total</b>          | <b>\$ 1,195,196</b> | <b>\$ 1,265,989</b> | <b>\$ 70,793</b> | <b>5.9%</b> |

**1. Cable Television Fund.**

Staff expects expenditures to increase by \$176,542, or by 106.6%. The increase is largely explained by plans to replace television equipment in the Council Chambers and in the control room. All of this is funded from cable franchise fee revenue which must be used for cable casting purposes.

Staff estimates that cable franchise fee and interest revenues for 2012 will amount to \$258,050. The combination of revenues and expenditures for 2012 should leave us with a cash balance of \$1,256,608.

**2. Grant Management Fund.**

We are projecting expenditures of \$104,890, or \$39,517 (27.4%) less than the amount budgeted for 2011. The decrease reflects the termination of the SHIP (State Health Improvement Program) Grant and the discontinuation of the City's Section 8 Housing contract with the Metropolitan Council. The remaining funding in this account will be used to pay for the salary and fringe benefits for a newly created single family rental housing inspection position and for the costs associated with the Chores and More Program. The cost of the single family housing inspection position is \$76,135. The budget for the Chores and More Program is \$28,755.

Funding for the rental housing inspection position is derived from fund balances remaining after the cancellation of the Section 8 Housing contract. Funding for the Chores and More Program has been made available through a grant from the Metropolitan Area Agency on Aging.

### **3. Solid Waste Abatement Fund.**

We are projecting expenditures of \$418,381. The amount is \$7,802, or 1.9% more than the amount we budgeted for 2011. The increase reflects the restoration of salary and fringe benefit costs once funded through the SHIP (State Health Improvement Program) Grant. Changes in this budget also reflect the fact that we over-budgeted for our recycling hauler in 2011 by about \$15,000.

These expenditures are offset by revenues from recycling fees and penalties (\$279,562), SCORE funding (\$60,000), other program revenue (\$42,000), and transfers from the City's Closed Bond Fund (\$36,819).

### **4. Police Activity Fund.**

We have eliminated funding for the Police Activity Fund in 2012. In 2011, funding for one full-time police officer had been budgeted here in conjunction with the City's participation in the Federal DEA Task Force. With the withdrawal of that participation in October of 2011, there is no expenditure or funding for this program.

### **5. Springbrook Nature Center Fund.**

We have budgeted \$400,573 for this fund in 2012. This amount is \$10,143 or 2.6% more than we budgeted for 2011. The increase is almost evenly divided between additional salary and benefit costs for three full-time employees (\$5,056) and a combination of charges, including telephone connection charges (\$3,815), and IS depreciation charges (\$1,690).

The expenditures are more than offset by revenues from the Springbrook Nature Center levy, and various program revenues, including contract revenues from school districts. For 2012, we are projecting that the levy will generate \$320,200 and that program and contract revenue will amount to \$91,900 for a total of \$412,100.

## **C. Capital Improvements Fund:**

We have budgeted \$1,429,000 in Capital Improvement Fund expenditures for 2012. The amount is \$698,000 or 95.5% more than the amount budgeted for 2011. The table below shows the distribution of these expenditures among the three project categories.

**Table 4**  
**Capital Improvement Fund**  
**Budgeted Expenditures**

|              | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> | <b>Change</b>     | <b>% Change</b> |
|--------------|------------------------|------------------------|-------------------|-----------------|
| General      | \$ 21,000              | \$ 410,000             | \$ 389,000        | 1852.4%         |
| Streets      | 610,000                | 870,000                | 260,000           | 42.6%           |
| Parks        | 100,000                | 149,000                | 49,000            | 49.0%           |
| <b>Total</b> | <b>\$ 731,000</b>      | <b>\$ 1,429,000</b>    | <b>\$ 698,000</b> | <b>95.5%</b>    |

The Building Improvements portion of this expenditure has increased by \$389,000, or by 1,852.4%. By far, the largest project in this area is the replacement of the Municipal Center roof, at an estimated cost of \$250,000. We are also anticipating roof repair costs of another \$60,000 for the Police/Recreation garage, and a \$60,000 expenditure for upgrading a storage building at the Public Works compound. The budget also includes \$15,000 for expansion of the police storage room and \$25,000 for replacement of a Municipal Center HVAC unit.

The Street Improvements portion of the Capital Improvements budget includes \$870,000. Of this amount, \$680,000 will be used for the non-assessed portion of the cost for the 2012 mill and overlay project. Another \$160,000 will be used to sealcoat streets in an area east of Highway 65 that lies between I-694 and Mississippi Street. Finally, the amount covers \$30,000 needed for required traffic signage upgrades and \$100,000 for bikeway/walkway upgrades.

The Parks Improvements portion of the budget includes \$4,000 for parks furnishings, \$30,000 for Community Park Lighting upgrades, and \$115,000 for the replacement of the Community Park parking lots.

Projected revenue for the three capital improvement project areas includes \$4,463 in interest revenue for building capital improvements; \$27,238 in interest income and \$680,000 in MSAS revenue for streets capital improvements; \$19,624 in interest income and \$10,000 in park fees for the parks capital improvements projects.

**D. Capital Equipment Fund:**

The newly created Capital Equipment Fund includes \$341,150 for equipment described in the table below.

|              | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> |
|--------------|------------------------|------------------------|
| Police       | \$ 0                   | \$ 135,150             |
| Fire         | 0                      | 34,000                 |
| Parks        | 0                      | 37,000                 |
| Streets      | 0                      | 135,000                |
| <b>Total</b> | <b>\$ 0</b>            | <b>\$ 341,150</b>      |

Revenues for these equipment purchases come from the biennial sale of "equipment certificates." These certificates were last issued in 2010, and will be issued again in 2012.

**E. Enterprise Funds:**

We have budgeted \$13,273,335 for the City's four enterprise funds. The amount is \$141,584, or 1.1% less than the amount budgeted for 2011. The changes in each of the four funds are highlighted in Table 5.

|                  | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> | <b>Change</b>       | <b>% Change</b> |
|------------------|------------------------|------------------------|---------------------|-----------------|
| Water Fund       | \$ 2,782,704           | \$ 2,828,650           | \$ 45,946           | 1.7%            |
| Sewer Fund       | 4,762,991              | 4,580,009              | (182,982)           | (3.8%)          |
| Storm Water Fund | 553,540                | 575,125                | 21,585              | 3.9%            |
| Municipal Liquor | 5,315,684              | 5,289,551              | (26,133)            | (0.5%)          |
| <b>Total</b>     | <b>\$ 13,414,919</b>   | <b>\$ 13,273,335</b>   | <b>(\$ 141,584)</b> | <b>(1.1%)</b>   |

### **1. Water Fund:**

The \$45,946 increase for this fund includes a \$22,975 increase in depreciation charges for fixed assets, \$19,730 for projected utility and wastewater treatment increases, \$22,403 in additional personal service costs, \$5,300 in additional inter-fund charges, and a \$9,100 increase for various contractual service costs such as contractor assistance with water main breaks. These additional costs are offset by a \$30,613 decrease in debt service.

Staff is recommending an 8% water rate increase. It will generate \$2,620,114 in operating income that will be used to partially offset \$2,592,401 in operating expenditures. Our projected operating and non-operating revenues and expenses will leave us with net income of (\$163,536).

### **2. Sewer Fund:**

We project that Sewer Fund expenditures for 2012 will amount to \$4,580,009 or 3.84% less than we budgeted for 2011. The major contributor to the \$182,982 decrease includes a projected \$202,637 decrease in treatment and utility costs. Other notable changes include a \$21,671 increase in personal service costs, and a \$3,802 increase in debt service costs. These increases are partially offset by a \$9,781 reduction in depreciation costs for fixed assets.

The operating costs, along with other changes in our income and expense projections have created a need for a 5% increase in sewer rates for 2012. This increase will generate \$4,451,626 in operating income that will be used to partially offset \$4,563,559 in operating expenditures. Our projected operating and non-operating revenues and expenditures will leave us with net income of (\$108,383).

### **3. Storm Water Fund:**

Storm water expenditures for 2012 will amount to \$575,125 or 3.9% more than the amount budgeted for 2011. The major contributors to the \$21,585 increase include a \$4,700 increase for inter-fund charges, a \$4,760 increase for depreciation of fixed assets, a \$7,160 increase for various contractual service costs (including costs for pond surveying and pond water testing), and a \$3,145 increase for debt service.

The increased costs will create a need for a 25% increase in the City's storm water fees. The new fees will generate \$532,105 in operating revenues to partially offset \$562,575 in operating expenditures. Our projected operating and non-operating revenues and expenditures will leave us with net income of (\$ 26,020).

#### **4. Liquor Fund:**

Liquor Fund expenditures for 2012 are estimated at \$5,289,551, or (.49%) less than budgeted for 2011. The \$26,133 decrease reflects a variety of additions and subtractions. The most significant of the increases is a \$7,920 increase for personal service costs. The most significant decreases include a \$17,599 decrease in depreciation costs, a \$19,500 reduction in advertising costs, and a \$13,000 reduction in CAM charges.

#### **F. 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 2012, we expect to pay \$791,249 on debt service for water system improvements, \$16,450 for sewer system improvements and \$12,550 for storm water improvements. We also anticipate paying \$1,119,503 for street improvement debt service. Additionally, we have \$63,450 in general obligation equipment certificates debt service that is supported by property tax revenue.

### **IV. Tax Impact**

The City's 2012 property tax levy is \$10,703,739. The amount is \$194,422, or 1.85% more than the amount levied for 2011. Of the total, \$9,602,809 represents the General Fund portion of the property tax levy. Another \$780,730 covers the City's bonded indebtedness for street improvement projects and equipment certificates. The remainder includes \$320,200 in property tax levy for the Springbrook Nature Center.

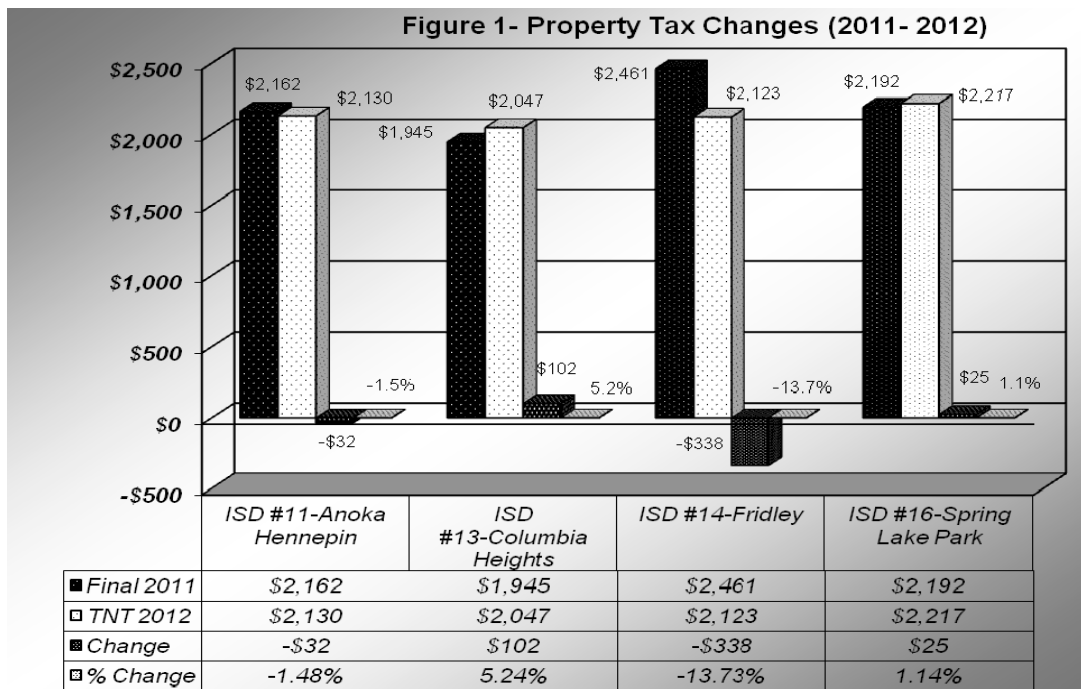
The impact of the City's levy on property taxes for Fridley property is affected by differences in property valuation rates for different classes of property. These values saw considerable shifting in 2011. The most significant of the shifts was another marked decline in residential values accompanied 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 first applying the State's new Market Value Homestead Exclusion to determine the taxable market value of the home.

Once the exclusion is applied to the value of the home, one then applies the class rate for single family homesteaded property to the taxable market value of a home. The tax capacity is calculated by multiplying the first \$500,000 of the value of the home by 1% and the remainder of the value by 1.25%. The two products are then added together. The resulting 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.

Having completed these transactions for the average value Fridley home (valued at \$171,400), we learned the City's 2012 levy will cause taxes on the house to increase from \$609 to \$614, or by .82%. The property taxes for this same valued home will increase or decrease depending on the school district location of the property.

Figure 1 on the next page depicts what staff believes will be the 2012 changes in property taxes for the owners of a home with an estimated market value of \$171,400 in all four school districts. The change in property taxes ranges between -\$338 in the Fridley School District to +\$102 in the Columbia Heights School District. Residents of the Spring Lake Park District will see a \$25 increase in property taxes, and those in the Anoka Hennepin School District will see a \$32 decrease in property taxes. These estimates are based on calculations prior to any school district referendum results from the 2012 fall election.



## 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 decrease by \$64,361 in 2112.

While we commonly refer to these balances as unreserved, most of them are earmarked for specific purposes. Of the projected balance for 2012, \$5,320,132 is reserved for street reconstruction, parks improvements, and building/facility upgrades. Another \$5,800,000 is reserved for working capital, and \$1,256,608 is restricted by our cable franchise for cable television operations and improvements.

| <b>Year</b>          | <b>Unreserved<br/>General Fund</b> | <b>Unreserved<br/>Governmental Funds</b> |
|----------------------|------------------------------------|--|
| 2007                 | 5,206,778                          | 17,820,831                               |
| 2008                 | 4,538,224                          | 17,718,217                               |
| 2009                 | 4,600,988                          | 16,788,469                               |
| 2010                 | 5,436,388                          | 18,624,144                               |
| *2011                | 5,168,434                          | 18,369,338                               |
| *2012                | 5,104,902                          | 18,304,977                               |
| * Projected Estimate |                                    |  |

### B. Revenues:

Table 7 on the next page compares General Fund revenues with General Fund expenditures from 2007 to 2012. 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.

**Table 7**  
**General Fund**  
**External Revenues vs. Expenditures**

|               | <b>Actual<br/>2007</b> | <b>Actual<br/>2008</b> | <b>Actual<br/>2009</b> | <b>Actual<br/>2010</b> | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> |
|---------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Revenues      | \$ 12,920,219          | \$ 12,570,624          | \$ 13,005,058          | \$ 13,494,442          | \$ 13,072,095          | \$ 13,594,871          |
| Expenditures  | 13,567,852             | 14,066,686             | 13,718,772             | 13,550,607             | 13,940,049             | 14,258,403             |
| <b>Excess</b> | <b>(\$ 647,633)</b>    | <b>(\$ 1,496,062)</b>  | <b>(\$ 713,714)</b>    | <b>(\$ 56,165)</b>     | <b>(\$ 867,954)</b>    | <b>(\$ 663,532)</b>    |

Table 8 depicts various sources of General Fund revenue between 2007 and 2012. 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 55.0% in 2007 to 68.2% in 2012. At the same time, intergovernmental revenues have dropped from 10.8% of General Fund revenues in 2007 to 5.6% of General Fund revenues in 2012. 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)**

| <b>Source</b>                          | <b>Actual<br/>2007</b> | <b>Actual<br/>2008</b> | <b>Actual<br/>2009</b> | <b>Actual<br/>2010</b> | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Taxes                                  | 55.0                   | 57.9                   | 58.8                   | 62.7                   | 68.2                   | 68.2                   |
| Licenses and Permits                   | 5.9                    | 5.2                    | 5.4                    | 5.1                    | 4.2                    | 5.0                    |
| Intergovernmental                      | 10.8                   | 10.0                   | 14.7                   | 9.8                    | 5.2                    | 5.6                    |
| Charges for Services                   | 10.0                   | 11.7                   | 12.1                   | 11.6                   | 12.8                   | 13.6                   |
| Fines and Forfeits                     | 1.8                    | 2.1                    | 1.6                    | 1.2                    | 1.8                    | 1.2                    |
| Special Assessments & Miscellaneous    | 3.2                    | 2.7                    | 1.6                    | 0.7                    | 1.6                    | 1.7                    |
| Other Financing Sources & Fund Balance | 13.3                   | 10.6                   | 5.7                    | 8.9                    | 6.2                    | 4.7                    |
| <b>Total</b>                           | <b>100.0</b>           | <b>100.0</b>           | <b>100.0</b>           | <b>100.0</b>           | <b>100.0</b>           | <b>100.0</b>           |

**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 \$72,721, or by .7% between 1995 and 2010. The reader should keep in mind that we have included Springbrook Nature Center expenditures as General Fund expenditures in all of these calculations.

| <b>Table 9</b>                        |                |                    |     |
|---------------------------------------|----------------|--------------------|-----|
| <b>General Fund Expenditures</b>      |                |                    |     |
| <b>In Actual and Constant Dollars</b> |                |                    |     |
| 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                                  | 13,968,038     | 9,720,059          |     |
| *2011                                 | 14,330,479     | 9,804,594          | *** |
| *2012                                 | 14,658,976     | 9,849,626          | *** |

\* 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. Therefore, 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 improved since this time last year. Although property values have again declined, other indicators of economic well-being in Fridley have improved. New construction is up, employment numbers have improved, and crime rates are down for the third year in a row.

### **A. New Construction:**

The value of all new construction for the first ten months of 2010 was \$37,743,176. This compares with \$27,878,505 for the first ten months of 2011. Major projects for 2011 included the construction of the new Walmart addition valued at \$6,200,000, the Cummins High-Horsepower test cells valued at \$6,000,000, the Landmark of Fridley Senior Living Center valued at \$6,000,000, and a \$500,000 addition at the Martin-Brower property on 52nd Way. Other major projects included a new building for the Metropolitan Bus Company valued at \$1,087,900, a Unity Hospital remodel valued at \$750,000, and the remodel of another Allina building on Osborne Road valued at \$496,269. We will also see a \$6 million remodeling project at Sam's Club within the near future.

### **B. Employment:**

Fridley's unemployment rate dropped from 7.7% at the end of September, 2010, to 6.6% at the end of September, 2011. This compares with a seasonally-adjusted state unemployment rate of 6.9%, and a national unemployment rate of 9.1%, as of the end of September, 2011. Anoka County's unemployment rate was 6.3%.

The decrease in unemployment has been accompanied by a slight increase in the number of jobs available in Fridley between the first quarters of 2010 and 2011, the latest available data. The number, including public sector jobs, has increased from 21,157 to 21,615, or by 2.2%. Based on data provided by the Minnesota Department of Employment and Economic Development (DEED), the number of manufacturing jobs in Fridley increased from 8,177 to 8,193, or by 0.2%.

The same report indicates that the number of retail jobs decreased from 2,010 to 1,980, or by 2%. The report also shows that the number of wholesale jobs increased from 1,514 to 1,610, or by 6%, between the first quarters of 2010 and 2011. Additionally, service sector jobs grew from 504 in 2010 to 553 in 2011, or by 10%.

### **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 \$2,364,436,900 in 2010 to \$2,293,790,500 in 2011. The 3% decrease compares with a 7.7% decrease in 2010.

While the number of homesteaded single family properties decreased in 2011 to 6,935 from 7,005 in 2010, the assessed value of these homes decreased by 15.8%. This was on top of a 9.2% decrease in 2010. Values for non-homesteaded apartment buildings having three or fewer units increased by 3.7%. The value of apartments having four or more units decreased by 6%.

Decreases in residential property values have been accompanied by decreases in assessed values for commercial and industrial property. This includes a 2% decrease in commercial values, and a 3.4% decrease in industrial values. These decreases in property values have been accompanied by a 7.7% decrease in tax capacity, the amount available for local property taxation. This compares with a 7.5% decrease in tax capacity in 2010.

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. The most recent reports from the St. Paul Association of Realtors indicates that although median sales prices for Fridley homes continued to drop in 2011, the number of closed housing sales is increasing and the inventory of homes on the market is decreasing. Other data from Anoka County indicates that the number of foreclosures in Fridley dropped sharply in 2011.

### **D. Public Assistance.**

Anoka County reports that the number of Fridley households receiving cash assistance and/or food stamps has increased from 1,553 in September of 2010 to 1,703 in September of 2011. This represents a 9.7% increase over last year and a 28.1% increase since September of 2009. The 9.7% increase in 2011 compares with a 16.9% increase we reported last year.

Our report from School District #14 indicates that the number of students receiving free or reduced lunches has risen from 1,661 students in October of 2010 to 1,703 in October of 2011. The 2.5% increase in 2010 compares with a 3.8% increase in 2011. At the same time, the

percentage of students on free and/or reduced lunches decreased from 59.5% in 2010 to 53.33% in 2011.

#### **E. Crime Rates.**

The 2,929 crimes reported to Fridley Police during the first nine months of 2011 represent nearly a 7% decrease from the 3,140 crimes reported during the same period in 2010. The number of reported crimes (Part I and Part II combined) in 2011 represents the third year in a row that overall crime has decreased from the five-year high of 3,852 reported crimes in 2008.

While overall crime numbers, including those for Part I, or more serious crimes, are down, violent crimes (murder, rape, felony assault, and robbery) increased by 11 from the five-year low of 70 in 2010 and returned to a point just under the five-year average of 82. Other crimes that increased during Quarters 1 through 3 of 2011 include burglary, simple assault, and fraud-related crimes. On the positive side, vehicle thefts dropped significantly for the second year in a row.

#### **VII. Conclusion**

The 2012 budgeting process was again a year-long process that evolved within several contexts. One of the most important of these was the state legislative context where efforts to eliminate a \$6 billion budget deficit resulted in a long governmental shut-down and no resolution to the State's fiscal imbalance. While the session resulted in better than expected LGA revenues for Fridley, the elimination of State levy limits, and the discontinuation of the very costly Market Value Homestead Credit program, there were few other changes from legislative activity that affected local governments in Minnesota.

Since 2012 is an election year and given the continued partisan stalemate, prospects for fixing the State's budget deficit or enactment of other major changes in 2012 seem remote. This will leave the huge budget deficit issue until the 2013 legislative session. While improvement of the State's economy may make the fix easier than it was in 2011, there remains a good possibility that local governments will be asked to share the cost of the fix through reductions in LGA and increases in local government costs for things such as employee retirement benefits.

In addition to better than expected State legislative outcomes in 2011, Fridley also benefited from an improving local economy. These improvements included markedly higher construction numbers and an improved employment picture. While real estate valuations for all types of property in Fridley continued downward, more recent housing numbers are encouraging.

As of the end of September, housing sales had improved, the inventory of homes on the market had decreased, and the number of Fridley foreclosures had dropped dramatically. Better economic data in 2011 have been accompanied by decreasing crime rates for the third year in a row, and although many residents remain dependent on various forms of public assistance, the rate of annual increase in 2011 has declined below levels reported last year.

These environmental circumstances together with positive impacts of the budget adjustments that we made in 2009-2011 have enabled the City to relax a few of its austerity measures for 2012. This relaxation has included a 1% cost of living increase for non-union employees, the filling of a School Resources Officer's position that had been vacant for two years, the restoration of half of the City's IT depreciation charges, and the budgeting of an additional \$389,000 for building improvements.

While we have increased budgeted expenditures for 2012, we have continued many of the budget adjustments made for 2010 and 2011. These include the continuation of two Police Department vacancies, a Fire Department vacancy, and a vacancy in the Finance Department. The 2012 budget also continues restrictions on travel and conference expenses, the elimination of vacation leave sell-back, and the suspension of half of our normal IT depreciation charge.

The budget that emerged from this year's budgeting process provides for expenditures of \$17,294,542, or 9% more than budgeted in 2011 for all funds (not including enterprise funds) and \$14,258,403, or 2.3% more than was budgeted for 2011 General Fund expenditures. Enterprise Fund budgets, which include the Water, Sewer, Storm Water, and Liquor Funds amount to \$13,273,335, or 1.1% more than was budgeted for 2011.

The budgets also provide for modest revenue increases including a 1.85% increase in all property tax levies that will raise the City's portion of property taxes on an average value home from \$609 in 2011 to \$614 in 2012. Other new revenues include an increase in utility rates that will cost an additional \$30 per year for the average water-using household. The expenditure and revenue changes found in the 2012 budget leave the City with an estimated \$18,304,977 in unreserved governmental funds at the end of 2012. The City's Finance Director also projects that, based on assumptions that General Fund revenues will continue to rise by 2.5% per year and that General Fund expenditure growth can be contained within 2% per year, the City can maintain sufficient cash flows for the foreseeable future.

While these projections are comforting, continuation of many of the revenue and expenditure adjustments made between 2009 and 2011 continue to be temporary and will be difficult to maintain indefinitely. It will, for example, be difficult to maintain current public safety vacancies and to continue employee cost-of-living adjustments at the 1% level. It will also be difficult to keep the current restrictions on employee travel and conference expenses and to avoid reinstatement of other employee benefits that were eliminated for 2010 and 2011.

There are numerous other challenges facing the City. These include future employee contract negotiations with the City's public safety bargaining units, uncertainties associated with the resolution of the State's difficult budget imbalance, growing capital improvement needs, and major challenges to our commercial and industrial property valuations.

As we maintain awareness of these challenges, we should also appreciate the many good things that we have in Fridley. These include a very cooperative Fridley citizenry, a very team-oriented staff, and a City Council which works very closely with staff to continue the very best municipal services possible at a continually affordable cost for Fridley residents.

With this sense of caution and pride, I present the 2012 budget for Council's consideration.

## **I. Introduction**

The 2012 budgetary process was, once again, a year-long endeavor that began with a Council-Commission issues survey and departmental goal setting early in the year. Thereafter, the City Manager met with department managers and other staff to review departmental budgets for 2012. He then brought a preliminary budget to Council in a June budget work session, at which time Council had an opportunity to review the budget and budget issues, as well as to ask questions and direct further research. The preliminary budget came back to Council in August and was approved along with a preliminary tax levy. 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 5, 2011. Following citizen input, the budget resolution and resolution certifying the final tax levy will be considered by Council at its December 12 meeting.

As the budget is presented, I want to thank Fridley's department managers and their staff for once again preparing responsible and thoughtful budgets. Thanks also to Finance Director Darin Nelson, Budget Accountant Craig Ellestad and Human Resources Director Debbie Dahl for compiling 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 of the City's external environment and for editing this message. Finally, thank you very much to the Fridley City Council for their hard work in reviewing the budget and for accommodating staff's needs through the budgetary process.

## **II. Budget Context and Issues**

### **A. The Legislative Context.**

As expected, much of the 2011 legislative process focused on the elimination of a \$6 billion General Fund budget deficit for the 2012-2013 biennium. The failure to resolve this budget imbalance during the regular legislative session led to a state government shutdown between July 1 and July 20. Although the shutdown interrupted state-funded grant projects, it was much less disruptive for local government than originally expected. Moreover, the final settlement of the budget imbalance issue was much more advantageous to Fridley City government than originally expected at the outset of the session.

The final settlement preserved Fridley's 2011 Local Government Aid (LGA) allocation of \$759,414 and extended it to 2012. The settlement also resulted in the elimination of the Market Value Homestead Credit program, which, in the last two years cost the City more than \$400,000 per year when the state greatly reduced its reimbursement to cities for this program. Fridley, along with other Minnesota cities, will also benefit from the elimination of the state's levy limits on local governments, as well as from legislation that gives them additional freedom to allow zoning variances and new authority to use Tax Increment Financing (TIF) proceeds in areas with high levels of mortgage foreclosures.

As in most years, Fridley City government also benefited from actions that were not taken by the legislature. While there were efforts to require photo identification from voters in local elections, neither this legislation nor any other legislation affecting the administrative costs for local elections made it through the legislative process. The same was true of legislation limiting local salaries and fringe benefits. There were also no successful efforts to allow the sale of wine in grocery stores, a move that would negatively impact municipal liquor profits. While cities would like to see more authority to levy administrative fines, as well as greater authority to acquire property for public projects through eminent domain, there were no changes in either of these areas.

Where is the legislature headed in 2012? According to Patricia Nauman, Executive Director of Metro Cities, the overall tone of the legislative process in 2012 will again be impacted by very strong ideological differences among legislators. She also projects there will be efforts in both the House and Senate to place a number of state constitutional amendments on the ballot. These include an amendment that would require photo identification in state and local elections, as well as an amendment that would establish local spending and taxing restrictions.

While there will be strong efforts to amend the Minnesota Constitution, our source does not expect there will be major efforts to address budget imbalances in 2012. She also points out that although we may disagree with the temporary fixes that were adopted in 2011, the budget is technically balanced. Moreover, any further budget balancing efforts are likely to be postponed until 2013, when the budget for the 2014-2015 biennium is crafted.

Our source also expects that other efforts, such as those aimed at restoration of the Market Value Homestead Credit program and the reestablishment of local levy limits will see little traction in 2012. She says the same for other legislation aimed at establishing local option sales taxes, the sale of wine in grocery stores and the relaxation of restrictions on administrative

finances. The legislature simply declines to address major structural issues in election years. As in all election years, the legislature is likely to limit its 2012 efforts to passage of a bonding bill. Since the legislature approved a \$500,000 bonding bill in 2011, she expects that the 2012 bill will be smaller than usual.

Regardless of this limited focus in 2012, it seems reasonable that Fridley and other Minnesota cities should remain very cautious knowing that the temporary fixes applied to the huge budget deficits in 2011 will not be available in 2013. Assuming there is a large budget deficit facing the legislature in 2013, it seems logical to expect that the legislature will once again be looking at LGA as a source of state funding, as well as to reason that it will be seeking to limit local government revenues and expenditures in other ways. In the best of all worlds, the national and state economies will have improved to the point where these cautions are no longer relevant.

## **B. Budget Issues.**

Council's June and October budget work sessions consisted primarily of review and discussion of expenditures and revenues for funds within the City's four funding categories. These include the General Fund, the Special Revenue Funds, the Capital Projects Funds, and the Enterprise Funds. In general, the budgets represent a continuation of spending levels and spending restraints that have been in effect since 2010. There were no major program expansions in any of the funds and very few issues regarding fund expenditures or revenues.

As in past years, Council and staff spent considerable time discussing changes in employee salaries and benefits in the budget work sessions. Unlike 2010 and 2011 when salaries were frozen, the 2012 budget provides for a 1% increase in non-union salaries. The budget also provides for step increases for 24 of 130 employees. While the costs for health insurance are capped by contract at 15%, the actual cost of health insurance increases after shifts in employee plans is 9.89%. The City's contribution to the dependent care health insurance plan remains at 70% of cost. Overall, costs for General Fund personal services are up by \$417,361 or by 3.95%.

Perhaps the most significant of the changes for 2012, outside of changes in personal service costs, was the creation of a Capital Equipment Fund that will be used for tracking expenditures and revenues for General Fund equipment purchases. The net effect of this change is that capital outlay expenditures will be moved out of the General Fund beginning in 2012. While there was some discussion regarding the purchase of a fire engine in 2012, that purchase

was moved to 2013 in order to allow time for the processing of a FEMA grant application for 50% of the cost.

Another change that emerged late in the budgeting process was a decision to budget for the reinstatement of a second school resources officer in the Fridley schools. School District #14 has agreed to a contract for two school resource officers that will cover \$56,000 of a replacement officer's \$69,000 salary and benefit costs, leaving the City with \$13,000 in additional General Fund expenditures for the new position. Another change affecting the Police Department budget was the transfer of funding for a police officer position from the Police Activity Fund, a special Revenue Fund, to the General Fund. This transfer of \$101,922 occurred as a result of the City's decision to discontinue participation in the Federal DEA Task Force.

Yet another change affecting General Fund expenditures was the decision to restore 50% of the IS Fund charge for depreciation of information technology. The charge was suspended for both 2010 and 2011. Return of 50% of the charge will create an additional \$71,390 in General Fund expenditures for 2012.

There were also a few changes on the revenue side of the General Fund budget. The most significant of these changes was the inclusion of \$759,414 in unbudgeted LGA revenue into the 2011 General Fund receipts. Since cash balances for capital improvements are running very low, however, the same amount of LGA for 2012 will be deposited in the Building Capital Improvements Fund rather than the General Fund. Other revenue changes for 2012 include a 2.03% increase in the General Fund levy and a 1.85% increase in all property tax levies.

Other budget discussions focused on proposed expenditures for capital improvement projects. These expenditures included \$410,000 in improvements to the Fridley Municipal Center, and \$870,000 for 2012 street improvement projects, including a major mill and overlay project in the Rice Creek Terrace section of Fridley.

While there were no real expenditure issues associated with the City's Water, Sewer and Storm water Funds, there was considerable discussion of user rates for the three utilities in 2012 and beyond. After reviewing various cash flow scenarios provided by Finance Director Darin Nelson, Council ultimately opted to raise sewer rates by 5% or by \$15.49 and water rates by 8% or by \$10.95 for the year. Both of these amounts apply to households using an average amount of water. They also opted to raise storm water rates by \$3.63 for residential properties.

Altogether increases in rates will amount to just over \$30 for 2012 and will enable the City to avoid future borrowing costs for operation of the three utilities.

### III. The Budget in Perspective

The budget that emerged from staff and Council reviews provides for the expenditure of \$17,294,542, or \$1,422,097 (9.0%) more than the amount budgeted for 2011. We have displayed these expenditures by fund in Table 1.

|                          | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> | <b>Change</b>       | <b>% Change</b> |
|--------------------------|------------------------|------------------------|---------------------|-----------------|
| General Fund             | \$ 13,940,049          | \$ 14,258,403          | \$ 318,354          | 2.3%            |
| Special Revenue Funds    | 1,195,196              | 1,265,989              | 70,793              | 5.9%            |
| Capital Improvement Fund | 731,000                | 1,429,000              | 698,000             | 95.5%           |
| Capital Equipment Fund   | 0                      | 341,150                |                     |                 |
| Agency Fund (Six Cities) | 6,200                  | 0                      | (6,200)             | (100.0%)        |
| <b>Total</b>             | <b>\$ 15,872,445</b>   | <b>\$ 17,294,542</b>   | <b>\$ 1,422,097</b> | <b>9.0%</b>     |

#### A. **General Fund:**

##### 1. **Expenditures.**

General Fund expenditures are projected at \$14,258,403, or \$318,354 (2.3%) more than the amount budgeted for 2011. Table 2 displays these amounts by broad category of expenditure.

|                          | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> | <b>Change</b>     | <b>% Change</b> |
|--------------------------|------------------------|------------------------|-------------------|-----------------|
| Personal Services        | \$ 10,558,265          | \$ 10,975,626          | \$ 417,361        | 4.0%            |
| Supplies                 | 859,259                | 882,298                | 23,039            | 2.7%            |
| Other Services & Charges | 2,272,765              | 2,400,479              | 127,714           | 5.6%            |
| Capital Outlay           | 249,760                | 0                      | (249,760)         | (100.0%)        |
| Other Financing Uses     | 0                      | 0                      | 0                 | 0%              |
| <b>Total</b>             | <b>\$ 13,940,049</b>   | <b>\$ 14,258,403</b>   | <b>\$ 318,354</b> | <b>2.3%</b>     |

Of the amount budgeted, \$10,975,626, or 77.0% is dedicated to personal services. The \$417,361 increase in personal service costs reflects several changes in personal service categories including a \$263,679 (3.78%) increase in the cost of full-time salaries and a \$33,905 (4.34%) increase in retirement benefits. Other increases in personal service costs include a \$59,180 (9.89%) increase in employee health insurance costs, and a \$40,820 (17.5%) projected increase in cash benefits paid in lieu of health insurance.

The cost of supplies for the General Fund departments has increased by \$23,039 (2.7%). By far, the biggest part of this projected increase is for fuel, which is expected to increase by \$27,425 (11.61%). The budget also projects a \$6,449 (5.3%) increase in operating supplies.

Expenditures in the other services and charges category are projected to increase by \$127,714 (5.6%). The increases include \$71,390 (100%) for IS depreciation charges, \$29,557 (4.6%) for non-professional contractual services, \$13,189 (3.27%) for utility services, and \$11,646 (27.68%) for conferences and schools expenses.

The capital outlay portion of the General Fund budget has been moved to a separate fund, the Capital Equipment Fund. The projected expenditure for this equipment has increased from \$249,760 in 2010 to \$341,150 in 2012.

## **2. Revenues.**

General Fund revenues for 2012 are projected at \$14,194,871 or 3.8% more than we projected for 2011. These revenues include \$9,724,309 in property tax revenues, \$712,150 in license and permit fee revenue, \$804,082 from various state programs, \$1,938,630 from charges for service, \$175,000 from fines, \$42,200 from special assessments, and \$53,000 from interest on investments. We have also budgeted another \$145,500 from miscellaneous sources, and \$600,000 in transfers from outside funds. For the second year in a row, we have not budgeted any LGA revenue.

### **B. Special Revenue Funds:**

Spending for all Special Revenue Funds in 2012 is \$1,265,989, or \$70,793 (5.9%) more than was budgeted for 2011. Table 3 on the next page reveals budgeted amounts for each of the City's five special revenue funds for 2012.

**Table 3**  
**Special Revenue Funds**  
**Budgeted Expenditures**

|                       | Budget<br>2011      | Budget<br>2012      | Change           | % Change    |
|-----------------------|---------------------|---------------------|------------------|-------------|
| Cable TV Fund         | \$ 165,603          | \$ 342,145          | \$ 176,542       | 106.6%      |
| Grant Management      | 144,407             | 104,890             | (39,517)         | (27.4%)     |
| Solid Waste Abatement | 410,579             | 418,381             | 7,802            | 1.9%        |
| Police Activity Fund  | 84,177              | 0                   | (84,177)         | (100.0%)    |
| Springbrook NC Fund   | 390,430             | 400,573             | 10,143           | 2.6%        |
| <b>Total</b>          | <b>\$ 1,195,196</b> | <b>\$ 1,265,989</b> | <b>\$ 70,793</b> | <b>5.9%</b> |

**1. Cable Television Fund.**

Staff expects expenditures to increase by \$176,542, or by 106.6%. The increase is largely explained by plans to replace television equipment in the Council Chambers and in the control room. All of this is funded from cable franchise fee revenue which must be used for cable casting purposes.

Staff estimates that cable franchise fee and interest revenues for 2012 will amount to \$258,050. The combination of revenues and expenditures for 2012 should leave us with a cash balance of \$1,256,608.

**2. Grant Management Fund.**

We are projecting expenditures of \$104,890, or \$39,517 (27.4%) less than the amount budgeted for 2011. The decrease reflects the termination of the SHIP (State Health Improvement Program) Grant and the discontinuation of the City's Section 8 Housing contract with the Metropolitan Council. The remaining funding in this account will be used to pay for the salary and fringe benefits for a newly created single family rental housing inspection position and for the costs associated with the Chores and More Program. The cost of the single family housing inspection position is \$76,135. The budget for the Chores and More Program is \$28,755.

Funding for the rental housing inspection position is derived from fund balances remaining after the cancellation of the Section 8 Housing contract. Funding for the Chores and More Program has been made available through a grant from the Metropolitan Area Agency on Aging.

### **3. Solid Waste Abatement Fund.**

We are projecting expenditures of \$418,381. The amount is \$7,802, or 1.9% more than the amount we budgeted for 2011. The increase reflects the restoration of salary and fringe benefit costs once funded through the SHIP (State Health Improvement Program) Grant. Changes in this budget also reflect the fact that we over-budgeted for our recycling hauler in 2011 by about \$15,000.

These expenditures are offset by revenues from recycling fees and penalties (\$279,562), SCORE funding (\$60,000), other program revenue (\$42,000), and transfers from the City's Closed Bond Fund (\$36,819).

### **4. Police Activity Fund.**

We have eliminated funding for the Police Activity Fund in 2012. In 2011, funding for one full-time police officer had been budgeted here in conjunction with the City's participation in the Federal DEA Task Force. With the withdrawal of that participation in October of 2011, there is no expenditure or funding for this program.

### **5. Springbrook Nature Center Fund.**

We have budgeted \$400,573 for this fund in 2012. This amount is \$10,143 or 2.6% more than we budgeted for 2011. The increase is almost evenly divided between additional salary and benefit costs for three full-time employees (\$5,056) and a combination of charges, including telephone connection charges (\$3,815), and IS depreciation charges (\$1,690).

The expenditures are more than offset by revenues from the Springbrook Nature Center levy, and various program revenues, including contract revenues from school districts. For 2012, we are projecting that the levy will generate \$320,200 and that program and contract revenue will amount to \$91,900 for a total of \$412,100.

## **C. Capital Improvements Fund:**

We have budgeted \$1,429,000 in Capital Improvement Fund expenditures for 2012. The amount is \$698,000 or 95.5% more than the amount budgeted for 2011. The table below shows the distribution of these expenditures among the three project categories.

**Table 4**  
**Capital Improvement Fund**  
**Budgeted Expenditures**

|              | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> | <b>Change</b>     | <b>% Change</b> |
|--------------|------------------------|------------------------|-------------------|-----------------|
| General      | \$ 21,000              | \$ 410,000             | \$ 389,000        | 1852.4%         |
| Streets      | 610,000                | 870,000                | 260,000           | 42.6%           |
| Parks        | 100,000                | 149,000                | 49,000            | 49.0%           |
| <b>Total</b> | <b>\$ 731,000</b>      | <b>\$ 1,429,000</b>    | <b>\$ 698,000</b> | <b>95.5%</b>    |

The Building Improvements portion of this expenditure has increased by \$389,000, or by 1,852.4%. By far, the largest project in this area is the replacement of the Municipal Center roof, at an estimated cost of \$250,000. We are also anticipating roof repair costs of another \$60,000 for the Police/Recreation garage, and a \$60,000 expenditure for upgrading a storage building at the Public Works compound. The budget also includes \$15,000 for expansion of the police storage room and \$25,000 for replacement of a Municipal Center HVAC unit.

The Street Improvements portion of the Capital Improvements budget includes \$870,000. Of this amount, \$680,000 will be used for the non-assessed portion of the cost for the 2012 mill and overlay project. Another \$160,000 will be used to sealcoat streets in an area east of Highway 65 that lies between I-694 and Mississippi Street. Finally, the amount covers \$30,000 needed for required traffic signage upgrades and \$100,000 for bikeway/walkway upgrades.

The Parks Improvements portion of the budget includes \$4,000 for parks furnishings, \$30,000 for Community Park Lighting upgrades, and \$115,000 for the replacement of the Community Park parking lots.

Projected revenue for the three capital improvement project areas includes \$4,463 in interest revenue for building capital improvements; \$27,238 in interest income and \$680,000 in MSAS revenue for streets capital improvements; \$19,624 in interest income and \$10,000 in park fees for the parks capital improvements projects.

#### D. Capital Equipment Fund:

The newly created Capital Equipment Fund includes \$341,150 for equipment described in the table below.

|              | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> |
|--------------|------------------------|------------------------|
| Police       | \$ 0                   | \$ 135,150             |
| Fire         | 0                      | 34,000                 |
| Parks        | 0                      | 37,000                 |
| Streets      | 0                      | 135,000                |
| <b>Total</b> | <b>\$ 0</b>            | <b>\$ 341,150</b>      |

Revenues for these equipment purchases come from the biennial sale of "equipment certificates." These certificates were last issued in 2010, and will be issued again in 2012.

#### E. Enterprise Funds:

We have budgeted \$13,273,335 for the City's four enterprise funds. The amount is \$141,584, or 1.1% less than the amount budgeted for 2011. The changes in each of the four funds are highlighted in Table 5.

|                  | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> | <b>Change</b>       | <b>% Change</b> |
|------------------|------------------------|------------------------|---------------------|-----------------|
| Water Fund       | \$ 2,782,704           | \$ 2,828,650           | \$ 45,946           | 1.7%            |
| Sewer Fund       | 4,762,991              | 4,580,009              | (182,982)           | (3.8%)          |
| Storm Water Fund | 553,540                | 575,125                | 21,585              | 3.9%            |
| Municipal Liquor | 5,315,684              | 5,289,551              | (26,133)            | (0.5%)          |
| <b>Total</b>     | <b>\$ 13,414,919</b>   | <b>\$ 13,273,335</b>   | <b>(\$ 141,584)</b> | <b>(1.1%)</b>   |

### **1. Water Fund:**

The \$45,946 increase for this fund includes a \$22,975 increase in depreciation charges for fixed assets, \$19,730 for projected utility and wastewater treatment increases, \$22,403 in additional personal service costs, \$5,300 in additional inter-fund charges, and a \$9,100 increase for various contractual service costs such as contractor assistance with water main breaks. These additional costs are offset by a \$30,613 decrease in debt service.

Staff is recommending an 8% water rate increase. It will generate \$2,620,114 in operating income that will be used to partially offset \$2,592,401 in operating expenditures. Our projected operating and non-operating revenues and expenses will leave us with net income of (\$163,536).

### **2. Sewer Fund:**

We project that Sewer Fund expenditures for 2012 will amount to \$4,580,009 or 3.84% less than we budgeted for 2011. The major contributor to the \$182,982 decrease includes a projected \$202,637 decrease in treatment and utility costs. Other notable changes include a \$21,671 increase in personal service costs, and a \$3,802 increase in debt service costs. These increases are partially offset by a \$9,781 reduction in depreciation costs for fixed assets.

The operating costs, along with other changes in our income and expense projections have created a need for a 5% increase in sewer rates for 2012. This increase will generate \$4,451,626 in operating income that will be used to partially offset \$4,563,559 in operating expenditures. Our projected operating and non-operating revenues and expenditures will leave us with net income of (\$108,383).

### **3. Storm Water Fund:**

Storm water expenditures for 2012 will amount to \$575,125 or 3.9% more than the amount budgeted for 2011. The major contributors to the \$21,585 increase include a \$4,700 increase for inter-fund charges, a \$4,760 increase for depreciation of fixed assets, a \$7,160 increase for various contractual service costs (including costs for pond surveying and pond water testing), and a \$3,145 increase for debt service.

The increased costs will create a need for a 25% increase in the City's storm water fees. The new fees will generate \$532,105 in operating revenues to partially offset \$562,575 in operating expenditures. Our projected operating and non-operating revenues and expenditures will leave us with net income of (\$ 26,020).

#### **4. Liquor Fund:**

Liquor Fund expenditures for 2012 are estimated at \$5,289,551, or (.49%) less than budgeted for 2011. The \$26,133 decrease reflects a variety of additions and subtractions. The most significant of the increases is a \$7,920 increase for personal service costs. The most significant decreases include a \$17,599 decrease in depreciation costs, a \$19,500 reduction in advertising costs, and a \$13,000 reduction in CAM charges.

#### **F. 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 2012, we expect to pay \$791,249 on debt service for water system improvements, \$16,450 for sewer system improvements and \$12,550 for storm water improvements. We also anticipate paying \$1,119,503 for street improvement debt service. Additionally, we have \$63,450 in general obligation equipment certificates debt service that is supported by property tax revenue.

### **IV. Tax Impact**

The City's 2012 property tax levy is \$10,703,739. The amount is \$194,422, or 1.85% more than the amount levied for 2011. Of the total, \$9,602,809 represents the General Fund portion of the property tax levy. Another \$780,730 covers the City's bonded indebtedness for street improvement projects and equipment certificates. The remainder includes \$320,200 in property tax levy for the Springbrook Nature Center.

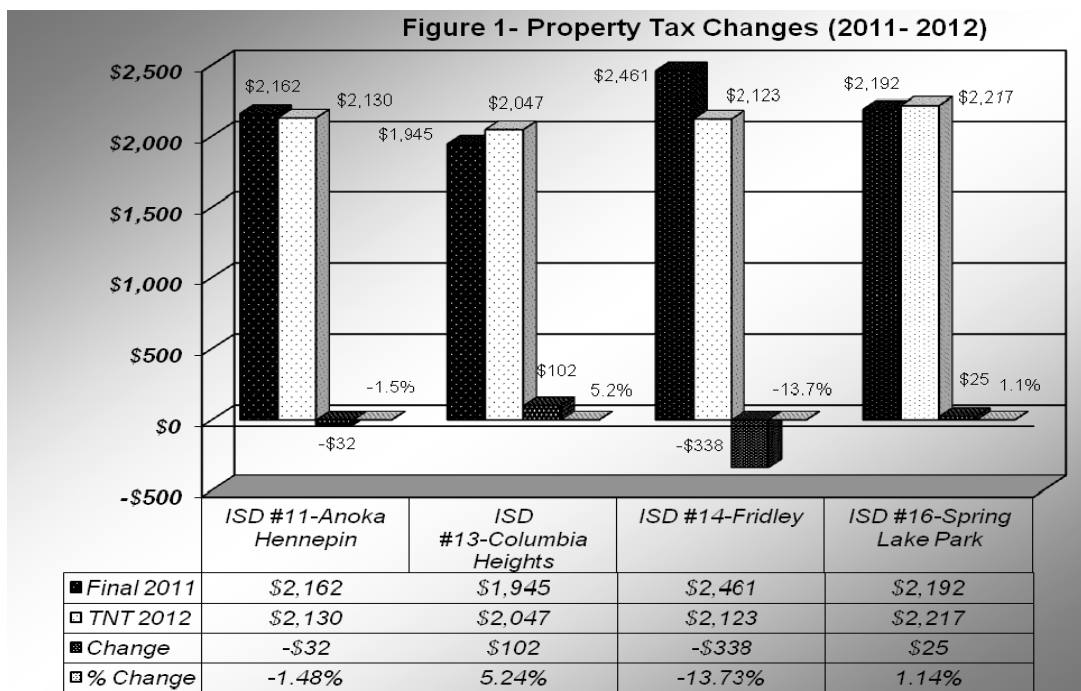
The impact of the City's levy on property taxes for Fridley property is affected by differences in property valuation rates for different classes of property. These values saw considerable shifting in 2011. The most significant of the shifts was another marked decline in residential values accompanied 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 first applying the State's new Market Value Homestead Exclusion to determine the taxable market value of the home.

Once the exclusion is applied to the value of the home, one then applies the class rate for single family homesteaded property to the taxable market value of a home. The tax capacity is calculated by multiplying the first \$500,000 of the value of the home by 1% and the remainder of the value by 1.25%. The two products are then added together. The resulting 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.

Having completed these transactions for the average value Fridley home (valued at \$171,400), we learned the City's 2012 levy will cause taxes on the house to increase from \$609 to \$614, or by .82%. The property taxes for this same valued home will increase or decrease depending on the school district location of the property.

Figure 1 on the next page depicts what staff believes will be the 2012 changes in property taxes for the owners of a home with an estimated market value of \$171,400 in all four school districts. The change in property taxes ranges between -\$338 in the Fridley School District to +\$102 in the Columbia Heights School District. Residents of the Spring Lake Park District will see a \$25 increase in property taxes, and those in the Anoka Hennepin School District will see a \$32 decrease in property taxes. These estimates are based on calculations prior to any school district referendum results from the 2012 fall election.



## 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 decrease by \$64,361 in 2112.

While we commonly refer to these balances as unreserved, most of them are earmarked for specific purposes. Of the projected balance for 2012, \$5,320,132 is reserved for street reconstruction, parks improvements, and building/facility upgrades. Another \$5,800,000 is reserved for working capital, and \$1,256,608 is restricted by our cable franchise for cable television operations and improvements.

| <b>Year</b>          | <b>Unreserved<br/>General Fund</b> | <b>Unreserved<br/>Governmental Funds</b> |
|----------------------|------------------------------------|--|
| 2007                 | 5,206,778                          | 17,820,831                               |
| 2008                 | 4,538,224                          | 17,718,217                               |
| 2009                 | 4,600,988                          | 16,788,469                               |
| 2010                 | 5,436,388                          | 18,624,144                               |
| *2011                | 5,168,434                          | 18,369,338                               |
| *2012                | 5,104,902                          | 18,304,977                               |
| * Projected Estimate |                                    |  |

### B. Revenues:

Table 7 on the next page compares General Fund revenues with General Fund expenditures from 2007 to 2012. 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.

**Table 7**  
**General Fund**  
**External Revenues vs. Expenditures**

|               | <b>Actual<br/>2007</b> | <b>Actual<br/>2008</b> | <b>Actual<br/>2009</b> | <b>Actual<br/>2010</b> | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> |
|---------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Revenues      | \$ 12,920,219          | \$ 12,570,624          | \$ 13,005,058          | \$ 13,494,442          | \$ 13,072,095          | \$ 13,594,871          |
| Expenditures  | 13,567,852             | 14,066,686             | 13,718,772             | 13,550,607             | 13,940,049             | 14,258,403             |
| <b>Excess</b> | <b>(\$ 647,633)</b>    | <b>(\$ 1,496,062)</b>  | <b>(\$ 713,714)</b>    | <b>(\$ 56,165)</b>     | <b>(\$ 867,954)</b>    | <b>(\$ 663,532)</b>    |

Table 8 depicts various sources of General Fund revenue between 2007 and 2012. 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 55.0% in 2007 to 68.2% in 2012. At the same time, intergovernmental revenues have dropped from 10.8% of General Fund revenues in 2007 to 5.6% of General Fund revenues in 2012. 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)**

| <b>Source</b>                          | <b>Actual<br/>2007</b> | <b>Actual<br/>2008</b> | <b>Actual<br/>2009</b> | <b>Actual<br/>2010</b> | <b>Budget<br/>2011</b> | <b>Budget<br/>2012</b> |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Taxes                                  | 55.0                   | 57.9                   | 58.8                   | 62.7                   | 68.2                   | 68.2                   |
| Licenses and Permits                   | 5.9                    | 5.2                    | 5.4                    | 5.1                    | 4.2                    | 5.0                    |
| Intergovernmental                      | 10.8                   | 10.0                   | 14.7                   | 9.8                    | 5.2                    | 5.6                    |
| Charges for Services                   | 10.0                   | 11.7                   | 12.1                   | 11.6                   | 12.8                   | 13.6                   |
| Fines and Forfeits                     | 1.8                    | 2.1                    | 1.6                    | 1.2                    | 1.8                    | 1.2                    |
| Special Assessments & Miscellaneous    | 3.2                    | 2.7                    | 1.6                    | 0.7                    | 1.6                    | 1.7                    |
| Other Financing Sources & Fund Balance | 13.3                   | 10.6                   | 5.7                    | 8.9                    | 6.2                    | 4.7                    |
| <b>Total</b>                           | <b>100.0</b>           | <b>100.0</b>           | <b>100.0</b>           | <b>100.0</b>           | <b>100.0</b>           | <b>100.0</b>           |

**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 \$72,721, or by .7% between 1995 and 2010. The reader should keep in mind that we have included Springbrook Nature Center expenditures as General Fund expenditures in all of these calculations.

| <b>Table 9</b>                        |                |                    |     |
|---------------------------------------|----------------|--------------------|-----|
| <b>General Fund Expenditures</b>      |                |                    |     |
| <b>In Actual and Constant Dollars</b> |                |                    |     |
| 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                                  | 13,968,038     | 9,720,059          |     |
| *2011                                 | 14,330,479     | 9,804,594          | *** |
| *2012                                 | 14,658,976     | 9,849,626          | *** |

\* 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. Therefore, 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 improved since this time last year. Although property values have again declined, other indicators of economic well-being in Fridley have improved. New construction is up, employment numbers have improved, and crime rates are down for the third year in a row.

### **A. New Construction:**

The value of all new construction for the first ten months of 2010 was \$37,743,176. This compares with \$27,878,505 for the first ten months of 2011. Major projects for 2011 included the construction of the new Walmart addition valued at \$6,200,000, the Cummins High-Horsepower test cells valued at \$6,000,000, the Landmark of Fridley Senior Living Center valued at \$6,000,000, and a \$500,000 addition at the Martin-Brower property on 52nd Way. Other major projects included a new building for the Metropolitan Bus Company valued at \$1,087,900, a Unity Hospital remodel valued at \$750,000, and the remodel of another Allina building on Osborne Road valued at \$496,269. We will also see a \$6 million remodeling project at Sam's Club within the near future.

### **B. Employment:**

Fridley's unemployment rate dropped from 7.7% at the end of September, 2010, to 6.6% at the end of September, 2011. This compares with a seasonally-adjusted state unemployment rate of 6.9%, and a national unemployment rate of 9.1%, as of the end of September, 2011. Anoka County's unemployment rate was 6.3%.

The decrease in unemployment has been accompanied by a slight increase in the number of jobs available in Fridley between the first quarters of 2010 and 2011, the latest available data. The number, including public sector jobs, has increased from 21,157 to 21,615, or by 2.2%. Based on data provided by the Minnesota Department of Employment and Economic Development (DEED), the number of manufacturing jobs in Fridley increased from 8,177 to 8,193, or by 0.2%.

The same report indicates that the number of retail jobs decreased from 2,010 to 1,980, or by 2%. The report also shows that the number of wholesale jobs increased from 1,514 to 1,610, or by 6%, between the first quarters of 2010 and 2011. Additionally, service sector jobs grew from 504 in 2010 to 553 in 2011, or by 10%.

### **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 \$2,364,436,900 in 2010 to \$2,293,790,500 in 2011. The 3% decrease compares with a 7.7% decrease in 2010.

While the number of homesteaded single family properties decreased in 2011 to 6,935 from 7,005 in 2010, the assessed value of these homes decreased by 15.8%. This was on top of a 9.2% decrease in 2010. Values for non-homesteaded apartment buildings having three or fewer units increased by 3.7%. The value of apartments having four or more units decreased by 6%.

Decreases in residential property values have been accompanied by decreases in assessed values for commercial and industrial property. This includes a 2% decrease in commercial values, and a 3.4% decrease in industrial values. These decreases in property values have been accompanied by a 7.7% decrease in tax capacity, the amount available for local property taxation. This compares with a 7.5% decrease in tax capacity in 2010.

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. The most recent reports from the St. Paul Association of Realtors indicates that although median sales prices for Fridley homes continued to drop in 2011, the number of closed housing sales is increasing and the inventory of homes on the market is decreasing. Other data from Anoka County indicates that the number of foreclosures in Fridley dropped sharply in 2011.

### **D. Public Assistance.**

Anoka County reports that the number of Fridley households receiving cash assistance and/or food stamps has increased from 1,553 in September of 2010 to 1,703 in September of 2011. This represents a 9.7% increase over last year and a 28.1% increase since September of 2009. The 9.7% increase in 2011 compares with a 16.9% increase we reported last year.

Our report from School District #14 indicates that the number of students receiving free or reduced lunches has risen from 1,661 students in October of 2010 to 1,703 in October of 2011. The 2.5% increase in 2010 compares with a 3.8% increase in 2011. At the same time, the

percentage of students on free and/or reduced lunches decreased from 59.5% in 2010 to 53.33% in 2011.

### **E. Crime Rates.**

The 2,929 crimes reported to Fridley Police during the first nine months of 2011 represent nearly a 7% decrease from the 3,140 crimes reported during the same period in 2010. The number of reported crimes (Part I and Part II combined) in 2011 represents the third year in a row that overall crime has decreased from the five-year high of 3,852 reported crimes in 2008.

While overall crime numbers, including those for Part I, or more serious crimes, are down, violent crimes (murder, rape, felony assault, and robbery) increased by 11 from the five-year low of 70 in 2010 and returned to a point just under the five-year average of 82. Other crimes that increased during Quarters 1 through 3 of 2011 include burglary, simple assault, and fraud-related crimes. On the positive side, vehicle thefts dropped significantly for the second year in a row.

### **VII. Conclusion**

The 2012 budgeting process was again a year-long process that evolved within several contexts. One of the most important of these was the state legislative context where efforts to eliminate a \$6 billion budget deficit resulted in a long governmental shut-down and no resolution to the State's fiscal imbalance. While the session resulted in better than expected LGA revenues for Fridley, the elimination of State levy limits, and the discontinuation of the very costly Market Value Homestead Credit program, there were few other changes from legislative activity that affected local governments in Minnesota.

Since 2012 is an election year and given the continued partisan stalemate, prospects for fixing the State's budget deficit or enactment of other major changes in 2012 seem remote. This will leave the huge budget deficit issue until the 2013 legislative session. While improvement of the State's economy may make the fix easier than it was in 2011, there remains a good possibility that local governments will be asked to share the cost of the fix through reductions in LGA and increases in local government costs for things such as employee retirement benefits.

In addition to better than expected State legislative outcomes in 2011, Fridley also benefited from an improving local economy. These improvements included markedly higher construction numbers and an improved employment picture. While real estate valuations for all types of property in Fridley continued downward, more recent housing numbers are encouraging.

As of the end of September, housing sales had improved, the inventory of homes on the market had decreased, and the number of Fridley foreclosures had dropped dramatically. Better economic data in 2011 have been accompanied by decreasing crime rates for the third year in a row, and although many residents remain dependent on various forms of public assistance, the rate of annual increase in 2011 has declined below levels reported last year.

These environmental circumstances together with positive impacts of the budget adjustments that we made in 2009-2011 have enabled the City to relax a few of its austerity measures for 2012. This relaxation has included a 1% cost of living increase for non-union employees, the filling of a School Resources Officer's position that had been vacant for two years, the restoration of half of the City's IT depreciation charges, and the budgeting of an additional \$389,000 for building improvements.

While we have increased budgeted expenditures for 2012, we have continued many of the budget adjustments made for 2010 and 2011. These include the continuation of two Police Department vacancies, a Fire Department vacancy, and a vacancy in the Finance Department. The 2012 budget also continues restrictions on travel and conference expenses, the elimination of vacation leave sell-back, and the suspension of half of our normal IT depreciation charge.

The budget that emerged from this year's budgeting process provides for expenditures of \$17,294,542, or 9% more than budgeted in 2011 for all funds (not including enterprise funds) and \$14,258,403, or 2.3% more than was budgeted for 2011 General Fund expenditures. Enterprise Fund budgets, which include the Water, Sewer, Storm Water, and Liquor Funds amount to \$13,273,335, or 1.1% more than was budgeted for 2011.

The budgets also provide for modest revenue increases including a 1.85% increase in all property tax levies that will raise the City's portion of property taxes on an average value home from \$609 in 2011 to \$614 in 2012. Other new revenues include an increase in utility rates that will cost an additional \$30 per year for the average water-using household. The expenditure and revenue changes found in the 2012 budget leave the City with an estimated \$18,304,977 in unreserved governmental funds at the end of 2012. The City's Finance Director also projects that, based on assumptions that General Fund revenues will continue to rise by 2.5% per year and that General Fund expenditure growth can be contained within 2% per year, the City can maintain sufficient cash flows for the foreseeable future.

While these projections are comforting, continuation of many of the revenue and expenditure adjustments made between 2009 and 2011 continue to be temporary and will be difficult to maintain indefinitely. It will, for example, be difficult to maintain current public safety vacancies and to continue employee cost-of-living adjustments at the 1% level. It will also be difficult to keep the current restrictions on employee travel and conference expenses and to avoid reinstatement of other employee benefits that were eliminated for 2010 and 2011.

There are numerous other challenges facing the City. These include future employee contract negotiations with the City's public safety bargaining units, uncertainties associated with the resolution of the State's difficult budget imbalance, growing capital improvement needs, and major challenges to our commercial and industrial property valuations.

As we maintain awareness of these challenges, we should also appreciate the many good things that we have in Fridley. These include a very cooperative Fridley citizenry, a very team-oriented staff, and a City Council which works very closely with staff to continue the very best municipal services possible at a continually affordable cost for Fridley residents.

With this sense of caution and pride, I present the 2012 budget for Council's consideration.