

# 2013 OPERATING BUDGET DETAILED PROPOSAL



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*Excelsior, Greenwood, Shorewood and Tonka Bay*

## **Funds Supporting Operations**

**Spreadsheets - Narrative**

Prepared by Chief Bryan Litsey

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**SOUTH LAKE MINNETONKA POLICE DEPARTMENT**  
**2013 OPERATING BUDGET PROPOSAL - SPECIAL FUNDS**  
 Coordinating Committee Meeting - Wednesday, July 18, 2012

Assigned Funds	Audited Balances <i>December 31, 2011</i>	Audited Balances <i>December 31, 2010</i>
Insurance Fund	\$18,205	\$12,152
Vehicle Fund	\$58,991	\$28,514
Equipment Fund	\$6,391	\$16,080
Technology Fund	\$80,109	\$74,061
Building Fund	\$51,011	\$29,476
Reserve Officer Fund	\$9,712	\$5,024
Firearms Range Fund	\$179	\$3,227
Restricted Fund	Audited Balance <i>December 31, 2011</i>	Audited Balance <i>December 31, 2010</i>
DWI Forfeiture Fund	\$37,313	\$26,067

Unassigned-Reserve Fund	Audited Balance <i>December 31, 2011</i>
Unassigned-Reserve Fund - <b>See Notation (1)</b> <i>Approximately 8.8% of 2012 Operating Expenses</i>	\$195,605
	Unaudited Balance <i>May 9, 2012</i>
Balance After Approved Transfers - (May 2012) <i>Approximately 6.2% of 2012 Operating Expenses</i>	\$138,605



Unassigned-Reserve Fund
Undesignated-Reserve Fund - <b>See Notation (2)</b> Balance After Approved Transfer - (May 2011)



Audited Balances <i>December 31, 2010</i>
\$144,713
\$135,713

**Notation (1):** There was a net increase in the Unassigned-Reserve Fund as a result of favorable operations during 2011. This is reflected in the audit report completed by CPA Stuart Bonniwell for 2011. The balance in the Unassigned-Reserve Fund was approximately 8.8 percent of projected operating expenses for 2012. This was reduced to approximately 6.2 percent after the approved transfers to special funds. The remaining balance maintains a minimally acceptable level in which to support current and future operations, especially with the operating budget being so lean, volatility in gasoline prices and the uncertainty of state aid revenues.

**Notation (2):** There was a net increase in the Unassigned-Reserve Fund as a result of favorable operations during 2010. This is reflected in the audit report completed by CPA Stuart Bonniwell for 2010. The balance in the Unassigned-Reserve Fund was approximately 6.6 percent of projected operating expenses for 2010. This was reduced to approximately 6.2 percent after the approved transfer to a special revenue fund. This maintained a minimally acceptable level in the Undesignated-Reserve Fund to support current and future operations.

# SOUTH LAKE MINNETONKA POLICE DEPARTMENT

## 2013 OPERATING BUDGET PROPOSAL

Coordinating Committee Meeting - Wednesday, July 18, 2012

### PROPOSED TRANSFERS TO SPECIAL FUNDS

Line Item	Operating Budget Expenses		Transfer Amount	Special Funds
	Category	Sub-Category		
52100	Equipment Leases	Communications Records Management	\$20,000 \$4,000	Technology
52200	Repairs & Maintenance	Building Maintenance	\$1,200	Firearms Range
56000	Insurance	N/A	\$58,000	Insurance
57000	Special Projects	Reserve Unit	\$3,000	Reserve Officer
58000	Capital Outlay	Vehicle	\$68,000	Vehicle
58000	Capital Outlay	Equipment	\$2,000	Equipment
<b>Total</b>			<b>\$156,200</b>	

Prepared by Chief Bryan Litsey - July 2012



## 2013 OPERATING BUDGET

### Funds Supporting Operations

Prepared by Chief Bryan Litsey

Coordinating Committee Meeting - July 18, 2012

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#### INTRODUCTION

The South Lake Minnetonka Police Department (SLMPD) is responsible for managing its own fiscal affairs as a joint powers organization. This means it is necessary for the department to maintain a number of special revenue and capital funds to support the operating budget, which is financed primarily by member city contributions. Many of these funds are used to help with cash flow and to maintain consistency in the operating budget from year-to-year. All fund balances are subject to variances depending on when revenues, transfers and expenditures are received or made throughout the year. Most of the funds depend on operating budget transfers to maintain an adequate balance. This becomes problematic during periods when the operating budget is extremely lean and dependence on these funds increases. This can lead to inadequate fund balances that need to be made up in future years. Several funds have been in this predicament in recent years and have received supplemental funding from operating budget surpluses and budget revisions. This is explained in more detail under the corresponding categories below. This summary also provides an overview of each fund within the context of the overall financial management of the organization. The corresponding spreadsheets are a snapshot of the audited fund balances as of December 31, 2011 and the proposed operating budget transfers to these funds in 2013.

#### ASSIGNED FUNDS

**Insurance Fund** - This fund is used to manage insurance costs. Premiums are paid out of this fund for liability, property and workers' compensation insurance provided by the League of Minnesota Cities Insurance Trust (LMCIT). Maintaining this fund helps protect against the volatility in the insurance industry. It also provides a means for absorbing higher deductibles and self-insuring against smaller claims. The annual transfer to this fund from the operating budget had to be increased in 2010 to address a declining fund balance. This higher transfer amount was maintained in 2011 and 2012 in order to reach a more sustainable level. These efforts, coupled with some favorable insurance dividends along the way, have restored the health of the fund. The Insurance Fund is now in a position to absorb a modest decrease in the amount transferred from the operating budget in 2013.

**Vehicle Fund** - This fund is utilized to purchase, equip and set-up vehicles. It allows for a uniform replacement schedule for vehicles in the SLMPD fleet. Proceeds from the sale of vehicles go directly into this fund to help offset replacement costs. Vehicles in the patrol fleet are replaced more frequently than the vehicles used for other functions, given the high and rigorous number of miles put on patrol vehicles and their need to be in good condition for safety and reliability. In recent years, the amount transferred to this fund has lagged well behind what is needed to sustain this conservative fleet rotation

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schedule. A short-term fix was taken in 2010 to address this issue by using proceeds in the DWI Forfeiture Fund to acquire and outfit one of the two patrol vehicles purchased that year. It was understood at the time, however, that relying on an unpredictable funding source was not a good long-term strategy. More recently, this funding shortfall has been exacerbated by Chevrolet and Ford following the lead of Dodge in introducing a new generation of police vehicles. Not only are they more costly, but much of the equipment in existing department vehicles is not compatible with the newer models. This means for the next several years there will be an additional cost to outfit new police vehicles. It was once again noted during the 2012 budget process that the amount being transferred into the Vehicle Fund needs to be incrementally increased in future budget years in order to support a realistic fleet replacement schedule. The increase factored into the 2012 budget was still approximately \$21,000 short of what is needed annually. Great strides were made in addressing this shortfall after revisions to the 2012 operating budget were approved by the Coordinating Committee. One of these revisions moved \$14,000 from the undesignated allocation category to the capital outlay category to supplement the \$52,000 already transferred to the Vehicle Fund. This revised transfer amount of \$66,000 raises the baseline for 2013. However, it is still short of the stated goal even with an additional \$2,000 being budgeted toward capital outlay in 2013.

***Equipment Fund*** - This fund was established for the purchase and replacement of furnishings and other non-vehicle related equipment. Some of the fund uses have been shifted in recent years to the Technology Fund. Additionally, most of the furnishings were new when the SLMPD moved into its current facility thus lessening the dependency on this fund. Nevertheless, this fund is still being relied upon for a number of equipment needs. Annual transfers to this fund from the operating budget have been minimal in recent years due to budgetary constraints. This would have been more consequential if not for the resourcefulness of the department in securing other funding sources through grants and donations. One of the most reliable contributors has been the South Lake Minnetonka Crime Prevention and Criminal Apprehension Fund. This locally based nonprofit organization has contributed thousands of dollars toward equipment purchases. This fund received much needed support in May 2012 when the Coordinating Committee approved transferring \$5,000 in surplus year-end revenues to the Equipment Fund. This was needed to help manage the replacement of body armor (bullet-resistant vests) for licensed police officers on the department. The state and federal programs in place to help reimburse law enforcement agencies for this expense have been running into funding issues and the Equipment Fund is being used to bridge the gap. Once again, only a nominal transfer amount is being proposed for 2013.

***Technology Fund*** - This fund supports the ever increasing role of technology in law enforcement. It was initially established in anticipation of the conversion by Hennepin County to a new 800 MHz radio system. It was realized that the department would have to absorb a considerable ongoing expense for the equipment needed to remain part of the county-wide system. Since then, the fund has taken on an expanded role both in acquiring new technologies and supporting a replacement schedule for those technologies that have reached the end of their useful life-span. This includes the mobile data

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computers, 800 MHz radios and video cameras in department vehicles; portable 800 MHz radios for department personnel; internal computer network interfaced with document processing and workstations; video surveillance system for building security and audio/visual recording equipment for evidentiary purposes; and card access system for secured areas. Replacement of the first generation of mobile data computers was recently completed. Next on the horizon is the replacement of the 800 MHz mobile radios in department vehicles and the handheld units carried by personnel. The timetable for replacing this equipment was extended by Hennepin County until 2013, even though the initial manufacturer recommendation was 2009. Once again, the SLMPD is looking at the lease to own option through Hennepin County to help preserve some needed capital. The long awaited changeover to a new records management system is scheduled to take place in 2013. Motorola's PremierOne Record Management System administered through LOGIS was selected after evaluating all the viable options. This additional expense will be incrementally absorbed into the operating budget over a five-year period (2013-2017) using supplemental funding from the Technology Fund. This strategy mitigates the net effect of the increase on the member cities and takes advantage of the preplanning that was done to have funding sources in place prior to implementation. The transfer amount to this fund in 2013 will increase according to the amortization schedule adopted for the new records management system. This fund has also received supplemental funding over the years from surplus operational revenues. This last occurred in May 2012 when the Coordinating Committee approved transferring \$17,000 in surplus revenues from the 2011 operating budget to the Technology Fund. This helps to maintain the long-term viability of this fund.

***Building Fund*** - This fund was initially created to assist with capital costs associated with maintaining the former police station and to provide the financial means for exploring the option of a new shared facility with the Excelsior Fire District (EFD). It was later used to offset some of the costs associated with the SLMPD moving into its new shared facility with the EFD in January 2004. Since then, the fund has served primarily as a capital account for maintaining, repairing and improving the functionality of the facility. This use differs from what is factored into the operating budget each year for the routine maintenance and general upkeep of the building. This fund is not supported through operations, other than when there has been a transfer of surplus year-end revenues. It received a significant boost in 2011 after the Shorewood EDA identified unspent bond proceeds left in the construction fund for the public safety facility. The amount earmarked for the SLMPD was determined to be \$29,737.85. The Coordinating Committee approved transferring the entire amount to the Building Fund to help raise the balance to a more acceptable level. This was still well short of what was needed to meet the growing list of unbudgeted expenses attributed to maintaining and repairing the building infrastructure. Another significant boost came in May 2012, when the Coordinating Committee approved transferring \$35,000 in surplus year-end revenues to the Building Fund. Although this short-term approach has been helpful, it is not a reliable long-term strategy as the building ages. Numerous attempts to secure a more consistent and dependable funding source for the Building Fund have been unsuccessful to date. Another attempt is currently being explored by the SLMPD.

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***Reserve Officer Fund*** - This fund was initially established to finance the appreciation banquet previously held each year for volunteer reserve officers. The use of this fund has been expanded in recent years to help cover the expense of equipping and training reserve officers. One of the funding sources was changed in 2009 at the direction of the Coordinating Committee. Member cities no longer contribute directly to this fund. Instead, this contribution now comes in the form of an annual transfer from the operating budget under the expense category of Special Projects. Other funding sources include the proceeds generated by the SLMPD auctioning seized and/or unclaimed property along with occasional grants and private donations. A more recent approach that has raised additional revenue is suggesting a voluntary donation be made to this fund if reserve officers help out with a special detail or event. This is now included on the invoice when the SLMPD bills for services connected with these types of activities. It is important to note that reserve officers are volunteers in the true sense of the word and receive no personal compensation. Having this fund is a nice way to show the members of this volunteer unit that they are appreciated and supported by the member cities.

***Firearms Range Fund*** - This fund was created to help manage and track expenses relating to the operation and maintenance of the indoor firearms range. Some of the more costly items are maintaining the automated target system, cleaning the bullet trap and replacing the special filters that are part of the air exchange unit. This fund receives a nominal contribution each year from the operating budget along with the revenues generated from other law enforcement agencies renting the firearms range for training purposes.

**RESTRICTED FUND**

***DWI Forfeiture Fund*** - Proceeds realized from the sale of vehicles seized by the SLMPD pursuant to the DWI forfeiture law must be distributed in accordance with state statute. The percentage that goes to the SLMPD is maintained in a dedicated account for ease of tracking as required by state guidelines. Expenditures from this fund are also regulated by state statute and must be related in some way to enhancing law enforcement efforts. This includes purchasing equipment that can aid in the detection and apprehension of people who are driving while impaired. This fund is intended to supplement, not replace normal budgetary items. It is not a prudent practice to use these proceeds to reduce the impact on the operating budget.

**UNASSIGNED FUND**

***Reserve Fund*** - The budget process is not a perfect science and many costs are influenced by external factors that are not easily controlled. Additionally, when providing essential services to the public it is critical to have money in reserves for unknown contingencies. This fund provides the SLMPD with a marginally acceptable cushion against unanticipated expenses ranging from escalating fuel prices to investigating a major crime involving hundreds of hours of overtime. One important distinction, however, is that the SLMPD does not rely on money in reserves as extensively as a municipality to

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maintain its cash flow throughout the year. This is because unlike a municipality, which needs to maintain its cash flow between tax collections, the SLMPD receives the majority of its revenue through monthly payments from member cities. This provides a constant revenue stream throughout the year. The history has been to maintain in reserves the equivalent of between five and six percent of operating expenses as a standard financial practice. More recently, this has been increased to the six percent range due to the downturn in the economy along with the increased vulnerabilities and potential shortcomings in the budgets that have been adopted. One of the most notable concerns is the continuing decline in state police officer aid, which is the largest revenue item in the budget after member city contributions. It is prudent, therefore, to maintain this slightly higher reserve balance than what has previously been the case. Anything beyond this amount is considered discretionary in terms of its use. The current practice has been to shift any additional operational surplus to those special funds with insufficient balances and/or expanded uses. It is normally not advisable to offset operating expenses with reserves, being the temporary relief it provides will have to be made up in future budget years in addition to any other budgetary increases. This compounding effect can be difficult to overcome and can lead to future budget deficits. Transferring excess reserves to these special funds allows the SLMPD to better meet specific needs.