

**Intergovernmental Services Fund
Deficit Reduction Plan (Update)
January 17, 2003**

Description of the Fund:

The Intergovernmental Services Fund is used to account for the City's central printing and mailing services and information technology services.

Background on Current Financial Condition:

The Intergovernmental Services Fund is in an overall negative financial condition. Revenue has not been adequate to cover expenditures since 1997. The retained earnings deficit in the fund as of 12-31-01 was \$15.4 million. Retained earnings represent the cumulative annual results of revenues and expenses in the fund. In addition, the cash deficit in the Intergovernmental Services Fund as of 12-31-01 was \$3.2 million.

Deficit Reduction Plan (Update):

During 2000, the Information Technology and Finance Departments prepared and submitted to City Council a financial workout plan to improve the financial condition of the Intergovernmental Services Fund. The plan made nine recommendations:

1. Refund Existing Outstanding Variable Rate Debt. **During 2000, The City issued \$22.8 million, 12-year, fixed rate bonds. These bonds were used to refund existing 7-year, variable rate bonds.**
2. Identify Level of Funding Available for Capital Projects. **The original plan committed to finishing "in flight" capital projects totaling \$12.2 million. During 2002 that number increased by \$2.1 million. The increase was necessary to finish construction of the Engineering 2000 software program. The additional costs were financed on a pay-as-you-go basis by the Public Works department. The 2003 budget provides a base budget of \$1 million for core infrastructure investments. In addition, a one time, \$3.78 million appropriation was approved for 2003. This amount is contingent on no State local government aid reductions.**
3. Reduce Information Technology Operating Expenditures. **The original workout plan called for a \$1.5 million reduction in 2002. The savings was to be realized through a conversion of contractors to FTE and an overall reduction in contractual expenses. Despite these expense reductions, the overall budget for ITS increased by \$3 million because of \$2.3 million in Decision**

Packages related to Microsoft and Oracle licensing, integration of GIS application support and hardware/software maintenance contracts. In addition, an accounting change related to the Program Management Division resulted in an additional \$880,000 in ITS revenue and expense budget. The managed services (outsourcing) contract executed with Unisys in 2003 will require no additional expense for the department. Conversely, it is expected to generate savings by avoiding future capital expenses such as hardware refresh, data center move and disaster recovery.

4. **Commit \$1.2 million in Additional Annual General Fund Resources. Since the original workout plan was adopted in 2000, annual adopted budgets have included the \$1.2 million increase.**
5. **All City Funds, Except the General Fund, Must Provide Pay-As-You-Go Funding for Information Technology Services. Departments have complied with this direction. Examples of this cooperation are, \$1.9 million funding from Public Works for E2K, \$100,000 from Finance for a MUPS upgrade, \$250,000 from Human Resources for an HRIS upgrade.**
6. **Adjust the Rates Paid by User Departments/Funds on an Annual Basis. The original and updated workout plan assumes and plans for a 2-3% budgetary increase annually.**
7. **Eliminate Internal Working Capital Charge. During 2000, the working capital charge was eliminated for the Intergovernmental Services Fund. This resulted in annual savings of \$160,000.**
8. **Implement Permanent Inter-Fund Loans. During 2000, the Convention Center and Convention Facilities Reserve Fund loaned \$12.8 million to the Intergovernmental Services Fund. To date, a repayment schedule has not been established. During 2003, the Finance and ITS department will establish a loan repayment schedule that will not adversely affect the deficit reduction plan.**
9. **Develop User Rates for Information Technology Services. During 2002, the Finance Department developed a rate model for the ITS fund using an accounting industry standard known as Activity Based Costing. The model allocates costs to customers on a "level of effort" basis. The model will be used to allocate costs to departments for GASB34 compliant financial statements beginning in 2002 and will be incorporated in the 2004 annual City operating budget.**

Comparison to Original Plan:

Two important indicators of the financial health of this fund are retained earnings and cash. Table One provides a *projection* of retained earnings.

Table One Intergovernmental Services Fund Retained Earnings Projection	
Year	Projection
2001	(15,407,748)
2002	(16,362,137)
2003	(15,507,805)
2004	(15,781,776)
2005	(17,262,571)
2006	(17,637,001)
2007	(10,816,918)
2008	(3,114,020)

Table Two provides an *original plan to actual* comparison of cash.

Table Two Intergovernmental Services Fund Cash Balance Comparison (Plan to Actual/Updated)			
Year	Original Plan	Actual/Updated	Difference
2001	(2,984,132)	(3,199,000)	(214,868)
2002	(3,387,283)	(3,571,814)	(184,531)
2003	(2,472,333)	(2,372,481)	99,852
2004	(2,611,206)	(2,301,452)	309,754
2005	(3,926,872)	(3,437,248)	489,624
2006	(4,110,916)	(3,466,678)	644,238
2007	2,924,709	3,698,405	773,696
2008	10,868,186	11,746,304	878,118

Future Action Items:

During 2003, the Finance Department and Information Technology Services Department will complete the Activity Based Costing Rate Model and be prepared to implement it for the 2004 fiscal year. The GASB34 pronouncement brings new challenges to the City and the Intergovernmental Services Fund. With the fund required to capitalize all infrastructures, including SISP assets, this requires the City to make decisions on how to finance roughly \$5-7 million

annually in depreciating assets. The Finance department will ensure this issue is addressed during the 2004 budget process.

Annual Reporting to the City Council on Progress:

The Finance Department will report annually to the City Council, at year-end, with a status update and any needed changes to this deficit reduction plan for the Intergovernmental Services Fund. In addition, the Finance Department will provide updates to the Ways and Means Committee during its citywide quarterly financial status report.

ATTACHMENT A

**Intergovernmental Services Fund
Proposed Deficit Reduction Plan**

	2000 Actual	2001 Actual	2002 Forecast	2003 Forecast	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Operating Revenues:													
City Clerk	1,347,425	1,329,280	1,514,585	1,550,000	1,557,334	1,604,055	1,652,176	1,701,742	1,752,794	1,805,378	1,859,539	1,915,325	1,972,785
IT Charges for Service	1,546,641	1,966,096	2,499,971	2,599,970	2,703,969	2,812,127	2,924,612	3,041,597	3,163,261	3,289,791	3,421,383	3,558,238	3,700,568
Tsf from General Fund	4,307,000	11,078,697	11,406,467	11,708,000	12,008,000	12,308,000	12,608,000	12,908,000	13,208,000	12,508,000	11,808,000	11,108,000	11,408,000
Tsf from MCDA	-	-	20,102	20,102	20,906	21,742	22,612	23,516	24,457	25,435	26,453	27,511	28,611
Tsf from Special Revenue	166,246	164,982	181,046	181,437	184,064	186,547	194,009	201,769	209,840	218,234	226,963	236,042	245,483
Tsf from Component Unit	93,375	90,000	88,269	125,267	123,228	133,283	138,614	144,159	149,925	155,922	162,159	168,646	175,283
Tsf from Internal Serv	996,829	80,293	132,503	86,845	90,319	93,932	97,689	101,596	105,660	109,887	114,282	118,853	123,608
Tsf from Enterprise	3,192,293	2,570,871	2,737,393	2,632,675	2,737,982	2,847,501	2,961,401	3,079,857	3,203,052	3,331,174	3,464,421	3,602,998	3,747,117
Tsf from Capital	1,068,303	153,181	180,663	165,680	172,307	179,199	186,367	193,622	201,575	209,638	218,024	226,745	235,814
Total	12,318,112	17,433,399	18,740,997	19,069,976	19,599,109	20,181,260	20,780,150	21,390,515	22,012,798	21,647,462	21,294,986	20,955,871	21,630,632
Operating Expenditures:													
City Clerk - Mailing/Copy Center	1,498,474	1,702,870	1,401,682	1,445,483	1,488,847	1,533,513	1,579,518	1,626,904	1,675,711	1,725,982	1,777,762	1,831,095	1,886,028
Finance Support	103,480	247,243	168,416	188,377	194,028	199,849	205,845	212,020	218,381	224,932	231,680	238,630	245,789
Human Resources	-	-	165,383	184,449	184,449	184,449	184,449	184,449	184,449	184,449	184,449	184,449	184,449
Information Tech Operations	13,538,888	17,310,099	17,330,866	17,290,000	17,808,700	18,342,961	18,893,250	19,460,047	20,043,849	20,645,164	21,264,519	21,902,455	22,559,528
Total	15,140,842	19,260,212	19,066,347	19,108,309	19,676,024	20,260,772	20,863,061	21,483,420	22,122,389	22,780,528	23,458,410	24,156,629	24,875,794
Net Operating Gain/(Loss)	(2,822,730)	(1,826,812)	(325,450)	(38,333)	(77,915)	(79,512)	(82,912)	(92,906)	(109,592)	(1,133,066)	(2,163,424)	(3,200,758)	(3,245,162)
Non-Operating Revenues/(Expenditures):													
Tsf from General Fund*	5,909,000	3,300,000	4,200,000	5,100,000	6,000,000	6,900,000	7,800,000	8,700,000	9,600,000	10,500,000	11,400,000	12,300,000	13,200,000
Internal Working Capital Change	(5,500)	(6,306)	(7,169)	(7,384)	(7,606)	(7,834)	(8,069)	(8,311)	(8,560)	(8,817)	(9,081)	(9,354)	(9,635)
Tsf to Internal Service Fund	(525,000)	(525,000)	(420,035)	(3,854,950)	(5,843,450)	(7,948,450)	(7,738,450)	(1,433,700)	(1,433,950)	(7,688,950)	(7,751,000)	(7,789,250)	(7,913,250)
Debt Service - Transfer	(6,322,770)	(3,515,850)	(3,820,160)	(3,954,950)	(5,843,450)	(7,948,450)	(7,738,450)	(1,433,700)	(1,433,950)	(7,688,950)	(7,751,000)	(7,789,250)	(7,913,250)
Total	(944,270)	(747,156)	(47,364)	1,237,666	148,944	(1,056,284)	53,481	7,257,989	8,157,490	2,802,233	3,639,919	4,501,396	5,277,115
Net Change in Balance	(3,767,000)	(2,573,969)	(372,814)	1,199,333	71,029	(1,135,795)	(29,430)	7,165,084	8,047,898	1,669,167	1,476,495	1,300,638	2,031,953
Adjustments for Retained Earnings													
Non Cash transactions	(344,557)	(559,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)
Purchases	624,000	840,000	205,000	205,000	205,000	205,000	205,000	205,000	205,000	205,000	205,000	205,000	205,000
Total Adjustments	279,443	281,000	(345,000)	(345,000)	(345,000)	(345,000)	(345,000)	(345,000)	(345,000)	(345,000)	(345,000)	(345,000)	(345,000)
Retained Earnings													
Beginning Balance	(9,627,222)	(13,114,779)	(15,407,748)	(16,362,137)	(15,507,805)	(15,781,776)	(17,262,571)	(17,637,001)	(10,816,918)	(3,114,020)	(1,789,853)	(658,358)	297,280
Change in Capitalization Policy	-	-	(236,575)	-	-	-	-	-	-	-	-	-	-
Ending Balance	(13,114,779)	(15,407,748)	(16,362,137)	(15,507,805)	(15,781,776)	(17,262,571)	(17,637,001)	(10,816,918)	(3,114,020)	(1,789,853)	(658,358)	297,280	1,984,234
Beginning Cash	(8,970,000)	(12,737,000)	(15,999,000)	(16,371,814)	(15,172,481)	(15,101,452)	(16,237,248)	(16,266,678)	(9,101,595)	(1,053,696)	615,471	2,091,966	3,392,604
Change in Cash	(3,767,000)	(3,262,000)	(372,814)	1,199,333	71,029	(1,135,795)	(29,430)	7,165,084	8,047,898	1,669,167	1,476,495	1,300,638	2,031,953
Ending Cash ***	(12,737,000)	(15,999,000)	(16,371,814)	(15,172,481)	(15,101,452)	(16,237,248)	(16,266,678)	(9,101,595)	(1,053,696)	615,471	2,091,966	3,392,604	5,424,557
Summary Items:													
Total transfers from General Fund	10,216,000	14,378,697	15,606,467	16,808,000	18,008,000	19,208,000	20,408,000	21,608,000	22,808,000	23,008,000	23,208,000	23,408,000	24,608,000
Annual Increase in General Fund Revenue**		4,162,697	1,227,770	1,201,533	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	200,000	200,000	200,000	1,200,000
Total transfers from Other Funds	5,117,046	3,059,327	3,319,874	3,212,006	3,328,806	3,457,078	3,595,362	3,739,176	3,888,743	4,044,293	4,206,065	4,374,307	4,549,279
Annual Percent Change***		-40.2%	8.5%	-3.2%	3.6%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
IT Operating Budget Annual Percent Change		27.9%	0.1%	-0.2%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
IT Operating Budget Annual Dollar Change		3,771,211	20,767	(40,866)	518,700	534,261	550,289	566,797	583,801	601,315	619,355	637,936	657,074

Note:
 * In 2000 and 2001 net change in balance corresponds to the net loss reported in our CAFR.
 ** The \$1,400,000 increase in General Fund includes \$1,000,000 in new revenue plus \$400,000 due to the MPD/ITS merger. There is a corresponding \$400,000 reduction in the MPD.
 *** The reduction in revenue from other funds from 2000 to 2001 is due to the elimination of the following: 1) one-time transfer for Public Works workstations (purchased in 1999 and 2000) and 2) one-time transfer for cost of Engineering 2000 capital project.
 **** Ending cash does not reflect a \$12,800,000 advance from the Convention Center received in 2000. Currently, the entire \$12,800,000 is listed on our balance sheet as an Advance from other funds.
 ***** Debt service according to new schedules provided July 2002