Intergovernmental Services Fund
Long-Term Financial Plan
Update 2008

Finance Department

March 11, 2008

City of Minneapolis
Intergovernmental Services Fund
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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 from 1997 onward. The originating factors began in the mid-1990s when departments had need for an expensive technological upgrade. The upgrade brought with it some increased efficiency, but not enough to increase revenues relative to the increased expenditures. Departments were not paying the full amount for these upgrades and there was resistance to increasing property taxes to properly fund it.

In 2001, the rating agency Moody's downgraded the City's debt from AAA to Aa1 due to internal service fund deficits, including that of the Intergovernmental Services Fund. In order to curb these deficits that have continued throughout the past decade, BIS and Finance implemented a cost allocation model which increases the charges to departments for investments in upgrades or new technologies.

PROGRESS ON THE LONG-TERM FINANCIAL PLAN:

At the end of 2007[1], the Intergovernmental Services Fund had a balance of negative $14.9 million in net assets and a cash balance of negative $1.9 million. Overall, the fund has performed better than the original deficit reduction plan predicted, achieving a positive cash balance in 2005, four years earlier than originally projected.

During 2000, the BIS and Finance Departments prepared and submitted to City Council a financial workout plan for the Intergovernmental Services Fund. The plan made nine recommendations, all aimed at improving the financial condition of the fund, measured by a positive annual operating and cash balance position. In order to illustrate how the fund has performed since the inception of the workout plan in 2000, the original intent of the recommendation and its current status is described.

Note: Change in Accounting Principle
In accordance with GASB 34, implemented in 2002, fund equity was replaced with net assets. In general, this was a terminology change. However, in the ITS fund, the change resulted in the reflection of long-term liabilities and debt previous reflected elsewhere in the City's financial statements, resulting in an overall decline in the financial position of the fund

The following table outlines the change to each of these accounts. To clearly illustrate the amount of the change between these two different classifications, actual amounts from 2001 are represented in the old format (fund equity) and the new format (net assets).

[1] The 2007 year-end figures are based on preliminary CAFR numbers.

in thousands	1997	1998	1999	2000	2001 (old format)	2001 (new format)	2002	2003	2004	2005	2006
Total fund equity	(249)	(3,119)	(8,723)	(12,211)	(14,504)	-	-	-	-	-	-
Retained earnings - December 31	(1,153)	(4,023)	(9,627)	(13,115)	(15,408)	-	-	-	-	-	-
Total net assets	-	-	-	-	-	(36,252)	(40,850)	(39,794)	(37,487)	(34,256)	(23,764)

This change to measuring net assets accounts for an additional $21 million shortfall not considered by the fund's retained earnings in the year 2001.

Original Recommendations

1. **Refund Existing Outstanding Variable Rate Debt.** ***(completed)***
   In 2000, it was recommended that the City extend the life of existing variable rate debt from an average 5 to 7 year life to a 12 year life. While it was noted that traditionally this is not financially desirable, the fund's financial situation made the recommendation financially acceptable. 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.

   Below is a summary of the fund's outstanding debt as of October 2007. The table specifies between the bonds issued prior to the adoption of the workout plan and issuances afterwards. Bonds issued 10/20/05 are considered "Pre-Workout Plan" because these bonds were used to purchase the telephone system upgrade and therefore the bonds were supported by direct charges BIS billed to departments rather than being supported by the bond redemption levy. Future debt issuances reflected in this fund under the long-term financial plan will be net debt bonds.

Issued Bonds Outstanding	Interest Rates	Issue Date	Final Maturity Date	Total Principal	Total Interest
General Obligation Bonds **(Pre-Workout Plan)**	4.75%	12/13/00	12/01/12	22,820,000	3,759,150
	4.00% to 5.00%	08/29/01	12/01/12	5,000,000	997,250
	3.50% to 4.00%	10/20/05	12/01/12	3,190,000	371,313
Supported By Bond Redemption Levy **(Post-Workout Plan)**	3.00% to 4.00%	06/30/05	12/01/09	1,000,000	60,000
	Variable	06/01/06	12/01/11	1,200,000	150,000
	4.00%	07/12/07	12/01/12	1,450,000	222,500
Total Information & Technology Services Fund - General Obligation Bonds				**33,210,000**	**5,337,713**

   The debt service from the original ITS workout plan will be paid off by the year 2013. The amount of debt was essentially back-loaded, making the debt service commitments up until 2013 much larger than the anticipated debt service in future years. The reason that this back-loading occurred is tied to the fact that the City had insufficient technology expenditures in the early 1990s, which resulted in a great need for an upgrade. The cost of the purchases of capital assets is now being fully realized with high debt service payments in the early years of this updated long-term financial plan (2008-2013). The significant increases in the bottom line balance of the ITS fund, funded through transfers from the General Fund, are necessary to be able to pay off historical debt.

2. **Identify Level of Funding Available for Capital Projects.** ***(completed)***
   In the Council Adopted 2008-2012 Capital Program, BIS projects total $11.4 million over the five-year period, of which $6.6 million is property-tax supported.

The following is a table outlining the trend in property tax-supported versus non- property tax-supported capital projects in the fund:

	based on Council Adopted Budget for each year						*based on 2008 Council Adopted Budget*				
$ in thousands	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Property tax-supported	-	1,000	-	2,000	1,525	1,450	2,075	1,750	1,150	650	950
Non-property tax-supported	-	-	-	-	1,675	3,010	4,073	-	-	800	-
Total	-	1,000	-	2,000	3,200	4,460	6,148	1,750	1,150	1,450	950

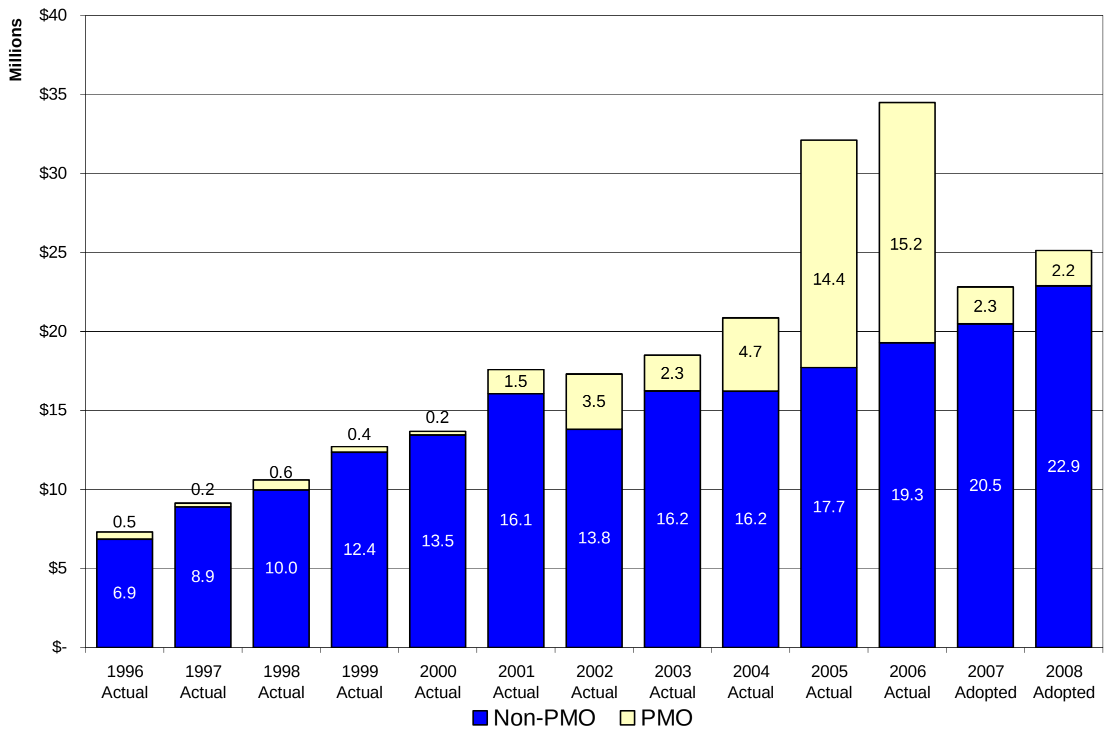
In the original plan, as shown above, the net debt program was committed to finishing "in flight" capital projects totaling $12.2 million; however, demands for technological infrastructure outpaced this funding level.

Information Technology Systems Capital						
From Capital Improvements Fund (4100)						
1996 Actual	**1997 Actual**	**1998 Actual**	**1999 Actual**	**2000 Actual**	**2001 Actual**	**2002 Actual**
3,526,942	2,170,426	8,385,592	1,705,269	6,873,817	3,127,840	2,306,954

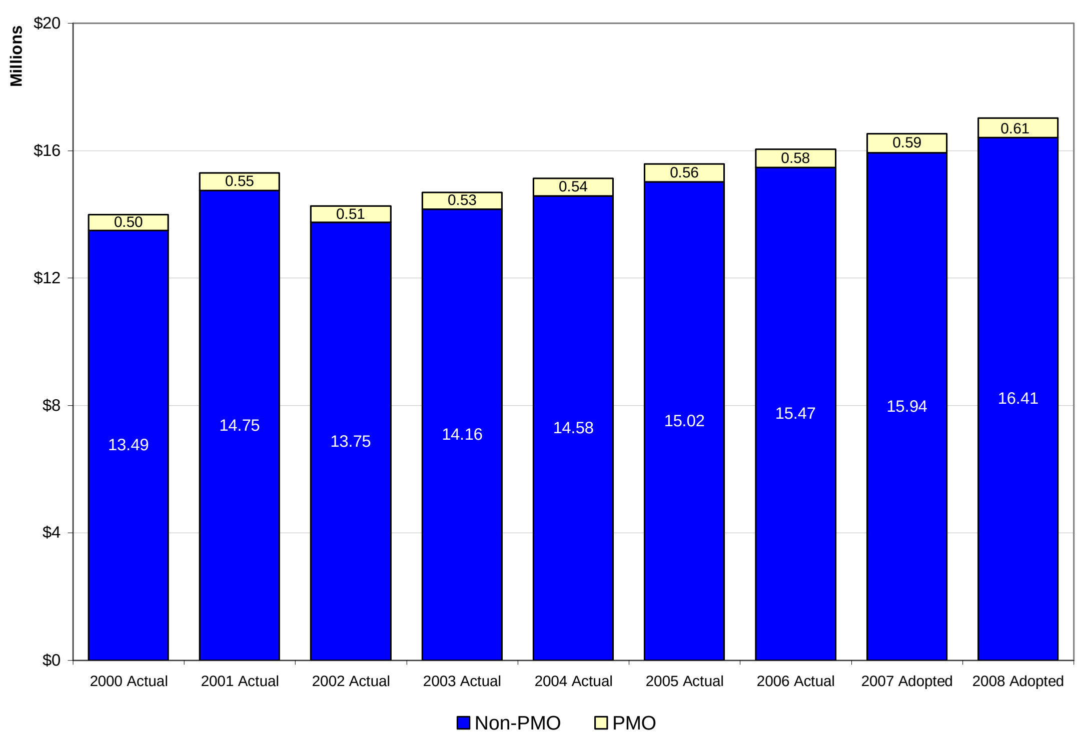
From Intergovernmental Serivces Fund (6400)					
2003 Actual	**2004 Actual**	**2005 Actual**	**2006 Actual**	**2007 Adopted**	**2008 Adopted**
1,191,123	3,168,170	10,224,776	4,541,727	3,210,000	6,147,786

The decision to fund technological infrastructure improvements is difficult. Often departments face challenges finding resources that would allow the purchase of such infrastructure, infrastructure which in turn could result in savings through increased efficiency. However, these savings do not always materialize. The previous practice was for all departments to participate in pooling resources to be used for capital projects, which alleviated the need for departments to find needed resources within their own budgets. This system quickly led to deficits since the need for upgrades has outpaced the amount of available resources.

3. **Reduce Information Technology Operating Expenditures.** ***(partially complete)*** When the original workout plan was adopted, the percentage increase of the total information technology operating expenditures for 2003 onward was 3 percent annually. The actual expenditures far exceeded these expectations. This type of expenditure is broken down into PMO and non-PMO expenses in the following graph. Many of the PMO, or Program Management Office, expenses are the portion departments spend on services and providers external to BIS, but use BIS to facilitate the selection of those services and relationships with providers.



PMO expenses are becoming a growing piece of BIS expense. Based on the projected figures in the original workout plan, the following chart shows how PMO was expected to increase from 2000 to 2008:



Information technology operating expenditures were $18.5 million higher for 2006 than projected in the original workout plan. According to the original plan, PMO expenses were estimated to be $576,000 compared to the actual PMO expenditure of approximately $15.2 million. It needs to be noted that if PMO expenses grow at a greater rate than 3% annually, revenues, in the form of department funding commitments, will have to increase to cover the increased expense.

4. **Commit $1.2 million in additional annual General Fund resources. *(completed)***
Since the original workout plan was adopted in 2000, annual adopted budgets have included the $1.2 million increase. Increases in support from the General Fund are scheduled to end in 2009, and will remain level at just under $11 million each year thereafter. The amount of total transfers has declined due to the introduction of the cost allocation model when charges were moved from the central budget to departmental budgets.

The following is a chart outlining the increases in transfers from the General Fund, as well as the cumulative total, received by the Intergovernmental Services Fund during the period from 2000 to 2009:

(in millions)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Increase	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	0.4
Cumulative	1.2	2.4	3.6	4.8	6.0	7.2	8.4	9.6	10.8	11.2

5. **All City Funds, Except the General Fund, Must Provide Pay-As-You-Go Funding for Information Technology Services. *(completed)***
Pay-as-you-go refers to using existing cash and available fund balances to pay project expenses in lieu of borrowing. 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, and $250,000 from Human Resources for an HRIS upgrade.

6. **Adjust the Rates Paid by User Departments/Funds on an Annual Basis. *(completed)***
The original and updated workout plan assumes and plans for a 2-3% budgetary increase annually. Below is a table illustrating the amounts of revenue BIS has obtained since the inception of the cost allocation model[2]:

2005 Actual	**2006 Actual**	**2007 Adopted**	**2008 Adopted**
16,512,182	14,404,725	14,364,327	18,052,191

7. **Eliminate Internal Working Capital Charge. *(completed)***
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. *(completed)***
During 2000, the Convention Center and Convention Facilities Reserve Fund loaned $12.8 million to the Intergovernmental Services Fund. In 2007, the fund repaid $3.5 million of the Convention Center Fund inter-fund loan. An ongoing schedule for repayment of this loan in future years was not included in the original plan.

[2] The total figures include object codes 5015, 5016, 5017 and the total customer-specific amounts of object code 5014. A more specific breakout is shown under bullet 9.

9. **Develop User Rates for Information Technology Services.** ***(Completed; revisions needed)***
During 2002, Finance developed a cost allocation model for the ITS fund using Activity Based Costing. The model allocates costs to customers on a "level of effort" basis. The model has been used to allocate costs to departments for GASB34 compliant financial statements beginning in 2002 and was incorporated in the 2004 annual City operating budget.

Below is a table outlining the charges to departments from BIS. The years selected here are the ones since the inception of the cost allocation model, and show how the charges have progressed since the beginning of charges to departments.

	2005 Actual	**2006 Actual**	**2007 Adopted**	**2008 Adopted**
BIS Application Support[1]				5,000,000
BIS Operating charges	13,837,623	12,124,892	12,592,734	12,004,209
BIS Data Connectivity charges	1,029,659	640,563	662,501	234,169
BIS Telephone Connectivity charges	1,644,900	1,639,270	1,109,092	1,554,813
Total	16,512,182	14,404,725	14,364,327	18,052,191
1. Total includes only customer-specific and uses rounded figures.				

Goals and Recommendations

The recommendations set forth in the 2003 update of the workout plan aimed to begin the work of reducing the deficit facing the Intergovernmental Services Fund.

The updated plan recommends the following goals:

1. Achieve a positive cash balance and a positive net assets balance (projected to be achieved in 2009)
2. Reduce the General Fund subsidy
   a. Recommendation: Scale back subsidy starting in 2013 by $2 million per year with a complete elimination in 2018.
   b. Note: With the General Fund subsidy completely eliminated, the declining cash position beginning in 2017 will require increased charges per department in the cost allocation model to recoup costs.
3. Repay the Convention Center loan
   a. Recommendation: Transfer in $1 million from the Self Insurance subsidy reduction beginning in 2011.
   b. Begin repayment of the remaining $9.25 million of the Convention Center loan with $1.5 million annual payments (the Fund will contribute $500,000 in addition to the $1 million transfer in) with a final payment of $1.75 million in 2017.
4. Avoid issuing debt for expenditures

COMPARISON TO ORIGINAL WORKOUT PLAN:

The updated long-term financial plan allows for historical comparison, and with annual updates planned, it also allows the assumptions which serve as the plan's anchor to adapt to changing situations.

Given the complexity of the types of activities that are recorded in the Intergovernmental Services Fund, the presentation of the long-term financial plan in this update allows users to more clearly identify major categories of revenues and expenses by using a combination of the format of the quarterly financial statements and the format of the original workout plan. The resulting spreadsheet shows revenues and expenditures by department as well as transfers and debt service.

The updated long-term financial plan is based on 2008 adopted budget figures, and will be reconciled annually to the CAFR. The goals for the plan are incorporated into the plan. It has been assumed that revenues and expenditures will increase by 3% per year, which is in line with assumptions in the 2008 adopted budget. Debt service is based on the debt service schedule. Expenditures, namely those for PMO, need to be monitored since certain types of expenses cannot be accurately predicted and because any increase above 3 percent per year in one expense area will need to be offset by a corresponding increase to revenues.

RISKS

The assumptions underlying these estimates are based on the most recent information available. However, there are certain risks that cannot be predicted that may impact the financial results of the fund.

The Intergovernmental Services Fund faces certain risks, primarily related to increasing technological costs and the challenges of funding the associated expenditures and the replacement of these expenditures. Other long-term risks are broader, such as inflation and growing labor costs. The impacts of these risks may be potentially felt by departments through increased charges via the cost allocation model.

FUTURE ACTION ITEMS:

In future years, the following actions will need to be taken:

1. Revision to cost allocation model
2. Customer input/control
3. Ongoing operations

ANNUAL REPORTING TO THE CITY COUNCIL ON PROGRESS:

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

Goals for the Long-Term Financial Plans

Self Insurance Fund and Intergovernmental Services Fund

Definition of Financial Health:

- Self Insurance Fund
  SIF would be considered in good financial health if it had a cash balance that would be approximately equal to its unpaid claims liability, and positive net assets no greater than $5 million.
- Intergovernmental Services Fund
  The ITS Fund would be considered in good financial health if it had revenues sufficient to cover the fund's operating and capital (whether pay-as-you-go or debt service) commitments for the year and an overall cash balance consistent with previously adopted financial policies as well as a positive net asset balance.

Goals & Recommendations:

<u>To reduce and ultimately eliminate the need for General Fund subsidies</u>

Both funds have growing bottom-line balances, thereby creating an opportunity for the reduction of subsidies. However, a reduction in General Fund subsidies may need to be offset either by a phased-in increase in user fees to reflect the ongoing costs of the funds or another revenue source. It is also important to note that the elimination of subsidies could require a reinstatement of some level of subsidies at a future date depending on ultimate fund performance.

Self Insurance Fund: SIF could reduce its General Fund subsidy as early as budget year 2009. Even though the fund will still have negative net assets of approximately $13.3 million, its net change in balance is projected to be approximately $7 million for both 2009 and 2010 due primarily to increases to its General Fund transfer. According to the predicted revenues of this fund, it appears that the subsidy could be completely eliminated without the introduction of new revenues.

RECOMMENDATION:

Amend the ten-year projection to begin phasing out the subsidy in 2011 (reduce the subsidy by $1 million each year; completely eliminate in 2017). The phase out would provide for sufficient reserves in case of significant unexpected liabilities.

Intergovernmental Services Fund: The ITS Fund would require additional revenues to completely eliminate a General Fund subsidy. The General Fund subsidy is needed due to the large debt service payments the fund has until 2013 when the debt requiring such payments retires. After that point in time, the debt service will likely be between $1 million and $2 million per year versus the approximately $10 million that will be paid in debt service (including both principal and interest) in 2012.

It is not feasible to reduce the subsidy without the necessary revenue increase (via increased charges to departments through the cost allocation model) to offset such a reduction.

RECOMMENDATION:
Begin phasing out the General Fund subsidy starting in 2013 by $2 million per year with complete elimination in 2018.

The elimination of the subsidy will require an increase in charges to departments through the cost allocation model.

Repayment of loan from the Convention Center (BIS Fund)
At this time, the ITS Fund still owes the Convention Center $9.25 million of an advance of $12.8 million it received in 2000. A payment of $3.55 million was paid toward the outstanding balance in 2007 with no future payments scheduled in the original financial plan.

RECOMMENDATION:
Starting in 2011, the $1 million that is reduced from the Self Insurance Fund subsidy is redirected to the Intergovernmental Services Fund for the specific purpose of repayment of the advance from the Convention Center. An additional $500,000 from the ITS Fund should be paid toward the loan, making the total annual payment $1.5 million, with a final payment of $1.75 million in 2016. In 2017, the transfer in from the reduction in the Self Insurance Fund subsidy can cease and instead be retained in the General Fund.

Avoid taking on debt to cover major expenditures
In the past, debt was issued to finance the payout of major settlements in the Self Insurance Fund and to fund large investments in technology in the Intergovernmental Services Fund, a clearly undesirable practice that can be avoided provided there is a sufficient amount of revenues in each fund to cover its ongoing operating costs.

Intergovernmental Services Fund
Long-term Financial Plan - Cash

(in 000s)	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual*	2008 Adopted	2009 Projection	2010 Projection	2011 Projection	2012 Projection	2013 Projection	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
Revenues																
City Clerk	1,111	1,284	845	1,336	1,216	1,011	1,041	1,073	1,105	1,138	1,172	1,207	1,243	1,281	1,319	1,359
Business Information Services																
BIS - Non-Billable PMO	1,222	1,319	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
BIS - PMO	-	-	2,741	8,505	8,797	1,430	1,473	1,517	1,563	1,609	1,658	1,707	1,759	1,811	1,866	1,922
BIS - Telephony	985	1,668	3,019	5,231	5,775	2,950	3,039	3,130	3,224	3,320	3,420	3,522	3,628	3,737	3,849	3,965
BIS - Other	780	949	14,461	13,926	14,113	19,184	19,805	20,444	21,102	21,780	22,478	23,198	23,939	24,702	25,488	26,298
Business Information Services - Total	*2,987*	*3,936*	*21,721*	*29,162*	*30,185*	*25,064*	*25,816*	*26,590*	*27,388*	*28,210*	*29,056*	*29,928*	*30,826*	*31,750*	*32,703*	*33,684*
Interfund Transfers In	18,748	23,477	10,781	10,570	15,036	11,771	10,873	10,873	10,873	10,873	8,873	6,873	4,873	2,873	873	-
Transfer from Self Insurance Fund	-	-	-	-	-	-	-	-	1,000	1,000	1,000	1,000	1,000	1,000	-	-
Information Technology Systems Capital	757	1,179	2,250	1,522	4,489	3,650	1,750	1,150	1,450	950	1,500	1,500	1,500	1,500	1,500	1,500
Total Revenues	**23,603**	**29,876**	**35,597**	**42,590**	**50,926**	**41,496**	**39,480**	**39,686**	**41,816**	**42,171**	**41,601**	**40,508**	**39,442**	**38,404**	**36,395**	**36,543**
Expenditures																
City Clerk	947	1,097	840	1,246	1,347	1,167	1,202	1,238	1,275	1,313	1,353	1,393	1,435	1,478	1,523	1,568
Human Resources	128	176	166	195	198	247	254	262	270	278	286	295	304	313	322	332
Finance Department	188	191	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business Information Services - Non-Billable PMO	1,222	1,319	1,500	1,500	609	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Business Information Services - PMO	510	3,126	12,885	13,706	10,824	727	749	771	794	818	843	868	894	921	949	977
Business Information Services - Telephony	1,429	1,417	1,835	1,629	1,641	2,101	2,164	2,229	2,296	2,365	2,436	2,509	2,584	2,661	2,741	2,824
Business Information Services - Other	15,343	15,008	15,890	17,665	19,559	20,790	21,459	22,147	22,857	23,588	24,340	25,115	25,914	26,736	27,583	28,456
Business Information Services - Total	*18,504*	*20,870*	*32,110*	*34,500*	*32,633*	*25,118*	*25,872*	*26,648*	*27,447*	*28,271*	*29,119*	*29,992*	*30,892*	*31,819*	*32,773*	*33,756*
Debt Service	3,965	7,977	8,781	10,363	4,238	3,370	10,044	10,001	10,290	10,212	1,483	1,381	1,346	1,434	1,618	1,729
Interfund Transfers Out	7	184	219	57	177	192	210	210	210	210	210	210	210	210	210	210
Transfer to Convention Center (repayment of loan)	-	-	-	-	-	-	-	-	1,500	1,500	1,500	1,500	1,500	1,750	-	-
Information Technology Systems Capital	1,191	3,168	10,225	4,542	5,981	6,148	1,750	1,150	1,450	950	1,500	1,500	1,500	1,500	1,500	1,500
Total Expenditures	**24,930**	**33,663**	**52,341**	**50,903**	**44,574**	**36,242**	**39,332**	**39,509**	**42,442**	**42,734**	**35,451**	**36,272**	**37,187**	**38,504**	**37,946**	**39,096**
Net Change in Cash	(1,327)	(3,787)	(16,744)	(8,313)	6,352	5,254	148	177	(627)	(564)	6,150	4,236	2,255	(99)	(1,551)	(2,553)
Cash - Beginning of Year	(2,257)	(3,248)	(2,328)	339	(1,661)	(1,886)	(1,632)	16	1,693	2,566	3,503	9,653	13,889	16,144	16,045	14,494
*Cash flows related to funding and financing of projects***	336	4,707	19,411	6,313	(6,577)	(5,000)	1,500	1,500	1,500	1,500						
Cash - End of Year	**(3,248)**	**(2,328)**	**339**	**(1,661)**	**(1,886)**	**(1,632)**	**16**	**1,693**	**2,566**	**3,503**	**9,653**	**13,889**	**16,144**	**16,045**	**14,494**	**11,941**

Significant Items

Depreciation Expense	(8,932)	(7,314)	(6,510)	(3,963)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)

Reconciliation to CAFR	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Change in Cash	(1,327)	(3,787)	(16,744)	(8,313)	6,352	5,254	148	177	(627)	(564)	6,150	4,236	2,255	(99)	(1,551)	(2,553)
Cash flows related to funding and financing of projects**	336	4,707	19,411	6,313	(6,577)	(5,000)	1,500	1,500	1,500	1,500						
Change (CAFR) from prior year	(991)	920	2,667	(2,000)												
Cash balance - end of year (CAFR)***	(3,248)	(2,328)	339	(1,661)												

*** The 2007 Actual figures are preliminary CAFR numbers.**
**** For years 2008 through 2012, the numbers reflect the cash flows associated with the Finance Department's financial system implementation and repayment of the expeditures related to the implementation.**
***** The end of year cash balance is equal to the sum of the actual CAFR cash balance and CAFR Due to other funds.**

Intergovernmental Services Fund
Long-term Financial Plan - Net Assets

(in 000s)	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual*	2008 Adopted	2009 Projection	2010 Projection	2011 Projection	2012 Projection	2013 Projection	2014 Projection	2015 Projection	2016 Projection	2017 Projection	2018 Projection
Operating Revenues																
City Clerk	1,111	1,284	845	1,336	1,216	1,011	1,041	1,073	1,105	1,138	1,172	1,207	1,243	1,281	1,319	1,359
Business Information Services																
BIS - Non-Billable PMO	1,222	1,319	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
BIS - PMO	-	-	2,741	8,505	8,797	1,430	1,473	1,517	1,563	1,609	1,658	1,707	1,759	1,811	1,866	1,922
BIS - Telephony	985	1,668	3,019	5,231	5,775	2,950	3,039	3,130	3,224	3,320	3,420	3,522	3,628	3,737	3,849	3,965
BIS - Other	780	949	14,461	13,926	14,113	19,184	19,805	20,444	21,102	21,780	22,478	23,198	23,939	24,702	25,488	26,298
Business Information Services - Total	*2,987*	*3,936*	*21,721*	*29,162*	*30,185*	*25,064*	*25,816*	*26,590*	*27,388*	*28,210*	*29,056*	*29,928*	*30,826*	*31,750*	*32,703*	*33,684*
Information Technology Systems Capital	757	1,179	2,250	1,522	4,489	3,650	1,750	1,150	1,450	950	1,500	1,500	1,500	1,500	1,500	1,500
Total Operating Revenues	**4,855**	**6,399**	**24,816**	**32,020**	**35,890**	**29,725**	**28,607**	**28,813**	**29,943**	**30,298**	**31,728**	**32,635**	**33,569**	**34,531**	**35,522**	**36,543**
Operating Expenditures																
City Clerk	947	1,097	840	1,246	1,347	1,167	1,202	1,238	1,275	1,313	1,353	1,393	1,435	1,478	1,523	1,568
Human Resources	128	176	166	195	198	247	254	262	270	278	286	295	304	313	322	332
Finance Department	188	191	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business Information Services - Non-Billable PMO	1,222	1,319	1,500	1,500	609	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Business Information Services - PMO	510	3,126	12,885	13,706	10,824	727	749	771	794	818	843	868	894	921	949	977
Business Information Services - Telephony	1,429	1,417	1,835	1,629	1,641	2,101	2,164	2,229	2,296	2,365	2,436	2,509	2,584	2,661	2,741	2,824
Business Information Services - Other	15,343	15,008	15,890	17,665	19,559	20,790	21,459	22,147	22,857	23,588	24,340	25,115	25,914	26,736	27,583	28,456
Business Information Services - Total	*18,504*	*20,870*	*32,110*	*34,500*	*32,633*	*25,118*	*25,872*	*26,648*	*27,447*	*28,271*	*29,119*	*29,992*	*30,892*	*31,819*	*32,773*	*33,756*
Information Technology Systems Capital	1,191	3,168	10,225	4,542	5,981	6,148	1,750	1,150	1,450	950	1,500	1,500	1,500	1,500	1,500	1,500
Total Operating Expenditures	**20,958**	**25,502**	**43,341**	**40,483**	**40,159**	**32,680**	**29,078**	**29,298**	**30,442**	**30,812**	**32,258**	**33,181**	**34,131**	**35,110**	**36,118**	**37,157**
Operating Margin	**(16,103)**	**(19,103)**	**(18,525)**	**(8,463)**	**(4,269)**	**(2,955)**	**(471)**	**(485)**	**(499)**	**(514)**	**(530)**	**(546)**	**(562)**	**(579)**	**(596)**	**(614)**
Non-Operating Revenues/(Expenditures)																
Transfers In	18,748	23,477	10,781	10,570	15,036	11,771	10,873	10,873	10,873	10,873	8,873	6,873	4,873	2,873	873	-
Transfer from Self Insurance Fund (reduced GF subsidy)	-	-	-	-	-	-	-	-	1,000	1,000	1,000	1,000	1,000	1,000	-	-
Transfers Out	(7)	(184)	(219)	(57)	(177)	(192)	(210)	(210)	(210)	(210)	(210)	(210)	(210)	(210)	(210)	(210)
Transfer to Convention Center (repayment of loan)	-	-	-	-	-	-	-	-	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,750)	-	-
Interest on Bonded Debt	(2,235)	(2,237)	(2,111)	(2,038)	(1,695)	(1,625)	(1,552)	(1,274)	(948)	(550)	(166)	(177)	(192)	(210)	(224)	(227)
Total Non-Operating Revenues (Expenditures)	16,506	21,056	8,451	8,475	13,164	9,954	9,111	9,389	9,215	9,613	7,997	5,986	3,971	1,703	439	(437)
Net Change in Balance	403	1,953	(10,074)	12	8,895	6,999	8,640	8,904	8,715	9,098	7,467	5,440	3,409	1,125	(157)	(1,051)
Net Assets - Beginning of Year	(32,984)	(39,794)	(37,487)	(34,256)	(23,765)	(14,870)	(7,871)	769	9,673	18,388	27,487	34,954	40,394	43,803	44,928	44,771
Net Change in Balance	403	1,953	(10,074)	12	8,895	6,999	8,640	8,904	8,715	9,098	7,467	5,440	3,409	1,125	(157)	(1,051)
Total Adjustments to CAFR	(7,213)	354	15,305	10,480												
Net Assets - End of Year	**(39,794)**	**(37,487)**	**(34,256)**	**(23,765)**	**(14,870)**	**(7,871)**	**769**	**9,673**	**18,388**	**27,487**	**34,954**	**40,394**	**43,803**	**44,928**	**44,771**	**43,720**

Significant Items	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Bonds payable	43,956	41,033	36,596	34,660	32,095	32,425	25,683	18,106	9,414	702	885	1,181	1,527	1,803	1,909	1,907
Advances from other funds (payable)	12,800	12,800	14,549	14,471	10,114	9,250	9,250	9,250	7,750	6,250	4,750	3,250	1,750	-	-	-
Due from other funds	11	88	2,513	1,332	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	3,250	2,328	-	1,662	-	-	-	-	-	-	-	-	-	-	-	-

Reconciliation to CAFR (Net Income)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Change in Balance - Workout Plan	403	1,953	(12,074)	12												
Other-Force Balanced	304	1	(124)	52												
Charges for Services and Sales	328	-	-	-												
Personal Services	10	139	62	(25)												
Contractual Services	3,811	6,826	21,959	14,336												
Materials, Supplies, Services, and other	(642)	1,298	170	1												
Rent	(15)	9	-	-												
Depreciation Expense	(8,932)	(7,314)	(6,510)	(3,963)												
Interest revenue	-	(1)	-	-												
Interest expense	20	109	47	79												
Gain (loss) on disposal of fixed assets	(2,021)	(150)	(299)	-												
Other revenues	489	-	-	-												
Transfer from other funds	(521)	(562)														
Transfer to other funds	(44)	(1)														
Change in net assets - CAFR	(6,810)	2,307	3,231	10,492												
Total Adjustments	(7,213)	354	15,305	10,480												

*** The 2007 Actual figures are preliminary CAFR numbers.**

September 21, 2000

The Honorable Mayor Sharon Sayles-Belton
350 South 5th Street
Minneapolis, MN 55415

The Honorable Joan Campbell
Chair, Ways and Means/Budget Committee
350 South 5th Street
Minneapolis, MN 55415

Re: Information Technology Services Organization Overview and the Financial Workout Plan for Intergovernmental Services Fund

Dear Mayor Sayles-Belton and Council Member Campbell:

Attached you will find a combined report that provides first an overview of the recently implemented organization structure for the Information Technology Services (ITS) Department, and second a financial workout plan for the Intergovernmental Service Fund, the Internal Service Fund in which the ITS Department is funded.

The financial workout plan has been prepared in response to Mayor and City Council direction to develop a financial strategy for resolving both the annual operating deficit and the accumulated cash deficits for the Intergovernmental Services Fund.

We look forward to presenting this important information to you.

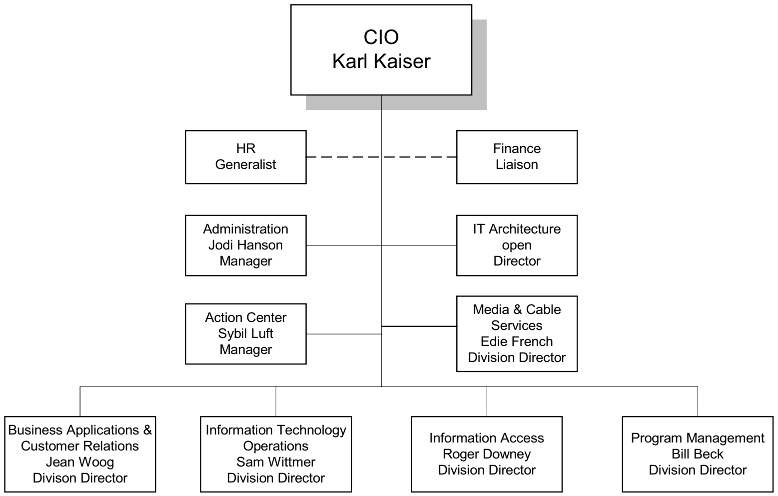
Sincerely, Approved for submission:

Karl Kaiser	John Moir	Kathleen O'Brien
Chief Information Officer	Finance Officer	City Coordinator

Attachment: 1

THE ITS ORGANIZATION

ITS Strategies for 2001 are to build stronger customer relations and to streamline the operation into a more effective Information Services provider to City departments. Further more, by reducing the number of contractors used to augment ITS staff we should see significant cost savings during the course of the 2001 budget year. To focus ITS on becoming a more fiscally responsible organization, and better position ITS as a centralized enterprise wide provider of information services in the City, required an organizational restructure. A key objective of the restructure is to enable ITS to function as an information services "business" within the City. Effective in August 2000 ITS was re-aligned as follows:



- By elevating the Action Center to report directly to the CIO and making it the first point of contact for all service requests, we expect significantly improved communications.
- The newly structured Business Applications & Customer Relations division will meet with all departments to initiate the process of defining Service Level Agreements (SLA,s), which will provide the foundation for ITS to function as a "business" within the City.

- By combining our two technology organizations, previously named Technology Services and Telecomm/Network, into Information Technology Operations, we should see much greater efficiencies in the support of the City's client/server hardware and software infrastructure.
- We have strengthened the Information Access division by combining all Intranet, Internet, Web and Voice activated activities involved in providing on-line access to City information.
- Adding a Program Management division will significantly improve the coordination, management and cost-control of all activities that are of a one-time, or project nature. Typically this includes all customer service requests outside of those that can be accommodated by ITS support divisions as "routine" requests for service and that are funded through the City's SISP funding process.
- Technologies related to information processing, telecommunications and audio/video production and broadcasting are merging at a rapid pace. With the transfer of Media & Cable Services from Communications to ITS we will be in a much better position to assure an enterprise wide approach towards technology decisions and initiatives.

Organizational Functions and Responsibilities by Department/Division

The HR and Finance functions represent a dotted line relationship to the respective City departments.

Administration

Provides administrative assistance to the CIO and has responsibility for the following functions:

- Coordination of ITS human resources
- Coordination of ITS finances, including operating & capital budgets and SISP expenditures. Primary interface to the Finance Department.
- Prepares preliminary and final budget requests and maintains records.
- Maintains and analyses the financial status of the department.
- Trains and supervises administrative support personnel.
- Directs and supervises contract and hardware/software license administration.
- Directs and supervises IT related purchasing and personnel payroll process.
- Coordinates and supervises administrative procedures and clerical support activities between all sections of the department.

IT Architecture

A staff director function with the responsibility to plan and develop, in collaboration with other ITS functions, an enterprise vision and blueprint for integrating IT infrastructure into the City to support ITS service delivery and information quality. Responsibilities include:

- Develops and maintains a Strategic Information Systems Architecture Plan that includes process, application, data and technology, which supports city wide Strategic Business Directions and defined Service Level Agreements (SLA's).
- Develops and maintains information architecture and standards.
- Acts as key liaison for ITS with IT suppliers and packaged vendors.
- Ensures future City IT architecture directions are not compromised by one vendor, or one business application.
- Monitors development projects to ensure technical and business operations inter-operability of custom developed and packaged software implementation.
- Acts as the IT organization "glue" to hear all sides of IT technical and organizational issues before IT decisions and standards are modified.
- Keeps current with information technology advances in the industry.

Action Center

Functions as the City's IT Help Desk and central point for all customer service requests. All customer requests for service, including calls for trouble resolution, will be logged and routed for disposition to the appropriate organization within ITS. Trouble resolution takes precedence over all other ITS activities. The Action Center will develop and implement a trouble resolution procedure as follows:

- If call taker can not resolve problem within a specified period of time the resolution will be escalated to the next skill level (level 2) within ITS.
- If skill level 2 is unable to resolve problem within a specified period of time the resolution will be further escalated to a skill level 3 within ITS and a status notification will be communicated by voice mail to all affected City departments and the CIO.
- Further need for escalation to a skill level 4 will be to respective IT vendors.
- Status notifications to affected departments and the CIO will continue in specified intervals until the problem is resolved.

All other customer service requests, including requests for routine services, such as moves, adds and changes, requests for application software modifications/enhancements, new applications and or hardware, will be electronically communicated to and recorded by the Action Center. The Action Center will route the request to the respective organization(s) within ITS and initiate an automatic response to the requesting organization indicating receipt of the request. Within 5 business days ITS will notify the requesting organization of a disposition for the request.

All of the above procedures and processes will become an integral part of Service Level Agreements between ITS and all City departments.

Business Applications & Customer Relations

A division that functions as the primary ITS interface to all City departments. Responsibilities include:

- **Customer Relations**
  - Primary interface to customers
  - Defines ITS "Services"
  - Establishes SLA,s with all City Departments
  - Monitors and reviews ITS service against SLA,s
  - Resolves SLA issues
  - Establishes routine schedule to meet with City Department management
  - Conducts periodic Customer Satisfaction Surveys

- **Business Applications Liaison**
  - Builds and maintains business know-how
  - Builds and maintains know-how in ITS standards, architecture, operations and support processes
  - Determines and defines business requirements

- **Business Applications Support**
  - Provides application maintenance and support
  - Maintains application support contracts
  - Interfaces with application vendors

Information Technology Operations

This newly formed division is the consolidation of the former Technology Services and Telecomm and Network organizations. The division's charter is to implement and maintain the City's information technology infrastructure through five major functions, Telecomm Services, Security Services, Systems & Infrastructure, Data Center Operations and Client Support. Responsibilities include:

- **Telecomm Services**
  - IVR/VRU administration
  - Cell phone/pager administration
  - IP telephony research
  - Voice – PBX, cabling, operators circuit management
  - Call center management
  - Special projects

- **Security Services**
  - Anti-virus administration
  - Security management
  - Security policies, standards and procedures

- **Systems & Infrastructure**
  - NT, Unix & Mail server administration
  - Database administration
  - Network planning, design and management
  - Remote access management
  - System & network policies, standards and procedures
  - Backup/recovery planning and execution
  - Storage management
- **Data Center Operations**
  - Data Center facilities planning
  - Server production capacity planning, batch processing, backup/recovery, disaster recovery
  - Hardware installation
  - Printing services
  - Mail administration
  - Telecom administration

- **Client Support**
  - Trouble ticket management
  - User account administration
  - NT Domain administration
  - E-mail account administration
  - Desktop image management
  - Desktop inventory management
  - Electronic software distribution
  - Desktop inventory management
  - Desktop anti-virus management
  - Special projects

Information Access

The focus of this division is on providing structure, guidelines, policies and technology for the ability to provide Web access to City information. The division manages Internet and Intranet content and site design, develops and implements Web applications, supports the data warehouse and City reporting system and provides oversight for the City's telephone operators. Specific responsibilities include:

- **Web Site Management**
  - Web information architecture
  - Web site tools
  - Web site design
  - Content management
  - Content publishing
  - Web usability
  - Web usage analysis

- **Web Development**
  - Business analysis
  - Data analysis
  - Design & development
  - Testing & deployment

- **Data Warehouse**
  - Data Warehouse support
  - City reporting systems support
  - Query development
  - User truing

- **City Telephone Operations**

Program Management

The ITS Program Management Division is responsible for the Assessment, Planning, and delivery of new IT solutions fully supported by institutionalized business practices. Responsibilities include:

- Translate City (RTSF) Program goals into strategic direction and business objectives.
- Develop executable project plans and budgets from the business objectives.
- Drive IT solutions with business process.
- Research and propose Make vs Buy decisions.
- Departmental/inter-agency/Enterprise IT solution decisions.
- Manage the development and deployment of IT solutions.
- Deliver IT solutions integrated into the Enterprise infrastructure.

- Combine appropriate enabling technology, existing IT application/infrastructure & COT's products in proposed IT solutions.

Media and Cable Services Division

This newly formed Division coordinates the regulatory concerns of developing telecommunications technologies and the production functions of video services, including:

- **Telecommunications Work Team**
  - Development of Comprehensive Telecommunications Ordinance
  - Development and implementation of Common Conduit Ordinance
  - Facilitate entry of Telecommunications providers
  - Business Development
  - Development of Institutional Network/Public Private Partnership

- **Cable Regulation**
  - Oversight of Current Cable Franchise
  - Coordination of Competitive Providers
  - Oversight of Public Access Provider (MTN)
  - Legislative Initiatives

- **Video Services**
  - Development of PICS project
  - Production of Informational Programs for City Departments
  - Artifacts, Inside Minneapolis, Mayors Round Table, A Public Health Journal, City Beat, PSA's, Etc.
  - Scheduling of Programs on City Cable Channel

- **Police Video Services**
  - Production of Training Videos
  - Video Support for Case related Investigations

- **Council Committee Production**
  - Video Taping and Cable cast of all City Council Committee Meetings

FINANCIAL WORKOUT PLAN

Background

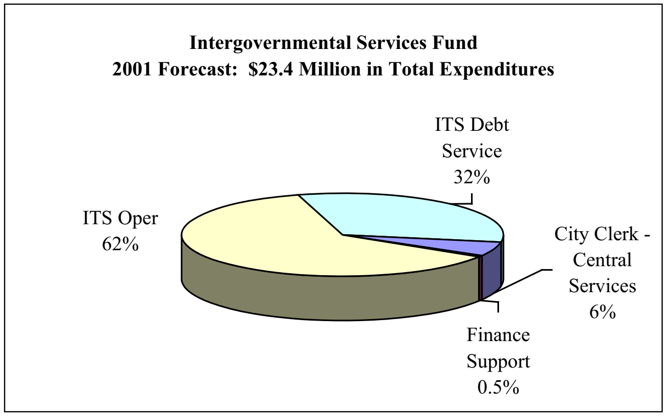
The City of Minneapolis is faced with financial challenge with respect to the Internal Service Funds of the City. The City remains financially sound because it deals with financial challenges in a deliberate and timely manner. The purpose of this report is to propose to the Mayor and City Council a recommended financial work-out plan for the Intergovernmental Services Fund. The Intergovernmental Services Fund is one of six Internal Service Funds that the City manages.

The Finance Department and Public Works Department have also been directed by the Mayor and City Council to prepare a financial work-out plan for the City's Equipment Services Fund. The Equipment Services Fund is another major Internal Service Fund that has been operating with an annual deficit and an accumulated cash deficit. This financial work-out plan for this fund has not been prepared yet. It is our goal to have this plan prepared for the Mayor and City Council by the end of October.

Financial Background for the Intergovernmental Services Fund

The Intergovernmental Services Fund is used to account for the City's central printing and mailing services and information technology services. Information technology services comprise almost 94% of the total expenditures within this fund as shown below.

Chart One



The Intergovernmental Services Fund for the City does not have sufficient revenue to cover expenditures, neither operating nor non-operating expenditures (i.e., debt service payments) as shown below.

Table One

	1997 Year Ending	1998 Year Ending	1999 Year Ending
Total Revenue	$11,397,000	$12,095,000	$14,366,000
Total Expenditures	$13,154,000	$14,964,000	$20,146,000
Net Loss	$(1,757,000)	$(2,869,000)	$(5,780,000)

The total expenditures provided in the above table and previous pie chart do not reflect investments in information technology infrastructure and system development, such as the City's human resources system (HRIS) and financial system (FISCOL). This is because these were capital investments and they are included in the City's Permanent Improvement Fund. However, principal and interest payments on the bonds that were issued to finance these investments are reflected in the expenditures listed above.

As a result of the annual operating deficits shown above, the Intergovernmental Services Fund has accumulated a cash deficit. Below is a summary of the changing cash position of the fund.

Table Two

	1997 Year Ending	1998 Year Ending	1999 Year Ending
Beg Cash Balance	$4,000,000	$(1,200,000)	$(3,400,000)
Change	$(5,200,000)	$(2,200,000)	$(5,570,000)
Ending Cash Balance	$(1,200,000)	$(3,400,000)	$(8,970,000)

Over the last several years, the City of Minneapolis has made tremendous investments in its information technology systems, including Y2K. These investments have provided us with the tools to better serve the public efficiently and effectively. Below is a summary by year of the investments that have been made.

Table Three

Information Technology System Projects (SISP) from 1994 Through Current Functionally (In Thousands)	
FISCOL	$4,616
HRIS	$7,708
Property Valuation/Regulation	$6,052
Public Safety	$3,777
Public Works (GIS/E2K)	$6,208
Utility Billing	$3,325
Compliance 2000	$5,526
Other City functions	$275
Subtotal	$37,487
ITS Infrastructure	
Information Access	$2,339
Customer Equipment	$6,856
Customer Service Functions	$1,344
Network	$3,228
Other	$365
Subtotal	$14,132
Total	$51,619

As stated in the 2000 Interim Financial Report presented to Ways & Means/Budget Committee on September 11, the City needs to resolve the under-funded condition in its Internal Service Funds. Internal Service Funds, like the Intergovernmental Services Funds that is being presented in this report, are intended to operate like businesses and sell goods and services to other City Funds and departments; they are suppose to be funded through the rates they charge for goods and services. For several years, the City has not set the rates high enough to adequately fund its internal services. Although there were external services reasons, such as infrastructure and public safety investments, this strategy has created operating shortfalls and a cumulative deficit cash position for the Internal Service Funds, including the Intergovernmental Services Fund.

The City must address this financial challenge by committing revenue and cutting costs through identified efficiency gains. Last year, the adopted 2000 budget included an additional $2.0 million in dedicated property tax revenues to address the Internal Service Funds' deficits. Of this amount, $1.0 million was dedicated for the Intergovernmental Services Fund. This was an important first step. However, more revenue will be required in addition to cost savings measures. The City must address both the annual operating deficits and the accumulated cash deficits within these funds.

Proposed Financial Work-Out Plan for Intergovernmental Services Fund

Attachment A of this report includes a financial forecast plan for the Intergovernmental Services Fund. This schedule provides forecasted revenue and expenditures and the corresponding impact of cash balance for the fund for 2000 through 2012. The year 2012 is the established planning horizon because it corresponds with the proposed revised life of the debt for information technology projects.

Based on the proposals and financial assumptions that are outlined below, the fund will begin to generate a positive annual operating balance beginning in 2003. However, it is projected that it will take a minimum of eight years to eliminate the accumulated cash deficit, assuming the financial assumptions are realized.

1. ***Refund Existing Outstanding Variable Rate Debt***

   In order to achieve this outcome of a positive annual operating and cash balance position, it will be necessary to extend the life of the existing variable rate debt from an average 5 to 7 year life to a 12 year life. This is normally not financially desirable, but given the current financial position of the fund, it is financially acceptable.

   By refunding outstanding variable rate debt of $19.4 million, it will allow the City to re-direct $2.7 million of General Fund resources, currently dedicated for paying off variable rate debt, towards funding the operating costs of Information Technology Services. Thereby, reducing the annual operating deficit for the fund by $2.7.

   Table Four and Five below, provide a summary of the outstanding information technology services related fixed rate and variable rate debt as of September 2000. The outstanding fixed rate debt of $21.3 million will be paid off as scheduled by 2006. The outstanding variable rate debt will be refunded in order to extend the final pay-off year from 2005 to 2012.

Table Four

Outstanding Fixed Rate Bonds for ITS Related Capital Project as of September 2000			
Year	Principal	Interest	Total
2000	$1,391,000	$509,081	$1,900,081
2001	$1,335,000	$1,008,630	$2,343,630
2002	$1,445,000	$941,960	$2,386,960
2003	$1,555,000	$869,750	$2,424,750
2004	$3,620,000	$792,000	$4,412,000
2005	$5,910,000	$606,000	$6,516,000
2006	$6,000,000	$305,250	$6,305,250
Total	$21,256,000	$5,032,671	$26,288,671

Table Five

Proposed Refunded Outstanding Variable Rate Bonds for ITS Related Capital Projects			
Year	Principal	Projected Interest at 5%	Total
2000	$4,245,000	$2,075,625	$6,320,625
2001	$0	$759,750	$759,750
2002	$0	$759,750	$759,750
2003	$0	$759,750	$759,750
2004	$0	$759,750	$759,750
2005	$0	$759,750	$759,750
2006	$0	$759,750	$759,750
2007	$0	$759,750	$759,750
2008	$0	$759,750	$759,750
2009	$3,485,000	$759,750	$4,244,750
2010	$3,695,000	$585,500	$4,280,000
2011	$3,905,000	$400,750	$4,305,750
2012	$4,110,000	$205,500	$4,315,500
Total	$19,440,000	$10,105,125	$29,544,625

2. ***Identify Level of Funding Available for Capital Projects***

Planned Capital Expenditures. The financial plan presented in Attachment A assumes that the City will issue an additional $12.2 million in bonds between now and the end of 2001. The Mayor and City Council approved $5.6 million during 3rd Quarter 2000 for investment in the final phase for GIS. There is also $1.1 million in projects previously approved for which the bonds have not been issued yet. The remaining $5.5 million for business applications and IT infrastructure will be requested as part of the 2001 budget, with the anticipation of issuing bonds during 2001.

Future Capital Expenditures. This proposed financial workout plan, as outlined in this report, does not provide funding for information technology capital projects beyond the $12.2 million outlined above. In order to achieve the goal of eliminating the operating deficit and accumulated cash deficit in this fund, there must be commitment to the finance plan and the defined level of expenditures. There will likely be continued pressure for capital investments, but future projects will need to have an alternative funding source that is not identified as part of this report and financial plan. Alternative funding options will most likely need to come from either savings generated by the "benefiting" or "user" department or from additional revenue.

Projected Bonds Outstanding. Table 6, below, provides a summary of projected total outstanding fixed rate bonds ($21.3 million), refunded variable rate bonds ($19.4 million), and future bonds ($12.2 million). The amounts in Table Six correspond to the debt service transfer amounts listed in the financial plan in Attachment A.

Table Six

Projected Total Outstanding Bonds for ITS Related Capital Projects *(Including Fixed, Refunded Variable, and Future Bonds)*			
Year	Principal	Projected Interest	Total
2001	$1,335,000	$2,378,380	$3,713,380
2002	$1,445,000	$2,311,710	$3,756,710
2003	$1,555,000	$2,239,500	$3,794,500
2004	$3,620,000	$2,161,750	$5,781,750
2005	$5,910,000	$1,975,750	$7,885,750
2006	$6,000,000	$1,675,000	$7,675,000
2007	$0	$1,369,750	$1,369,750
2008	$0	$1,369,750	$1,369,750
2009	$6,260,000	$1,369,750	$7,629,750
2010	$6,635,000	$1,056,750	$7,691,750
2011	$7,010,000	$725,000	$7,735,000
2012	$7,490,000	$374,500	$7,864,500
Total	$47,260,000	$19,007,590	$66,267,590

3. Reduce Information Technology Operating Expenditures

The Information Technology Services Department will reduce the number of full-time equivalent Information Technology positions (City FTE's) from 75 to 65 by 2002, saving approximately $700,000. In addition, the spending on contractors for operation support will decrease by approximately $800,000. In total, these two changes will provide approximately $1.5 million in net cost reductions beginning in 2002. These projections are based on current year dollar cost estimates.

4. Commit $1.2 million in Additional Annual General Fund Resources

In addition to refunding current debt and cutting operating costs, we must increase revenue for the Intergovernmental Services Fund. There must be sufficient General Fund resources available to fund the cost of providing information technology services. The fund must be balanced in the long-term.

The proposed financial plan will require an additional $1.2 million in General Fund revenue each year for the next 8 years, from 2001 to 2008.

By 2008, the City must provide $9.8 million in additional General Fund revenue for the Intergovernmental Services Fund. The General Fund revenue provided must increase from $11.2 million to $21.0 million from 2000 to 2008 budget in order for the proposed finance plan to work.

The $9.8 million in additional funding will need to come from either additional property tax revenue, cost reductions in other areas funded with General Fund resources, or additional non-property tax sources of General Fund revenue.

5. All City Funds, Except the General Fund, Must Provide Pay-As-You-Go Funding for Information Technology Services

All City funds, except the General Fund, that receive services and capital funding from the Information Technology Services Department, must provide pay-as-you-go funding.

The proposed rate schedules (user fees) and corresponding financial pro-formas that have been adopted by the Mayor and City Council for Sewer, Water, and Solid Waste, as part of the 2000 budget, already reflect the cost for payment to the Intergovernmental Services Fund. As part of the 2000 budget, adjustments were made to these funds for increased payment related to the development of Engineering 2000 and additional workstation purchases for the Public Works Department. This funding must be provided to the Intergovernmental Services fund, as adopted.

In addition, we are requesting that payments made from all City Funds, except the General Fund, to the Intergovernmental Services Fund be increased to reflect the recently approved $1.4 million capital project increase for Engineering 2000. The total revised amount of funding that should be transferred from other funds to the Intergovernmental Services Fund are reflected in the proposed financial plan, Attachment A. The proposed amounts represent a combined total $1.6 million increase in appropriation expense to these other City funds.

6. Adjust the Rates Paid by User Departments/Funds on an Annual Basis

The rates paid by departments and/or funds must be adjusted annually to reflect the full cost of providing information technology services. The proposed financial plan, Attachment A, assumes a 4% annual adjustment to the rates paid by user departments and/or funds.

7. Eliminate Internal Working Capital Charge

Beginning with the 2001 Budget, the internal working capital charge that the Intergovernmental Services Funds pays (finance charge for internal cash loans) will be eliminated. While this will reduce expense within the Intergovernmental Services Fund, it will result in revenue loss to the General Fund of $500,000.

8. Implement Permanent Inter-Fund Loans

In recognition of the long-term finance plan that is proposed for adoption, the City will implement permanent inter-fund loans to the Intergovernmental Services Funds. The Convention Center Fund and the Convention Facilities Reserve Fund will be the source of the long-term inter-fund loan. Implementing a permanent loan, up-front, provides greater recognition of the City’s financial plan to address the deficit situation that exists within this fund. The Finance Department will be responsible to initially establish and then to assess the loan requirement on an annual basis.

9. Develop User Rates for Information Technology Services

Last, the Information Technology Services Department and the Finance Department must develop a reasonable and easy to understand charge-back process for information technology services.

Currently, the payment to the Intergovernmental Services Fund is done through a fund level transfer. In order for the "customers" of the Information Technology Services Department to understand what they are "purchasing" the City needs to have a charge-back system in-place at the user level versus fund level.

Although, this is not fundamental to implementing the proposed financial plan for the Intergovernmental Services Fund, it makes good business sense to develop a charge-back process.

The Finance Department will work jointly with the Information Technology Services Department to develop a charge-back process for the 2002 budget.

Recommendation

The City Coordinator, Finance Department, and Information Technology Services Department jointly recommend that the Ways and Means/Budget Committee approve the financial work-out plan proposal, as provided in points one through nine above and in the attached financial plan, Attachment A.

The Mayor and City Council will be informed of the financial progress as part of the current on-going financial reporting process, in addition to the annual budget process.

Intergovernmental Services Fund
Proposed Financial Plan

ATTACHMENT A

	2000 Forecast	2001 Forecast	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	1,373,330	1,413,273	1,455,671	1,372,109	1,372,109	1,372,109	1,372,109	1,372,109	1,372,109	1,372,109	1,372,109	1,372,109	1,372,109
IT Charges for Service	1,396,413	1,452,270	1,510,360	1,570,775	1,633,606	1,698,950	1,766,908	1,837,584	1,911,088	1,987,531	2,067,032	2,149,714	2,235,702
Tsf from General Fund	5,307,000	9,316,000	9,616,000	9,916,000	10,216,000	10,516,000	10,816,000	11,116,000	11,416,000	10,716,000	10,016,000	9,316,000	8,616,000
Tsf from MCDA	17,871	18,586	19,329	20,102	20,907	21,743	22,613	23,517	24,458	25,436	26,453	27,512	28,612
Tsf from Special Revenue	58,396	60,732	63,161	65,688	68,315	71,048	73,890	76,845	79,919	83,116	86,440	89,898	93,494
Tsf from Component Unit	118,749	123,499	128,439	133,576	138,920	144,476	150,255	156,266	162,516	169,017	175,778	182,809	190,121
Tsf from Internal Serv	596,829	80,293	83,504	86,844	90,318	93,931	97,688	101,596	105,660	109,886	114,281	118,853	123,607
Tsf from Enterprise	3,657,751	2,219,559	2,308,341	2,400,675	2,496,702	2,596,570	2,700,433	2,808,450	2,920,788	3,037,620	3,159,124	3,285,489	3,416,909
Tsf from Capital	1,068,303	153,181	159,308	165,680	172,307	179,200	186,368	193,822	201,575	209,638	218,024	226,745	235,814
Total	13,594,643	14,837,391	15,344,114	15,731,450	16,209,184	16,694,027	17,186,263	17,686,189	18,194,113	17,710,353	17,235,243	16,769,128	16,312,369
Operating Expenditures:													
City Clerk - Mailing/Copy Center	1,311,768	1,351,121	1,391,655	1,311,768	1,311,768	1,311,768	1,311,768	1,311,768	1,311,768	1,311,768	1,311,768	1,311,768	1,311,768
Finance Support	107,645	110,874	114,201	117,627	121,155	124,790	128,534	132,390	136,361	140,452	144,666	149,006	153,476
Information Tech Operations	13,992,377	15,300,000	14,259,000	14,686,770	15,127,373	15,581,194	16,048,630	16,530,089	17,025,992	17,536,771	18,062,875	18,604,761	19,162,904
Total	15,411,790	16,761,995	15,764,855	16,116,165	16,560,296	17,017,752	17,488,932	17,974,247	18,474,121	18,988,992	19,519,308	20,065,535	20,628,148
Net Operating Gain/(Loss)	(1,817,147)	(1,924,605)	(420,742)	(384,715)	(351,113)	(323,726)	(302,669)	(288,057)	(280,009)	(1,278,639)	(2,284,066)	(3,296,407)	(4,315,779)
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 Charge	(500,000)												
Tsf to Internal Service Fund	(5,500)	(5,500)	(5,665)	(5,835)	(6,010)	(6,190)	(6,376)	(6,567)	(6,764)	(6,967)	(7,176)	(7,392)	(7,613)
Tsf to Capital (1998 FISCOL Upgrade)	(525,000)	(525,000)	(420,035)										
Debt Service - Transfer	(7,007,000)	(3,713,380)	(3,756,710)	(3,794,500)	(5,781,750)	(7,885,750)	(7,675,000)	(1,369,750)	(1,369,750)	(7,629,750)	(7,691,750)	(7,735,000)	(7,864,500)
Total	(2,128,500)	(943,880)	17,590	1,299,665	212,240	(991,940)	118,624	7,323,683	8,223,486	2,863,283	3,701,074	4,557,608	5,327,887
Net Change in Balance	(3,945,647)	(2,868,485)	(403,152)	914,950	(138,873)	(1,315,666)	(184,045)	7,035,625	7,943,477	1,584,644	1,417,008	1,261,202	1,012,108
Beginning Cash	(8,970,000)	(12,915,647)	(15,784,132)	(16,187,283)	(15,272,333)	(15,411,206)	(16,726,872)	(16,910,916)	(9,875,291)	(1,931,814)	(347,170)	1,069,838	2,331,039
Change in Cash	(3,945,647)	(2,868,485)	(403,152)	914,950	(138,873)	(1,315,666)	(184,045)	7,035,625	7,943,477	1,584,644	1,417,008	1,261,202	1,012,108
Ending Cash	(12,915,647)	(15,784,132)	(16,187,283)	(15,272,333)	(15,411,206)	(16,726,872)	(16,910,916)	(9,875,291)	(1,931,814)	(347,170)	1,069,838	2,331,039	3,343,147
Summary Items:													
Total transfers from General Fund	11,216,000	12,616,000	13,816,000	15,016,000	16,216,000	17,416,000	18,616,000	19,816,000	21,016,000	21,216,000	21,416,000	21,616,000	21,816,000
Annual Increase in General Fund Revenue**		1,400,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	200,000	200,000	200,000	200,000
Total transfers from Other Funds	5,517,900	2,655,849	2,762,083	2,872,566	2,987,469	3,106,967	3,231,246	3,360,496	3,494,916	3,634,712	3,780,101	3,931,305	4,088,557
Annual Percent Change***		-51.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
IT Operating Budget Annual Percent Change		9.3%	-6.8%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
IT Operating Budget Annual Dollar Change		1,307,623	(1,041,000)	427,770	440,603	453,821	467,436	481,459	495,903	510,780	526,103	541,886	558,143

Note:
* In 2000, $1 million of revenue and related expense was budgeted directly in the Bond Redemption Fund versus a transfer from General Fund to IT, but for presentation purposes it is shown here in the Intergovernmental Fund.
** 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 200(

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.