

FINANCE DEPARTMENT

Mission Statement:

We provide financial services that assist our customers in making sound and informed decisions and ensure the City's financial integrity.

Primary Businesses:

Financial Operations – Provide accurate, timely financial information

- Revenue and Receivables Management – Collect and receive revenue and manage receivables
- Payment Processing – Pay employees, vendors and other third parties
- Asset Management – Manage and preserve assets

Decision Support – Support informed financial and business-related decisions

- Resource Allocation Support – Support elected officials in making decisions regarding source and allocation of financial resources
- Resource Management Support – Support departments in making decisions regarding management of financial resources

Key Trends and Challenges Impacting the Department:

Finance has conducted an environmental scan (also known as a SWOT analysis, for Strengths, Weaknesses, Opportunities, and Threats) to identify the trends and challenges that would be most likely to impact its business lines over the next five years. This scan brought to light several opportunities and challenges that Finance currently faces or may face in the future, including:

- Heightened demand for analysis and decision support by policy makers and department managers due to significant cuts in state aid, declining community development resources, and the advent of 5-year business planning.

Improved quality and frequency of external and management information due to the implementation of new accounting standards (GASB 34) and improved management processes.

The City of Minneapolis has successfully implemented GASB 34, the wide-ranging reform of accounting standards for state and local governments. The current challenge for the City, and for Finance in particular, is to integrate GASB 34 into the City's financial processes and reporting practices. The City's financial management has become a high priority for the Mayor and City Council. Finance has responded to this priority with a realignment of resources to support the City's elected leadership in financial planning and decision-making.

- Integration of development finance functions into Finance.

The creation of the Community Planning and Economic Development (CPED) department requires Finance to transition employees, create an organization to support CPED's operations and management, and meld financial and related business processes. Although the process of transitioning finance-related CPED employees into Finance has begun, significant work remains in this task and in the larger task of organization and alignment.

- Necessary investments in technology infrastructure, including maintenance and upgrade.

Service delivery and the ability to meet Finance's customer expectations are highly dependent upon software systems, equipment and technology infrastructure. Over time, the technology infrastructure of Finance has increased in complexity due to the rapid pace of technological change, a lack of financial resources, and the incompatibility of differing vendor solutions. In some cases, this increased complexity has required the use of workaround procedures, which can cause inefficiencies. Although these processes, systems, and equipment are adequate for current levels of demand, they will not be sufficient to accommodate anticipated increases in customer demand. The issues and challenges presented by current technology are discussed at length within Finance's Technology Resource Plan.

- Business process improvements (simplification, automation, or elimination) to reduce costs and improve customer service.

Finance continually seeks to improve efficiency in order to reduce costs and improve customer service. In particular, Finance will investigate the means to simplify, automate, or eliminate business processes. Potential initiatives include conducting a UB Utility Billing ACH campaign, developing an online payment system, and increasing parking Electronic-payment.

Each of these is closely associated with the significant ongoing challenges that Finance faces in the areas of Workforce, Communication, Information Technology, and Service Delivery. A discussion of these highly interconnected issues follows.

Workforce

Finance's workforce is our greatest asset. Our employees are experienced and dedicated to the department and to the City. However, this strength has been undermined by ongoing retirements and staffing reductions due to LGA cuts. In particular, our resources for financial analysis to support budgeting, business planning, and routine management decisions were reduced in order to preserve basic financial integrity and controls. These losses have reduced the overall knowledge base within Finance and have resulted in service delivery issues.

The losses associated with these retirements and staffing reductions are exacerbated by a number of factors. First, Finance has failed to adequately manage employee cross-training, knowledge transfer, and succession planning. In addition, Finance has under-utilized technology resources that could offset staffing reductions. Although it is uncertain whether further reductions in staffing will be necessary in the next five years, it is inevitable that Finance will lose additional employees due to retirement. Therefore, it is essential that Finance address these issues.

Independent of the losses incurred due to retirements and staffing reductions, Finance has had difficulty meeting current staffing needs. In particular, it has been difficult to recruit multilingual employees and temporary employees. There has also been a lack of qualified applicants to fill certain positions.

Finance is challenged to rebuild our capacity by simplifying processes and procedures. A Workforce Plan seeks to address these and other workforce issues. The Workforce Plan can be found on page 44 of the Business Plan.

Communication

Intra- and inter-departmental communications issues remain. Poor intra-department communication

results in inconsistent provision of information and application of policies. Inadequate communication with other departments leads to a lack of understanding of business and budget processes, under-utilization of available resources, and confusion regarding when Finance should be involved in business and budget processes. Both types of communications issues challenge department efficiency, productivity and cohesiveness, and compromise overall service delivery.

Finance has recently consolidated its personnel to 10 primary locations. While it is hoped that this will facilitate communications both within the department and with our customers, the lack of physical proximity is an ongoing challenge. The business planning process will seek to identify means by which intra- and inter-department communications can be improved. In particular, Finance will explore the use of existing information technology resources to address this issue.

Information Technology

Although existing information technology resources are considered a departmental strength, these resources are under-utilized by department employees and customers. In general, this under-utilization results from a lack of customer and employee knowledge regarding available technology. In addition, the future implementation of technology such as 3-1-1 common call center will present Finance with opportunities to enhance efficiencies and improve communications.

Existing information technology resources can be used to address many of the service delivery issues described above; including decreased staffing levels and communications issues. Finance will seek to increase the use of these resources by both employees and customers in order to meet customer expectations through process improvements and increased user-friendliness.

Service Delivery

Service delivery issues have been discussed in several of the preceding sections, including Workforce, Communication, and Information Technology. In general, the deficiencies noted above – particularly the staffing losses described under Workforce – have affected the relationship that Finance has with its customers, and reduced customer trust in our ability to provide the quality and quantity of financial services and information that they require.

In addition, service delivery issues have arisen from Finance's provision of non-standardized services for individual customers. In the past, Finance has continually adapted its services in order to meet the needs of each customer. Given our current resource limitations, it is impossible to continue to provide such non-standard services. Therefore, the business planning process will be used to better define the scope and services Finance provides departments.

As with every department, financial resources will continue to influence our ability to deliver services. Finance will use the business planning process to identify ways to increase the efficiency and cost-effectiveness of its services. This is particularly important given the current budget environment, as Finance must continue to provide cost-effective services in order to remain competitive relative to external providers.

These service delivery issues are of utmost concern to Finance. The provision of high quality, cost-effective services is the key challenge that the business planning process will seek to address.

Key Initiatives or Other Models of Providing Service to be implemented in 2005

Enterprise Level

1. Support business plan implementation of City departments
2. Develop strategies to diversify and increase revenues
3. Integrate budget development and business planning
4. Complete CPED – City integration
5. Increase internal audit resources
6. Strengthen accountability for business lines and service activities through performance measurement

Department Level

7. Train personnel (Workforce Plan)
8. Upgrade information systems (Technology Plan)

Business Line Level: Financial Operations

9. Simplify, automate, or eliminate business processes to reduce costs, improve service, and enable more resources to be allocated to the Decision Support business line and manage within financial resources
10. Implement new investment strategies
11. Train department heads regarding financial responsibilities

Business Line Level: Decision Support

12. Update 5-year financial plans to include all projected City financial resources and demands
13. Incorporate rate models into budgeting and financial planning decisions
14. Develop capital project status reports
15. Simplify and improve the frequency of financial reports to the public
16. Simplify financial procedures and publish on CityTalk
17. Benchmarking performance with other comparable cities

Other Models of Providing Service

During business plan implementation, the Finance Department will evaluate other models for providing service. Models included contracting with private or governmental partners, providing self-service capabilities for customers, or offering services to other governments in the following areas:

- Investment management
- Billing and receivables management
- Financial management reporting
- Financial systems
- Payroll
- Procurement
- Administration of insurance, claims, and loss prevention

Included for each alternative model are an assessment of the current model and options and a discussion of the outcome of evaluation of each alternative service model. An evaluation timeframe and responsible parties are also identified.

Primary Business: Financial Operations

Description of Primary Business: Provide accurate, timely financial information. This business line includes collecting and receiving revenue; managing receivables; paying employees, vendors and other third parties; and managing and preserving assets.

Key Performance Measures that are impacted by 2005 resources:

	2001 Actual	2002 Actual	2003 Actual	2004 Estimated	2005 Projected
Percent of invoices paid within invoice terms					New measure
Ratio of receivables written off to total revenue	24.3%	1.3%	0.6%	10.0%	10.0%
Percent of departments where chart of accounts is consistent with the business plan	n/a	n/a	n/a	n/a	n/a
Investment rate of return over benchmark	-1.49%	.76%	1.62%	.54%	.37%
Dollar value of claims (workers comp and tort paid)	WC - 4,719,523 Tort - 1,419,335 Total - 6,138,585	WC - 8,104,124 Tort - 369,799 Total - 8,473,923	WC - 6,046,645 Tort - 492,051 Total - 6,538,696	WC - 5,833,096 Tort - 633,320 Total - 6,466,416	Total 7,159,678
% payroll cycles completed on time with 100% accuracy	100%	100%	95.5%	100%	100%

Explanation of Key Performance Measures: The primary customers of this business line are City departments and agencies in the provision of service delivery to support their internal operations. This business line provides the administrative support infrastructure and maintains the processes and procedures through which its customers interact. Furthermore, customers defined within this business line are broad base and not confined only to internal operations. Operational areas within this business line also provide services to property owners throughout the City in the form of utility billing, phone and counter service, and work order management. Services to customers within this business line can also include vendors, claimants, other government agencies, and businesses.

Primary Business: Decision Support

Description of Primary Business: Support informed financial and business-related decisions. This business line includes supporting elected officials in decision-making regarding source and allocation of financial resources, and supporting departments in decision-making regarding management of financial resources. Finance department services lead to good financial decision-making on the part of elected officials and departments.

Key Performance Measures that are impacted by 2005 resources:

	2001 Actual	2002 Actual	2003 Actual	2004 Estimated	2005 Projected
Bond Rating	Aa1/AAA/AAA	Aa1/AAA/AAA	Aa1/AAA/AAA	Aa1/AAA/AAA	Aa1/AA/AAA
Unqualified opinion and number of exceptions noted in management report	Unqualified (7)	Unqualified (7)	Unqualified (7)	Unqualified (5)	Unqualified (5)
Percent of funds where recurring expenses don't exceed recurring revenues	75%	80%	67%	50%	70%
Percent of departments performing with budgeted revenues and expenditures	75%	80%	exp - 96% rev - 54%	exp - 96% rev - n/a	exp - 96% rev - 75%

Explanation of Key Performance Measures: The primary customers of this business line include the Mayor, City Council, City department and agency management, bond rating agencies, Government Finance Officers Association (GFOA), the State Auditor's Office and taxpayers in Minneapolis. Additional customers include vendors and the media.

Customer satisfaction level is generally measured by maintenance of the City's strong credit rating, continued receipt of financial reporting and budgeting awards from the Government Finance Officers Association (GFOA), and a qualified auditor's opinion regarding the City's annual financial statements.

Financial Analysis:

EXPENDITURE

The 2005 General Fund budget for the Finance Department increased by \$10.2 million, a 136% increase over the 2004 Adopted Budget. The Utility Billing division budget of \$4,473,000 was transferred to the General Fund. This division was budgeted in the Enterprise Fund in the past.

The Finance Department's Expense budget will increase by \$4 million because of the General Fund overhead rate model developed for 2005. The model replaces various separate charges for indirect costs that were previously budgeted directly in Finance in various funds. The budget for this department also includes \$1.67 million in BIS charges calculated on a city-wide rate model and \$31,200 for benefits administration. Both charges were centrally budgeted in the past. Backing out these charges, the 2005 Finance department's budget is \$18 million, a 1% decrease from the 2004 Adopted Budget.

Federal and CDBG funds have decreased in 2005 because two finance positions supporting the Minneapolis Employment and Training Programs (METP) are no longer directly funded by grant funds and the METP program has been moved from the Health and Family Support Department to CPED. Also for 2005, an additional \$25,000 was added to Administration for an office Intern.

REVENUE

General Fund revenue decreases by \$2.1 million to \$47,600 for 2005. This revenue was moved to a centrally budgeted agency to eliminate activity in the General Fund. The revenue for Federal and State funds has decreased to match corresponding appropriation reductions in these funds.

The Finance Department's revenue budget also reflects a decrease of \$6.8 million from 2004 due to the General Fund rate model. This decrease is offset by a corresponding increase in centrally budgeted overhead within the General Fund.

MAYOR'S RECOMMENDED BUDGET AND ADOPTED BUDGET

The Mayor's Recommended Budget eliminated one position in the Treasury Division of the Finance Department and reduced non-personnel by \$245,000 for a total savings of \$320,000. The Council concurred with this recommendation. Additionally, funding for a Deputy City Coordinator position was reallocated from the Finance department to the Coordinator's department. The Finance department's portion of the \$75,000 reduction from the City Coordinator's department to the Police department is \$27,000.

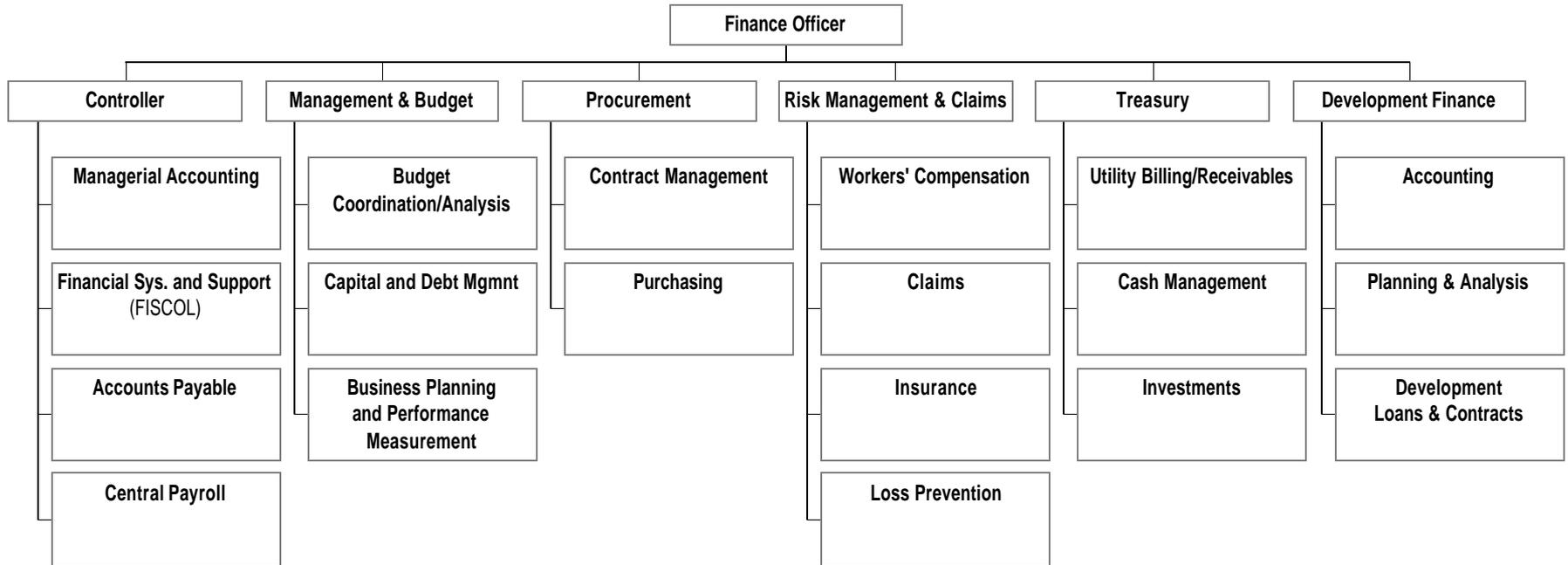
FINANCE
Staffing Information

	2002 Adopted Budget	2003 Adopted Budget	2004 Adopted Budget	2005 Adopted Budget	% Change	Change
FTE's by Division						
Executive	2.00	2.00	10.00	10.00	0.00%	-
Treasury	61.00	61.00	59.00	58.00	-1.69%	(1.00)
Procurement	12.50	10.00	8.50	8.50	0.00%	-
Management Analysis ¹	5.50	-	-	-	0.00%	-
Risk Management	10.00	10.00	9.50	9.50	0.00%	-
Financial Management and Budget ²	112.00	25.00	-	-	-	-
Controller	NA	92.00	97.00	97.00	0.00%	-
Development Finance	-	-	21.00	21.00	0.00%	-
Total FTE's	203.00	200.00	205.00	204.00	-0.49%	(1.00)

¹ Starting with the 2003 budget the FTE's in the Management Analysis Division (MAD) are allocated to the Financial Management and Budget Division.

² In 2002, the Financial Services and Budget Division became two separate Finance Divisions: Financial Management & Budget and Controller. In 2003, the Management and Budget division was eliminated. the remaining employees moved into the Controller division and the Executive division.

City of Minneapolis Finance Department



FINANCE DEPARTMENT
Expense Information

	2002 Actual	2003 Actual	2004 Adopted Budget	2005 Adopted Budget	% Change	Change
Capital Projects						
Fringe Benefits	5,977	7,266	0	0		0
Operating Costs	1,255,798	1,006,363	1,019,744	0	-100.0%	-1,019,744
Salaries and Wages	0	0	0	0		0
Total for Capital Projects	1,261,775	1,013,629	1,019,744	0	-100.0%	-1,019,744
Enterprise Funds						
Capital Outlay	0	0	26,870	0	-100.0%	-26,870
Contractual Services	1,230,001	1,140,390	1,311,704	0	-100.0%	-1,311,704
Equipment	0	0	104,681	0	-100.0%	-104,681
Fringe Benefits	583,809	634,889	688,846	0	-100.0%	-688,846
Operating Costs	1,160,426	1,272,663	1,366,303	0	-100.0%	-1,366,303
Salaries and Wages	2,387,058	2,193,526	2,446,744	0	-100.0%	-2,446,744
Total for Enterprise Funds	5,361,294	5,241,467	5,945,148	0	-100.0%	-5,945,148
General Fund - City						
Capital Outlay	0	0	0	27,246		27,246
Contractual Services	1,519,141	991,331	1,928,471	4,248,777	120.3%	2,320,306
Equipment	17,514	331,723	115,374	217,666	88.7%	102,292
Fringe Benefits	1,409,940	1,308,033	1,769,744	2,954,885	67.0%	1,185,141
Operating Costs	-3,428,519	-3,513,833	-3,461,195	346,282	-110.0%	3,807,477
Salaries and Wages	6,122,703	5,541,327	7,166,493	9,951,604	38.9%	2,785,111
Total for General Fund - City	5,640,779	4,658,581	7,518,887	17,746,460	136.0%	10,227,573
Internal Service Funds						
Contractual Services	617,079	620,826	724,797	803,626	10.9%	78,829
Equipment	0	0	5,167	5,239	1.4%	72
Fringe Benefits	143,686	156,036	260,117	157,922	-39.3%	-102,195
Operating Costs	1,062,761	1,178,816	1,200,711	32,231	-97.3%	-1,168,480
Salaries and Wages	535,681	495,929	586,233	548,295	-6.5%	-37,938
Total for Internal Service Funds	2,359,206	2,451,607	2,777,025	1,547,313	-44.3%	-1,229,712
Investment Management Funds						
Operating Costs	205,026	285,745	0	0		0
Total for Investment Manager	205,026	285,745	0	0		0
Special Revenue Funds						
Capital Outlay	0	0	1,204	0	-100.0%	-1,204
Contractual Services	0	0	94,498	11,191	-88.2%	-83,307
Fringe Benefits	73,811	86,190	61,141	75,009	22.7%	13,868
Operating Costs	223,461	298,468	302,671	0	-100.0%	-302,671

**FINANCE DEPARTMENT
Expense Information**

	2002 Actual	2003 Actual	2004 Adopted Budget	2005 Adopted Budget	% Change	Change
Special Revenue Funds						
Salaries and Wages	341,607	338,288	397,976	274,466	-31.0%	-123,510
Total for Special Revenue Funds	638,879	722,945	857,490	360,666	-57.9%	-496,824
Total for FINANCE DEPARTMENT	15,466,958	14,373,974	18,118,294	19,654,439	8.5%	1,536,145

FINANCE DEPARTMENT
Revenue Information

	2002 Actual	2003 Actual	2004 Adopted Budget	2005 Adopted Budget	% Change	Change
Capital Projects						
Interest	0	5,112	0	0	0.0%	0
Total for Capital Projects	0	5,112	0	0		0
Enterprise Funds						
Charges for Sales	655	592	0	0	0.0%	0
Charges for Service	3,986,502	3,191,400	4,362,850	0	-100.0%	-4,362,850
Total for Enterprise Funds	3,987,157	3,191,992	4,362,850	0	-100.0%	-4,362,850
General Fund - City						
Charges for Sales	42	243	0	0	0.0%	0
Charges for Service	100,781	66,840	2,167,879	5,500	-99.7%	-2,162,379
Franchise Fees	0	0	0	0	0.0%	0
Interest	41,770	-1,958	0	0	0.0%	0
Local Government	15,000	15,000	15,000	0	-100.0%	-15,000
Other Misc Revenues	1,453	0	0	42,069	0.0%	42,069
Total for General Fund - City	159,046	80,125	2,182,879	47,569	-97.8%	-2,135,310
Internal Service Funds						
Charges for Service	316,773	269,746	342,068	342,068	0.0%	0
Other Misc Revenues	0	191	0	0	0.0%	0
Total for Internal Service Funds	316,773	269,937	342,068	342,068	0.0%	0
Investment Management Funds						
Interest	6,502	-4,961	100,000	0	-100.0%	-100,000
Total for Investment Management Funds	6,502	-4,961	100,000	0	-100.0%	-100,000
Special Revenue Funds						
Contributions	0	0	5,458	41,336	657.3%	35,878
Federal Government	0	0	0	34,330	0.0%	34,330
Total for Special Revenue Funds	0	0	5,458	75,666	1,286.3%	70,208
Total for FINANCE DEPARTMENT	4,469,477	3,542,205	6,993,255	465,303	-93.3%	-6,527,952