

**City of Minneapolis
FY 2010 Budget
Financial Plan**

Intergovernmental Services Fund

Background

The Intergovernmental Services Fund accounts for all of the operations of the Business Information Services Department (BIS) including information and technology functions, managed services with Unisys, the Program Management Division (PMD), and telecommunications operations. The fund also accounts for operations within the City Clerk's office including central mailing and printing services. A portion of the Human Resources budget that is designated for internal training is included in this fund.

The City Council approved a long-term financial plan for the Intergovernmental Services Fund in September 2000, to resolve both the annual operating deficit and accumulated cash deficits for this fund. Since that time, the fund has achieved positive changes in net assets for 2006, 2007, 2008 and is projected to do so in 2009. Assumptions in the plan anticipated the first positive change in net assets to occur in 2007.

The City Council has appropriated \$1.0 million for technology projects in 2010 and \$700,000 in 2011 and 2012. The City technology expenditures exceed that amount. In 2008, BIS incurred nearly \$14.0 million in expense toward technology projects. The majority of the funding sources were from grants and departmental operating budgets. This level of spending on technology is projected to continue. The PMD generates revenue for the department along with providing quality, low-cost project management for technology-related projects.

In 2009, the debt service payments are scheduled to increase substantially from \$3.4 million in 2008 to \$10.2 million in 2009 through 2012. By 2013, the current debt will be reduced to \$200,000.

This fund continues to be active with new initiatives:

- **City-Wide:** *Wireless Minneapolis*, a City-wide wireless broadband IP data access network for use by residents, businesses, guests and governmental entities, was completed in December 2009. The City has entered into a 10-year contract with US Internet as the anchor tenant of the network, committing to \$1.25 million in annual usage. Simply converting existing wireless technologies to the wi-fi network will not achieve this level of annual usage. For Minneapolis to fully realize the benefit the City will need departments to embrace new ways of doing their work; implementing capabilities that previously were not feasible. The community, however, already enjoys the benefits from the City's investment. Broadband access is now available at a very affordable rate with the added benefit of mobility, many community technology centers have free accounts, and free hot spots will be operational early in 2010.
- **Department Specific:** Other initiatives include an Emergency Operations Command Center, mobile housing inspectors, impound management software, continued implementation of the new financial system, Civil Rights compliance management system, and Public Works' traffic management system.

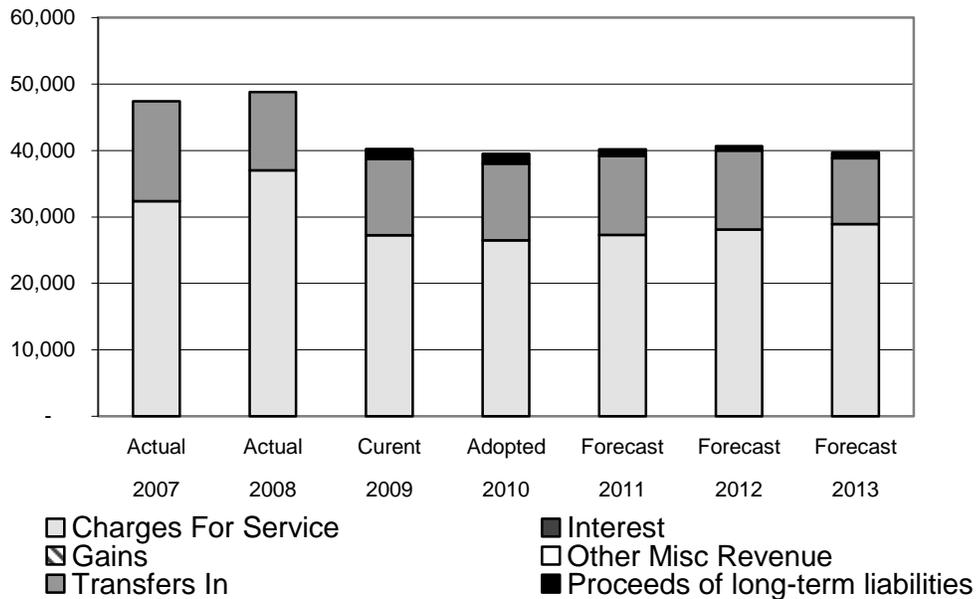
The net asset deficit in this fund will decline as it continues to provide services that are being accounted for through its allocation model, fees for service with PMD, and other ways that the fund collects revenues in order to offset its costs. The allocation model for the fund was developed using an accounting industry standard known as activity-based costing. The model assigns costs to customers on a “level of effort” basis. This model was used in charging customer department rates beginning in 2005.

Historical Financial Performance

Net assets were affected by the realignment of fixed assets and its related debt to the Intergovernmental Services Fund. This change in accounting caused a one-time adjustment to the fund's net assets of a negative \$21.7 million. Although this negative adjustment caused fund net assets to have a balance of negative \$40.8 million at year-end 2002, it better represents the financial condition of the fund and the importance of implementing the strategies to meet the guidelines of the financial plan. This trend has been reversed. At year-end 2008, net assets improved to \$4.9 million.

The long-term financial plan projected the net asset balance at year-end 2008 to increase \$5.7 million from a deficit of \$13.6 at year end 2007 to a deficit of \$7.9 million. The actual net asset balance at year-end 2008, \$4.9 million, represents an increase of \$18.5 million from the 2007 ending balance. The fund's cash balance has also increased ahead of the long-term financial plan projection. The projection predicted a 2008 ending cash balance deficit of \$1.6 million. At year-end 2008, the fund reached a positive cash balance of \$94,000, an increase of \$2.0 million from the 2007 ending cash balance of a deficit of \$1.9 million and \$1.7 million ahead of the long-term financial plan.

Information Technology Fund Revenues
(in thousands of dollars)



2010 Budget

Revenues

To fund the cost of providing information technology services, the financial plan required that the annual transfer from the general fund received an increase of \$1.2 million each year from 2005 through 2008, minus the reductions noted in the Five-Year Financial direction which were partially offset by operational savings. In 2009, the fund received an increase of \$3.0 million from a transfer in from the General Fund with no additional increases planned for 2010. Total transfers, includes money from the bond redemption fund, equal \$11.5 million in 2010.

Charges for service were increased, reflected by the additional revenue that BIS has been generating in providing services directly charged to City departments for the services they received over the normal service level provided.

Allocation Model Implications

The allocation model has five components on the customer expense side: BIS application support; BIS operating; telecommunications; data connectivity; and special customer specific services. Revenues generated through the allocation model will recover the following:

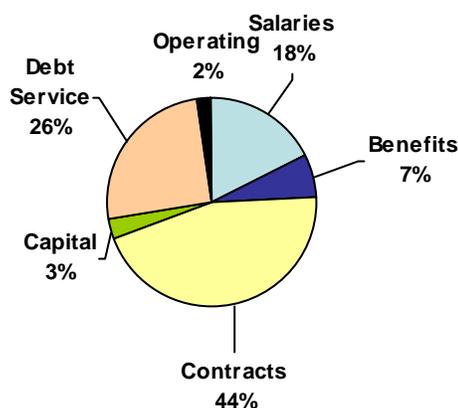
- BIS operating costs at a level that conforms to the Council-adopted financial plan.
- Debt service resulting from phone system purchase.
- A small portion for City Clerk data center operations and Human Resources operations.

Revenue Assumptions (2010)	
Number of PC's	2,973
Number of telephones	2,951

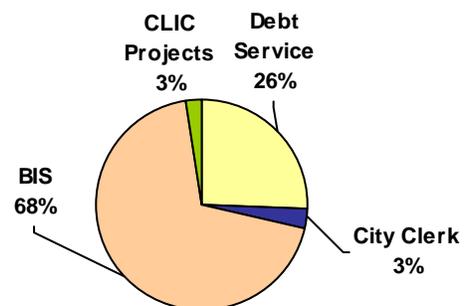
Expenses

Expenses in the Intergovernmental Services Fund are comprised of the operating expenses (salaries/benefits, contractual, operating, equipment) of BIS, the City Clerk's office, and Human Resources. Capital expenditures for information technology investments were budgeted in the City's Permanent Improvement Fund, but now are budgeted in the Intergovernmental Services Fund. This has caused an increase in depreciation expense. The budget includes \$1 million in property tax supported debt for information technology.

**Intergovernmental Services Fund
Use of Funds
(\$37.3 million)**



**Intergovernmental Services Fund
Use of Funds by Department
(\$37.3 million)**



Transfers

Transfers-in (revenue) relates to a transfer from the general fund of \$9.6 million to subsidize BIS debt service payments and also a \$1.8 million transfer from the general debt service fund. BIS also has a transfer out (expense) of \$218,000 for debt service related to the Minneapolis Employees Retirement Fund's (MERF) unfunded pension liabilities.

Debt Service

In 2010, the fund will have a bond liability of \$19.2 million, with an annual debt service payment of \$9.5 million.

Original Budget

The Mayor recommends a reduction of \$1.6 million and 8 positions from the current service level for this department. This includes a \$1.3 million reduction to general fund departments and \$325,000 for non-general fund departments. If this recommendation is adopted, general fund departmental appropriations will be reduced to achieve the general fund reduction. The Council approved the Mayor's recommendations.

The budget for this fund includes a \$5,761 increase to General Fund Overhead charges due to the Council's actions to fund two internal audit positions.

Mayor's Revised Budget

The Mayor recommended a reduction of \$200,000 on a one-time basis. The department shall meet this reduction through non-personnel savings and explore additional ongoing savings through the restructuring and reduction of existing services in anticipation of the 2011 budget.

Council Revised Budget

The Council approves the Mayor's recommendations.

**City of Minneapolis
FY 2010 Budget
Financial Plan (in thousands of dollars)**

Intergovernmental Services Fund

	2007	2008	2009		% Chg		2011	2012	2013
	Actual	Actual	Current Budget	2009 Projected	2010 Budget	From 2009 Budget	Forecast	Forecast	Forecast
Source of Funds:									
Charges For Service	32,349	37,017	27,228	31,008	26,494	-2.7%	27,289	28,107	28,951
Interest	-	-	-	-	-	-	-	-	-
Gains	(250)	-	-	-	-	-	-	-	-
Other Miscellaneous Revenue	-	5	-	-	-	-	-	-	-
Operating Transfers In	15,036	11,762	15,419	15,419	11,252	-27.0%	11,873	11,873	9,873
Proceeds of Long term Liabilities	-	-	1,500	1,500	1,507	0.5%	1,000	700	872
Total	47,135	48,784	44,147	47,927	39,253	-11.1%	40,162	40,680	39,696
Use of Funds:									
Transfers	177	296	212	212	218	2.8%	1,718	1,718	1,718
Debt Service	1,673	3,399	10,201	10,337	9,499	-6.9%	9,695	9,165	216
City Clerk	1,352	1,158	1,202	1,202	1,188	-1.2%	1,224	1,260	1,298
Human Resources	198	178	252	302	259	2.8%	267	275	283
Information & Tech Services	30,762	13,993	25,521	30,244	24,428	-4.3%	25,161	25,916	26,693
SISSP Projects	2,871	6,622	1,500	1,500	1,507	0.5%	1,000	700	872
Total	37,033	25,646	38,888	43,797	37,099	-4.6%	39,064	39,034	31,080
Change in Net Assets	10,153	18,480	5,259	4,130	2,154		1,098	1,647	8,615
Net Assets	(13,612)	4,868	10,127	8,998	12,281		13,379	15,025	23,641
Cash Balance¹	(1,886)	94	5,353	4,224	7,507		8,605	10,251	18,867
Work out Plan Target Cash²	(1,886)	(1,632)	16	16	1,693		2,566	3,503	9,653
Variance Cash to Work-out Plan	-	1,726	5,337	4,208	5,814		6,039	6,748	9,214

¹Note: The 2007 CAFR cash balance is \$114,254. The actual ending cash balance was a deficit of \$1,886,000. At year end 2007, the fund received an interfund transfer of \$2,000,000 for the deficit. The interfund transfer was reversed in 2008.

² The cash projections for 2008 onward are based on the updated long-term financial plan for this fund, adopted by Council in 2008.