**City of Minneapolis**
**FY 2005 Budget**
**Financial Plan**

## Intergovernmental Services Fund

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This fund is used to account for business information services (information and technology), central mailing and printing services, and telecommunications operations.

The City Council approved a Financial Workout Plan for the Intergovernmental Services Fund in September 2000, to resolve both the annual operating deficit and accumulated cash deficits for this fund. An update to this plan was approved in January 2003. The original plan projected a positive operating margin by year 2003 and positive cash flow to the fund by year 2008 if the following were realized:

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 provided a base budget of $1 million for core infrastructure investments.*

3. Reduce Information Technology Operating Expenditures.

   *The original workout plan called for a $1.5 million reduction in 2002. The savings were realized through a conversion of contractors to city positions and an overall reduction in contractual expenses. Despite these expense reductions, the overall budget for BIS increased by $3 million because of $2.3 million in costs related to software 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 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 Business Information Systems (BIS).

   *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.*

9. Develop User Rates for Information Technology Services.

   *During 2002, the Finance Department developed a rate model for the 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 has been incorporated in the 2005 annual City operating budget.*

**Historical Financial Performance**

Net assets were affected by the re-alignment 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 causes fund assets now to have a balance of negative $40 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 workout plan. This trend will

be reversed under the plan, if the assumptions hold. The operation was projected to lose $2.9 million in 2001 (as reflected in the workout plan) but only lost $2.4 million. A loss of $4.6 million in 2002 leaves the net assets $2.7 million behind the workout plan after the one-time adjustment is factored in. However cash improved nearly $1 million from 2001 to 2002. The workout plan had anticipated a negative $16.4 million year end cash balance and the actual amount was a negative $15.9 million, or $0.5 million more positive than what was planned.

**2005 Budget**

*Revenues*

The workout plan required an additional $1.0 million in 2001 and $1.2 million annually from 2002-2008 of increased revenue from the property tax supported funds (General Fund), to fund the cost of providing information technology services. In 2003, as a result of Local Government Aid cutbacks, the Business Information Services Department (formerly the Information Technology Services Department) was directed to reduce operating costs by $1.2 million from the original adopted 2003 budget. BIS did reduce expense by this amount and the General Fund is contributing $1.2 million less in revenue to the Intergovernmental Services Fund as a result of this decision.

GIS operations have been moved from the General Fund to the Intergovernmental Services Fund as part of the 2005 budget. This transfer did not impact net performance (expense and revenue) of either the General Fund or the Intergovernmental Services Fund.

Charges for service were increased to reflect the additional revenue that the project management division in BIS has been generating by providing services and then direct charging city departments for the services they receive above and beyond the normal service level provided. The total amount is approximately $800,000 in additional revenue, which was added to the project management division appropriation.

*Rate Model Implications*

BIS is using an Activity-Based Costing “Rate Model” to recover its operating costs for 2005. The rate model and the revenue generated from it changes how revenue is budgeted within the fund and how customer expenses are budgeted within theirs. Formerly, BIS received its revenue through non-operating “Transfers” or subsidies primarily from the General Fund and the Enterprise Funds. With the advent of the Rate Model, revenues in BIS are budgeted as “Charges for Service” vice “Transfers In”. Conversely, customer expenses are budgeted as “Contractual Services” vice “Transfers Out”. This change will show as increases to department operating budgets.

The rate model has 4 components on the customer expense side: Rate Model, Telephony, Data Connectivity, Special Telephone Charges. Revenues generated through the rate model will recover:

a) BIS operating costs at a level that conforms to the Council adopted workout plan
b) Projected operating increases related to the purchase of a new phone system
c) Debt service resulting from phone system purchase
d) Lease payments to Motorola for Constituent Relationship Management (CRM) software.

*Expenses*

BIS has contracted with Unisys as part of its Outsourcing of Technology Operations Plan, which was implemented in 2003. Unisys will own and maintain desktop and server equipment plus the related operating software under this plan. BIS will move away from managing technology and concentrate on providing business analysis and information services.

Expenses in the Intergovernmental Services Fund are comprised of the operating expenses (salaries/benefits, contractual, operating, equipment) of BIS and City Clerk. Capital expenditures for information technology investments were budgeted in the City's Permanent Improvement Fund (4100), but now are budgeted in the BIS fund. This has caused an increase in depreciation expense, which the fund is not collecting when debt service for assets exceeds the life of the asset.

A major cost not reflected in the workout plan for this fund is $8 million in annual depreciation expenses. This expense will continue to cause losses to the fund that are currently not charged to customers through the rate model. As a result, BIS financial position will continue to decline and system replacement will pose future challenges as supplemental capital appropriations will be needed.

The budget also includes a change in accounting for the General Fund overhead charge that replaces various separate charges for indirect costs that were previously budgeted in separate agencies.

*Transfers*

The rate model for Business Information Services has been finalized and Internal City customer departments will find a charge to their areas versus a transfer as in previous years. The remaining amount in transfers in (revenue) relates to a transfer from the General Fund to subsidize BIS debt service payments. BIS also has a transfer out (expense) in support of the debt service for the unfunded pension liability.

*Debt Service*

The remaining variable rate debt of $16.1 million was retired in 2001 with the $22.8 million of fixed rate debt that was issued in December of 2000. The final pay-off year was extended from 2005 to 2012 with no principal being paid until 2009. This coupled

with the payoff by 2006 of debt issued prior to December of 2000 reduces debt service needed in 2007 and 2008. The City re-directed $2.7 million of General Fund resources dedicated to variable rate debt, towards funding the operating costs of BIS. This reduced the annual operating deficit for the fund by $2.7 million. The financial plan reflects this change through 2006.

# City of Minneapolis
# FY 2005 Budget
# Financial Plan (in thousands of dollars)

## Intergovernmental Services Fund

| | 2002 Actual | 2003 Actual | 2004 Current Budget | 2004 Projected | 2005 Budget | % Chg from 2004 Budget | 2006 Forecast | 2007 Forecast | 2008 Forecast |
|---|---|---|---|---|---|---|---|---|---|
| ***Revenue*** | | | | | | | | | |
| Charges For Service | 5,498 | 4,098 | 5,558 | 2,711 | 19,726 | 254.9% | 20,318 | 20,927 | 21,555 |
| Charges for Sales | - | - | 10 | 2 | 10 | | 11 | 11 | 12 |
| Interest | - | - | - | - | - | | - | - | - |
| Gains | (1) | - | - | (150) | - | | - | - | - |
| Other Miscellaneous Revenue | 2,937 | - | 40 | 1 | - | | - | - | - |
| Proceeds of Bonds Issued | | 1,000 | 2,950 | 2,950 | 2,000 | -32.2% | 2,720 | 3,000 | 2,950 |
| Operating Transfers In | 18,926 | 17,519 | 22,265 | 22,265 | 7,948 | -64.3% | 8,291 | 8,065 | 8,454 |
| Total | 27,360 | 22,617 | 30,823 | 27,779 | 29,684 | -3.7% | 31,340 | 32,004 | 32,972 |
| ***Expenses*** | | | | | | | | | |
| Transfers | 427 | 7 | 7 | 7 | 124 | 1673.6% | 135 | 139 | 143 |
| Debt Service | 4,061 | 3,965 | 7,977 | 6,766 | 8,266 | 3.6% | 7,738 | 1,434 | 1,434 |
| City Clerk | 1,254 | 947 | 1,090 | 1,045 | 1,111 | 1.9% | 1,087 | 1,119 | 1,153 |
| Human Resources | 170 | 128 | 186 | 85 | 192 | 3.0% | 197 | 203 | 209 |
| Finance Department | 168 | 188 | 191 | 191 | - | | - | - | - |
| Capital Outlay | 6,120 | 1,000 | 10,448 | 2,950 | 2,000 | -80.9% | 2,720 | 3,000 | 2,950 |
| Information & Tech Services | 17,302 | 18,504 | 18,255 | 18,255 | 20,144 | 10.3% | 18,964 | 19,533 | 20,119 |
| Total | 29,502 | 24,739 | 38,154 | 29,299 | 31,837 | -16.6% | 30,841 | 25,428 | 26,008 |
| ***Intergovernmental Services Fund Margin*** | (2,142) | (2,122) | (7,331) | (1,520) | (2,153) | | 499 | 6,576 | 6,964 |
| ***Intergovernmental Services Fund Balance*** | (32,984) | (39,794) | (47,125) | (34,504) | (36,657) | | (36,158) | (29,582) | (22,618) |
| ***Intergovernmental Services Cash Balance*** | (16,728) | (18,850) | (26,181) | (20,370) | (22,523) | | (22,024) | (15,448) | (8,484) |