

FINANCE

MISSION

Provide financial services that assist managers and elected officials in making sound and informed decisions and ensure the City's financial integrity.

BUSINESS LINES

The Finance Department has two primary business lines:

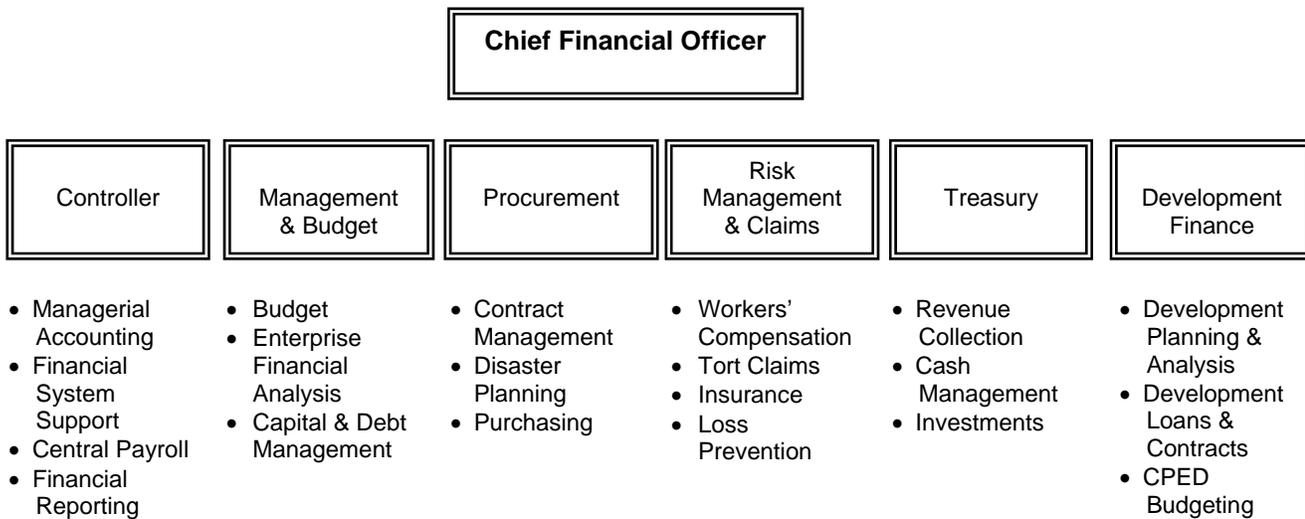
1) Financial Operations – Providing accurate, timely financial information

This business line includes collecting and receiving revenue, managing receivables, paying employees, vendors and other third parties, and managing and preserving assets.

2) Decision Support – Supporting informed financial and business-related decisions

This business line includes supporting elected officials in making decisions regarding source and allocation of financial resources, and supporting departments in making decisions regarding management of financial resources.

ORGANIZATION CHART



RESULTS MINNEAPOLIS MEASURES, DATA AND TARGETS TABLE

Measure Name	2005 Data	2006 Data	2007 Data	2008 Data	2009 Target	2011 Target
Bond ratings	AAA Aa1 AAA	AAA Aa1 AAA	AAA Aa1 AAA	AAA Aa1 AAA	AAA Aaa AAA	AAA Aaa AAA
Total debt as a percentage of Assessor's estimated market value	3.6%	3.2%	3.0%	3.0%	3.0%	2.5%
General fund performance (minimum fund balance of 15%)	16%	16%	15%	Projected 14%	15%	15%

Measure Name	2005 Data	2006 Data	2007 Data	2008 Data	2009 Target	2011 Target
Net assets of internal service funds with workout plans (dollars in millions)	-\$55	-\$35	-\$18	Target -\$2	\$13	\$58
Percent of Finance resources spent on Decision Support	35%	40%	45%	Target 50%	50%	50%
Percent of Finance resources spent on Operations Support	65%	60%	55%	50%	50%	50%
Collections effectiveness indicator (CEI)	68%	61%	74%	70%	78%**	78%**
Percent of receivables in CEI	74%	76%	83%	85%	90%	90%
Utility billing electronic payments as percent of utility billing revenues	18.0%	19.7%	25.7%	Projected 25.8%	27.0%	29.4%
Investment return (operating funds) total return/benchmark	2.5%/1.7%	4.4%/4.0%	5.5%/5.8%	3.3%/3.8%	NA	NA
Citywide liability claims paid out (in thousands)	\$457	\$396	\$446	\$377	\$450	\$550
Citywide workers' compensation claims paid out (in thousands)	\$5,899	\$5,393	\$5,646	\$6,737	\$7,000	\$8,500
Percent Invoices Paid per Contract Terms (new in 2008)				35%	75%	100%
Average Number of Days to Pay an Invoice – All Vendors (new in 2008)				2 nd Qtr 29	20	20
Average Number of Days to Pay an Invoice – Commercial Vendors (new in 2008)				2 nd Qtr 39	30	30
Percent of Payments Meeting Best Practices Payment Terms (new in 2008)				23%	60%	95%
Percent of Targeted Supplies that are “Green” Purchases – Office Supplies (new in 2008)				19%	20%	30%
Percent of Targeted Supplies that are “Green” Purchases – Fine Paper (new in 2008)				81%	85%	90%

* Data for 2011 targets assume no budget reductions.

** This data target assumes 100% collection of all receivables from all entities, which is not currently occurring.

What two or three key trends and challenges does the department face and how will each be addressed?

The key issues and challenges facing Finance over the next five years include the following:

- Collective impact of Finance Department budget reductions from 2005 through 2009 will increase already existing pressures put on the services provided by the Finance department** to City policymakers, City leadership, customer departments and the public. Since 2005, Finance has reduced its budget by \$940,000 (including \$140,000 for 2010) to meet the five-year financial direction and an additional \$2.2 million reduction associated with the recent revised 2009 budget process as well as a cumulative loss of 38 FTEs since 2003 (fifteen of which occurred during the 2009 budget process). Finance also has internally reallocated \$6 million toward payment of the City enterprise resource system (financial and human resources information) since 2005 and will continue annual \$1.3 million contributions from the department operating budget through 2013.

As the number of staff has declined and resources available for non-personnel have diminished, Finance has made relatively few changes to the level of services provided to City leaders, City departments and the public; business has continued as usual. With

implementation of the 2009 revised budget, Finance has come to a point where further reductions will most certainly impact the services provided. Changes, reductions or elimination of services will occur in 2010 with either of the reduction plans that Finance has prepared. Finance is now turning attention toward maintaining provision of core services across the Enterprise: paying employees, paying vendors, procuring goods and services, collecting revenues, investing cash reserves, administering liability and workers' compensation claims, and issuing bonds. This scaling back of services translates into a reduced capacity to provide decision-support at a time when the demand for financial information and analysis by elected officials and department managers are at their highest and the need is most critical.

- **Continue business process improvements (simplification, automation, or elimination) to reduce costs and improve customer service.** Finance will continue to evaluate and identify where business process improvements are possible and explore ways to fully use the COMPASS system. Implementation of the COMPASS system has and will require several major business process improvements. As part of COMPASS Phase I, accounts payable activities previously spread throughout all City departments has been centralized and consolidated. In COMPASS Phase II, Citywide accounts receivable processes have been centralized and more efficient cash handling practices have been instituted. Finance is currently working toward realizing efficiencies in the payroll and labor costing process through implementation of the Time and Labor module, which will reduce time and resources directed at preparing and processing employee payroll as well as project accounting activities.

Finance has recently participated in the City Business Process Improvement program to realize efficiencies in the contracting, procure-to-pay, and time and labor processes. Finance is actively working toward implementation of several recommendations that have come out of the contracting and procure-to-pay BPI groups, and looks forward to recommendations later this summer related to time and labor. Contracting efforts seek to streamline the process for preparing and executing professional services contracts while procure-to-pay initiatives currently focus on implementation of Web-based ordering for certain large volume vendors and automated, electronic processing of invoice payments.

Finance also has initiated a department-wide effort at all staff levels early in 2009 to more closely evaluate the services provided and determine where more efficient ways of completing work could be implemented or where service changes or reductions are more appropriate. Finance continually seeks to improve its operating business processes to reduce costs and improve customer service.

- **Continued investment in technology improvements** related to the City enterprise resource system. Activities related to the COMPASS project concluded in April 2009 and include implementation of a new enterprise financial system for processing and tracking invoices, managing procurement contracts, paying vendors and employees and collecting revenues. Project activities in COMPASS Phase II included implementation of the accounts receivable module, which has centralized the revenue collection process Citywide and resulted in improved internal controls. Finance staff will continue work to increase functionality within the COMPASS system to reduce transactional costs and help support decision-making in City departments. Finance will continue to partner with BIS and Human Resources to plan, implement and sustain technology improvements, and communicate with City policymakers and other City leaders regarding the benefits of the COMPASS system and related business process changes.

In what internal/external partnerships is the department currently engaged and/or exploring for the future?

The Finance department has initiated discussions with several smaller City departments – Assessor, Communications, Human Resources and Intergovernmental Relations – to explore the potential for sharing Finance Department administrative services.

Finance is further working to determine whether procurement or workers' compensation claims administration services could be provided to external public sector organizations such as the Minneapolis School Board.

These discussions have just been initiated. Final determination on feasibility will be known later in 2009.

How is the department evaluating programs or services for cost effectiveness?

Finance continually strives to be more efficient in providing services to customer departments and citizens. As the department's budget and the number of staff available for department work has declined, Finance has had to make difficult choices about its ability to maintain current service levels. To make the most efficient use of the COMPASS financial system, reap benefits from implementation of technology improvements, and focus staff time on value-added activities, Finance will make the following service changes in 2010:

1. Take on no additional enterprise financial initiatives until the pension litigation has concluded.
2. Rules for making vendor payments will be strictly administered that support three-way match except where the Controller has approved alternative methods that meet minimum financial control standards.
3. Time and labor business process improvements will be made and supported by the related software application.
4. Finance will approve accounting codes in order to meet basic and minimum departmental business needs.
5. To the greatest extent possible, only Compass-generated financial reports will be available for basic financial reporting for managers.
6. Reduce services and costs or increase funding from MBC and Park Board to close the gap between the cost of service and the payments made to the general fund by these boards (will require further discussion with interested parties).

Finance also has engaged in the City's Business Process Improvement program to review and evaluate processes related to contracts, procure-to-pay, and time and labor. Recommendations from these BPI initiatives are in the process of being implemented. Finance will continue to evaluate and identify where business process improvements are possible, exploring ways to fully use the COMPASS system, communicating with customers to identify needs and ensure quality service provision.

Finance has further begun a process to evaluate the impacts of recent budget reductions on the services provided to customer departments. Managers and supervisors are working with staff at all levels to gather information related to service impacts and will share this information upward with Division Directors and the Chief Financial Officer later this summer.

What actions will the department take to meet the current financial projection, a 5% reduction from all funding sources?

The Finance Department has an established practice of reallocating budget resources within the department to improve business operations and foster quality service provision to customer departments. From 2003 to 2009, Finance has taken the following actions relating to its financial resources:

- **COMPASS.** Since 2005, Finance has reallocated \$1.3 million annually (\$6 million total) from its operating budget to fund the upgrade and replacement of the City's enterprise resource system (financial and human resources information). Finance will continue to repay COMPASS through 2013.
- **Business Process Improvements.** Finance has engaged in the City's Business Process Improvement program to review and evaluate processes related to contracts, procure-to-pay, and time and labor. Recommendations from these BPI initiatives are in the process of being implemented. Finance will continue to evaluate and identify where business process improvements are possible, exploring ways to fully use the COMPASS system, communicating with customers to identify needs and ensure quality service provision.
- **Redesign the procure-to-pay business process.** The largest business process improvement associated with the implementation of COMPASS is the "three-way match" process. Finance reallocated seven positions from various accounting units in 2008 to create an accounts payable unit.
- **Improve revenue collection processes.** In 2007 Finance's Treasury division started planning an enterprise-wide initiative to improve revenue collection, especially revenues associated with invoicing processes. Results of this initiative should increase and speed-up revenue collection. Treasury identified two business processes that were determined to have low value and discontinued them in 2007 in order to reallocate resources to the higher value work of improving revenue collections. These two processes are:
 - Closed the cash counting facility (\$250,000 annual cost)
 - Moved to a lockbox check processing environment, eliminating significant manual processing of City utility payments. Savings (\$75,000 annually) from this initiative are being reallocated to the revenue collection initiative.
- **Internal administrative support.** In 2008 Finance reallocated a position to improve internal administrative capabilities to support performance measurement, hiring, workforce improvements, budget management and contracting.
- **Enterprise decision support.** Starting in 2004, Finance reallocated an analyst and other financial resources (totaling \$150,000) to support the following high-value initiatives:
 - Pension reforms for the City's closed pension funds to support lower long-term City financial contributions to these plans.
 - Compensation analysis and support of labor negotiations.
 - Updated the internal service fund long-term financial plans, and improve the timeliness and accuracy of the cost allocation models.
- **Workers' Compensation and Tort claims administration.** The Risk Management and Claims division continually analyzes and reallocates resources between staff and

contracted services to manage the City's workers compensation and tort claims administrative work.

Notwithstanding any budget reductions, the Finance department also must continue to maintain and provide core businesses across the Enterprise, services related to certain critical **financial operations** including:

- Pay employees.
- Pay vendors.
- Procure goods and services (activities with many statutory or City ordinance requirements).
- Collect revenues and concentrate cash.
- Invest cash reserves.
- Administer statutory driven claims for torts, employee injuries and re-employment compensation.
- Issue bonds.

Finance also must provide support to managers and policymakers for **decision-making** including:

- Prepare, distribute, and interpret basic financial reports to managers and policymakers.
- Answer questions from managers, policymakers, and the public.
- Assist managers and policymakers in the development and preparation of the annual budget.
- Assist policymakers in the development of long-term financial plans and policies.

As noted above, Finance has made and will continue to find more efficient ways to conduct all of its work, especially those core functions included in **financial operations**. No other department can be expected to provide these services and they are critical to daily operation of City government.

Finance has prepared a contingency plan to address a 5% reduction to the department operating budget across all funds as instructed. The table below summarizes reduction totals and staffing impacts at the reduction level:

Division	5% Reduction	5% Staffing Impact
Controller	\$549,544	7.0
Development Finance	\$67,570	0.0
Executive	\$24,500	0.0
Procurement	\$47,000	0.0
Risk Management	\$129,178	0.0
Treasury	\$330,000	4.0
All Divisions	\$25,000	NA
Total All Funds:	\$1,172,792	11.0

Any reductions to Finance for 2010 should focus on services delivered to departments and activities supported by the general fund. Finance now funds 23% or \$5 million, of its budget from the general fund. Reductions at the levels outlined in the table above across all funds will significantly impact the way Finance provides services and result in changes, reductions or redesign of service provision. Furthermore, any reduction above \$500,000 will likely have some or all of the following outcomes for City leaders, City departments and members of the public:

Financial Operations:

- Greater risk of fraud and theft due to insufficient financial controls.
- Higher likelihood of negative audit findings from the MN State Auditor.
- Loss of revenues and investment income.
- Inability to pay employees and vendors on a timely, accurate basis. City could consider paying employees monthly rather than bi-weekly.
- Inability to ensure compliance with Council directed policies, ordinances, state and federal acquisition and contracting requirements/laws (i.e., contracting law, EPP, SUBP, AA, EBO, Bonding, Prevailing Wage requirements, etc.) exposes the City to financial and legal claims.
- Changes in advertising for City bids that could result in fewer businesses being aware of bids and fewer bids actually received.
- Inability to meet statutory defined process timelines (to receive/acknowledge, investigate and act on) claims for worker injuries and tort claims leading to higher claims expenses for the City, a greater potential for litigation and lost productivity due to reduced management resources.
- Increased risk of late filing and payments in workers' compensation claims administration leading to State penalty fees and violation of State statutory regulations.
- Impacts to residents in the form of reduced or eliminated Utility Billing counter services and longer call wait times for utility and citywide billing questions.
- Reduced services to internal City departments in the form of slower processes related to contracts, purchase orders, price agreements, bill payment, workers' compensation and treasury services.
- Discontinue financial services to the Police and Fire departments except for basic accounting, payroll, and vendor payments relating to the Police and Fire departments. These departments have finance staffs that must assume greater responsibilities.
- Reductions in the level of accounting and reporting services provided for Capital Projects as well as division-specific accounting and budgeting within Public Works.

Decision Support

- Lack of independence in financial decision-making at the Enterprise level. Policymakers must rely on department managers for information and analysis in support of more decisions.
- Inability to provide accurate and timely financial information for decision-makers.
- Inability to respond to certain financial trends, events and implementation of strategic controls to reduce costs.

FINANCIAL ANALYSIS

EXPENDITURE

For 2010, the department's expense budget for all funds is \$22.4 million, a 3.3% or \$709,000 increase over the 2009 revised budget, keeping the department in line with the five-year financial direction.

REVENUE

The revenue budget for the Finance Department is \$53,000, reflecting the implementation of the self-insurance rate model for internal service funds and risk management.

FUND ALLOCATION

The department's budget is primarily derived from the general fund (\$19.7 million or 88%) with \$2.5 million (11%) coming from the self-insurance internal services fund. Special revenue funds account for the remaining budget, for support of departments that are significantly funded by grants.

ORIGINAL BUDGET

The Mayor recommended and the Council approved a reduction of \$706,000 and 8 positions from the current service level for this department. The balance of the reductions was achieved through non-personnel cuts. A further reduction of \$50,000 in the self-insurance fund was also approved, which is to be achieved through non-personnel reductions. An additional \$87,000 was appropriated in the General Fund to continue providing services to Public Works.

MAYOR'S REVISED BUDGET

The Mayor recommended a reduction of \$50,000. The department will achieve this through non-personnel reductions. Additionally the Mayor recommended a one-time appropriation increase of \$500,000 for process improvements including funding for contractors to implement modules in the current financial system that will enable the department to restructure its workforce in 2011.

COUNCIL REVISED BUDGET

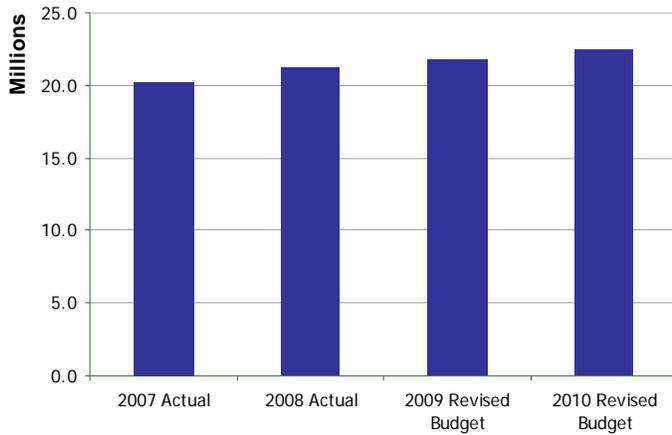
Council adopted the Mayor's recommendations.

**FINANCE DEPARTMENT
EXPENSE AND REVENUE INFORMATION**

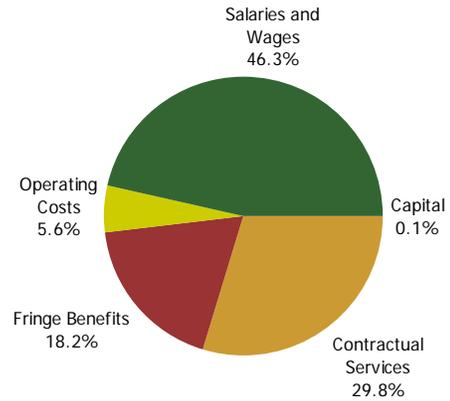
EXPENSE	2007 Actual	2008 Actual	2009 Revised Budget	2010 Revised Budget	Percent Change	Change
AGENCY						
Operating Costs	0	(37,385)			0.0%	0
TOTAL AGENCY	0	(37,385)				0
GENERAL						
Salaries and Wages	9,725,525	9,796,070	10,022,649	9,554,381	-4.7%	(468,268)
Fringe Benefits	3,119,576	3,181,421	3,645,732	3,791,690	4.0%	145,958
Contractual Services	4,343,854	4,999,054	4,751,950	5,693,960	19.8%	942,011
Operating Costs	622,191	759,638	740,700	667,338	-9.9%	(73,362)
Capital	18,371	16,211	46,485	7,415	-84.0%	(39,070)
TOTAL GENERAL	17,829,517	18,752,394	19,207,516	19,714,784	2.6%	507,268
SPECIAL REVENUE						
Salaries and Wages	220,893	218,865	188,443	200,289	6.3%	11,846
Fringe Benefits	58,242	57,470	60,438	72,006	19.1%	11,568
Contractual Services	514	318	(0)	3,209	-697,708.7%	3,209
Operating Costs	59	32			0.0%	0
TOTAL SPECIAL REVENUE	279,708	276,685	248,881	275,503	10.7%	26,623
INTERNAL SERVICE						
Salaries and Wages	519,196	507,473	606,042	641,069	5.8%	35,027
Fringe Benefits	164,584	183,369	203,321	226,003	11.2%	22,682
Contractual Services	899,287	1,117,139	887,058	991,372	11.8%	104,314
Operating Costs	470,551	397,776	581,874	594,400	2.2%	12,526
Capital	0		5,805	5,921	2.0%	116
TOTAL INTERNAL SERVICE	2,053,618	2,205,757	2,284,101	2,458,766	7.6%	174,665
ENTERPRISE						
Operating Costs	549				0.0%	0
TOTAL ENTERPRISE	549					0
TOTAL EXPENSE	20,163,392	21,197,451	21,740,498	22,449,054	3.3%	708,556

REVENUE	2007 Actual	2008 Actual	2009 Revised Budget	2010 Revised Budget	Percent Change	Change
AGENCY						
Interest	(0)				0.0%	0
TOTAL AGENCY	(0)				0.0%	0
GENERAL						
Local Government	15,000	17,781	15,000	15,000	0.0%	0
Charges for Service	6,048	5,857	6,000	6,000	0.0%	0
Charges for Sales	166	8			0.0%	0
Special Assessments	0	(129)			0.0%	0
Other Misc Revenues	3,624	35,350		12,109	0.0%	12,109
TOTAL GENERAL	24,838	58,867	21,000	33,109	57.7%	12,109
INTERNAL SERVICE						
Charges for Service	338,616	286,400	2,285,901	20,000	-99.1%	(2,265,901)
Other Misc Revenues	0	7,149			0.0%	0
TOTAL INTERNAL SERVICE	338,616	293,549	2,285,901	20,000	-99.1%	(2,265,901)
TOTAL REVENUE	363,453	352,416	2,306,901	53,109	-97.7%	(2,253,792)

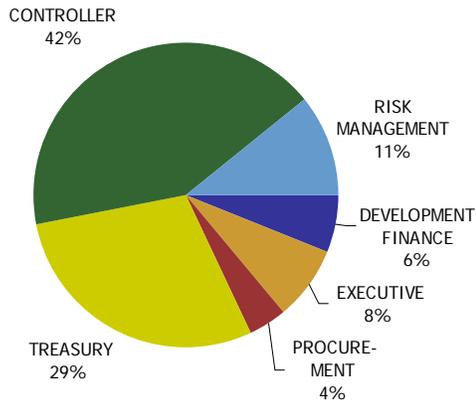
Expense 2007 - 2010



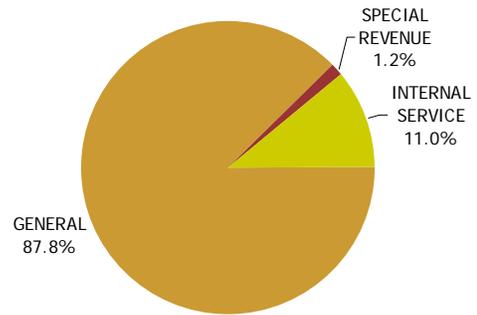
Expense by Category



Expense by Division



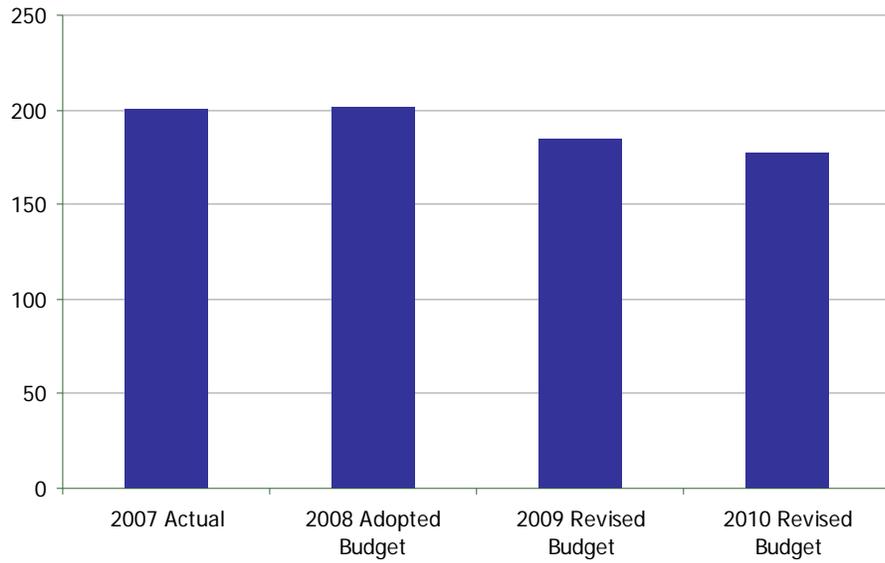
Expense by Fund



**FINANCE DEPARTMENT
Staffing Information**

Expense	2007 Actual	2008 Adopted Budget	2009 Revised Budget	2010 Revised Budget	% Change	Change
CONTROLLER	100.00	100.00	92.00	87.00	-5.4%	(5.00)
DEVELOPMENT FINANCE	15.00	15.00	12.00	10.00	-16.7%	(2.00)
EXECUTIVE	9.00	9.00	10.00	10.00	0.0%	
PROCUREMENT	10.00	10.00	9.00	9.00	0.0%	
RISK MANAGEMENT	9.00	9.00	9.00	9.00	0.0%	
TREASURY	58.00	59.00	53.00	52.00	-1.9%	(1.00)
TOTAL	201.00	202.00	185.00	177.00	-4.3%	(8.00)

Positions 2007-2010



Positions by Divison

