

**City of Minneapolis
2011 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 Project Management Division (PMD), and telecommunications operations. The fund also records transactions for operations within the City Clerk's office related to 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 year-end 2002, the fund has achieved positive increases to the net asset balance bringing the balance from a deficit of \$40.8 million in 2002 to a positive equity of \$13.7 million in 2009. For 2010, the fund is projected to increase net assets by \$2.1 million for an ending balance of \$15.8 million. The updated long-term financial plan projected the net asset balance at year-end 2010 at \$9.7 million.

The City Council appropriated \$1.0 million for technology projects in 2011, funded through net debt bonds. The majority of the funding sources for technology projects are derived from grants and City departmental operating budgets. In 2009, BIS incurred nearly \$8.8 million in expense toward technology projects. The PMD charges the City departments for the cost of creating the technology and providing quality, low-cost project management for technology-related projects. The charges to City departments are calculated to generate enough revenue to cover the overhead expense of the department.

In 2009, \$16.8 million of refunding bonds were issued for outstanding debt with maturities from 2010 to 2012. Debt service for 2010 is \$9.5 million a decrease of \$1.1 million from the \$10.8 paid in 2009. By 2013, the current debt will be reduced to \$768,000.

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 USI Wireless as the anchor tenant of the network, committing to \$1.25 million in annual usage through spring 2018. 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 to implement capabilities that previously were not feasible. The community, however, already enjoys the benefits from the City's investment. Broadband access is now available at an affordable rate with the added benefit of mobility; many community technology centers have free accounts, and free hot spots.
- **Department Specific:** Other initiatives include completion of the emergency operations training facility, in squad video, mobile housing inspectors, impound management software, database infrastructure modernization, asset management/work order system; traffic control

enforcement update, risk management and claims system replacement, and Public Works' traffic management system.

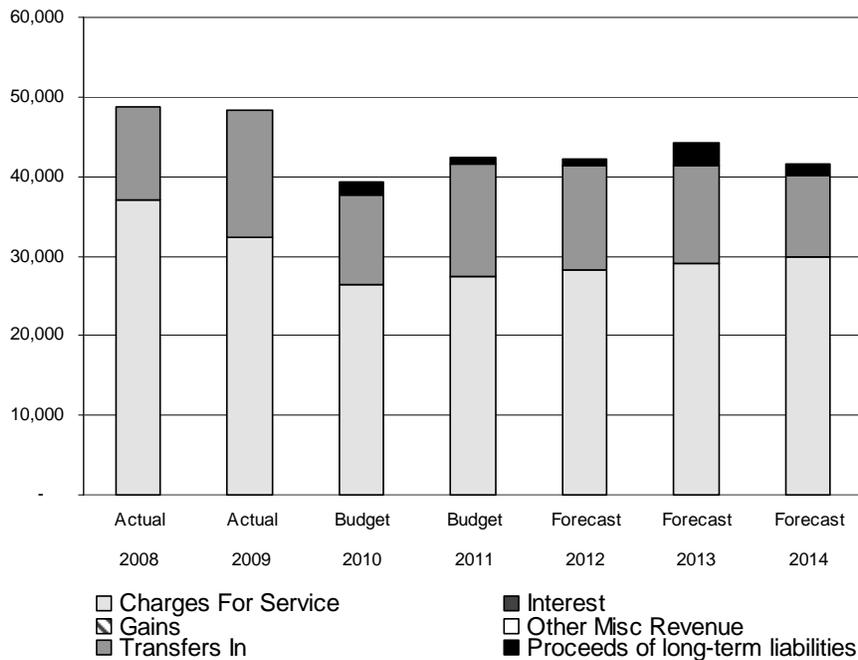
The net asset position in this fund will increase as it continues to provide services to City departments with charges determined through its allocation model and collects fees for service with PMD. The allocation model for the fund was developed using an accounting industry standard known as activity-based costing. The model assigns costs to customers on a "level of effort" basis and began charging customer departments the allocated rates 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 2009, net assets improved to \$13.7 million.

The long-term financial plan projected the net asset balance at year-end 2009 to increase \$8.7 million from a deficit of \$7.9 at year end 2008 to a positive \$0.8 million. The actual net asset balance at year-end 2009, \$13.7 million, represents an increase of \$8.8 million from the 2008 ending balance. The fund's cash balance has also increased as projected in the long-term financial plan. The cash balance at year-end 2003 was a deficit of \$3.2 million. From 2003 to 2009 the cash balance increased \$2.3 million to a deficit of \$915,000 at year-end 2009.

Information Technology Fund Revenues
(in thousands of dollars)



2011 Budget

Revenues

The 2011 revenue budget is \$42.5 million. To fund the cost of providing information technology services, the financial plan required that the annual transfer from the general fund receive an increase of \$0.9 million each year from 2005 through 2008, minus the reductions to growth in those years. In 2009, the fund received \$13.6 million from the general fund and \$2.5 million from the bond redemption fund. The budget for 2010 includes a decrease of \$4.0 million to the transfer from the General Fund. Total transfers to the fund in 2011 are \$14.0 million including \$11.5 million from the general fund, \$1.5 million from the bond redemption fund and \$1.0 million from the Self Insurance fund.

Charges for service are increased in 2011 reflected by the additional revenue that BIS is 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.

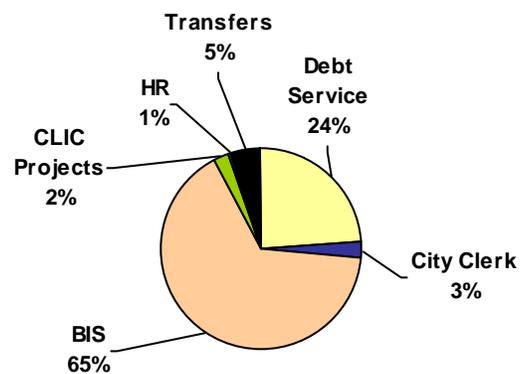
Revenue Assumptions (2011)	
Number of PC's	2,755
Number of telephones	2,921

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. Capitalized assets are reported in this fund as is the depreciation expense. The 2011 expense budget of \$40.4 million includes \$1.2 million in property tax supported debt for information technology. Beginning In 2011, the fund will pay \$1.5 million annually as loan repayment to the Convention Center, with final payment of \$1.75 million in 2016.

**Intergovernmental Services Fund
Use of Funds by Department
(\$40.4 million)**



Transfers

Transfers-in (revenue) relates to a transfer from the general fund of \$10.6 million to subsidize BIS debt service payments, a \$1.5 million transfer from the general debt service fund, and \$1.0 million transfer from the self insurance fund. BIS also has a transfer out (expense) of \$423,000 for debt service related to the Minneapolis Employees Retirement Fund's (MERF) unfunded

pension liability. A transfer of \$1.5 million is made to the Convention Center fund as an annual payment for an advance from this fund.

Debt Service

In 2011 the fund will have a beginning bond liability of \$20.1 million. A debt service payment of \$9.7 in 2011 including \$678,000 of interest will leave an ending balance of bonds payable of \$11.1 million at year-end.

Mayor's Recommended Budget

The Mayor recommended a transfer from the general fund of \$465,000 for auditing and encryption of Human Resources and Finance data on a one-time basis. The Mayor included a wireless commitment charge of \$40,866 which is offset by healthcare savings. The wireless commitment charge across the City will be transferred to the Intergovernmental Services Fund for payment of the City's wireless commitment. The General Fund portion of the wireless payment (\$478,000) will be transferred to the fund and the remaining portion will be paid by non-General Fund funds as a charge for service.

Council Adopted Budget

The Council adopted the Mayor's recommendations.

The Council further adopted the following staff directions:

- BIS, with assistance from the Finance Department, should identify a plan to achieve a long-term, structurally balanced budget and report the plan to the Ways & Means/Budget Committee no later than March 1, 2011. The plan should include a recommendation for service reductions and/or additional charges to departments.
- The Human Resources, Finance and BIS departments should bring a funding plan for the ERP (Enterprise Resource Planning) to the Ways and Means/Budget Committee by June 1, 2011.
- The department of Regulatory Services, working with BIS and Finance should estimate the ongoing costs of the proposed Land Management System and propose an allocation to departments for ongoing operating costs no later than July 1, 2011.

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Intergovernmental Services Fund

	2008 Actual	2009 Actual	2010 Current Budget	2010 Projected	2011 Budget	% Chg From 2010 Budget	2012 Forecast	2013 Forecast	2014 Forecast
Source of Funds:									
Charges For Service	37,017	32,258	26,494	32,073	27,510	3.8%	28,319	29,136	29,954
Interest	-	-	-	-	-		-	-	-
Gains	-	-	-	-	-		-	-	-
Other Miscellaneous Revenue	5	(99)	-	-	-		-	-	-
Operating Transfers In	11,762	16,115	11,252	11,252	13,974	24.2%	13,142	12,301	10,275
Proceeds of Long term Liabilities	-	-	1,507	1,507	1,000	-33.6%	750	2,715	1,250
Total	48,784	48,274	39,253	44,832	42,484	8.2%	42,211	44,152	41,479
Use of Funds:									
Transfers	296	277	218	218	1,923	782.1%	1,780	1,745	1,745
Debt Service	3,399	10,816	9,499	9,505	9,703	2.1%	9,604	768	736
City Clerk	1,158	1,157	1,186	1,186	1,133	-4.5%	1,154	1,189	1,224
Human Resources	178	145	253	313	256	1.2%	263	271	279
Business Information Services	13,993	26,777	24,435	30,244	26,396	8.0%	26,727	27,424	28,141
Capital Projects	6,622	1,202	1,507	1,507	1,000	-33.6%	750	2,715	1,250
Total	25,646	40,374	37,098	42,973	40,411	8.9%	40,278	34,111	33,376
Change in Net Assets	18,480	8,810	2,155	1,859	2,073		1,933	10,041	8,103
Net Assets	4,868	13,678	15,833	15,537	17,906		19,839	29,879	37,982
Cash Balance	94	(915)	1,240	944	3,313		5,246	15,286	23,389
Long Term Financial Plan Target Cash¹	(1,632)	16	1,693	1,693	2,566		3,503	9,653	13,889
Variance Cash to Financial Plan	1,726	(931)	(453)	(749)	747		1,743	5,633	9,500

¹The cash projections for 2008 onward are based on the updated long-term financial plan for this fund, adopted by Council in 2008.