

**City of Minneapolis  
2013 Budget  
Financial Plan**

**Intergovernmental Services Fund**

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**Background**

The Intergovernmental Services Fund accounts for all of the operations of the Information Technology Department (IT) including information and technology functions, the managed services contract with Unisys, the Project Management Office (PMO), and telecommunications operations. Information Technology activities accounts for 94.6% of the operating activities in the fund. The fund also accounts for operations within the City Clerk's office related to central mailing and printing services, representing 4.5% of the fund's operating activities. The remaining 0.9% of the fund's operating activities represents a portion of the Human Resources budget that is designated for internal training.

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 net asset position of \$22.2 million in 2011. For 2012, the fund is projected to increase net assets by \$3.0 million for an ending balance of \$25.2 million.

The deficit in this fund was partially due to debt issued to finance technology purchases. The long-term financial plan addressed this issue by providing cash transfers from the general fund and bond redemption levy to pay off the debt. There were \$16.8 million of bonds refunded in 2009 and another \$4.56 million of bonds refunded in 2010 resulting in interest savings on future debt payments of \$.59 million and \$.16 million respectively. Debt service payments of \$10.7 million for 2011 and \$9.6 million for 2012 will extinguish all debt related to the past deficits. By 2013, the outstanding debt will be \$1.4 million and will be paid for with transfers from the bond redemption levy.

In 2011, IT incurred \$5.3 million of expense for technology projects. The PMO charges City departments for the cost of purchasing or creating technology enhancements and provides quality, low-cost project management for implementing these technology-related projects. The charges to City departments are calculated to generate enough revenue to cover the overhead expense of the department. In addition, the City Council appropriated \$1.3 million for technology capital projects in 2012 which are funded by net debt bonds. For 2013, the Mayor recommended \$1.2 million for capital projects that will be funded through net debt bonds. The majority of the funding for technology projects is derived from grants and City departments' operating budgets.

The Information Technology department continues to be active with new initiatives:

- **Citywide:** *First-of-a-Kind* - The City is participating in the IBM First-of-a-Kind project to create solutions for cross-department coordination leveraging analytics and optimization, business process modeling, and asset management technologies. These advanced technology solutions will leverage the citywide wireless network, Strategic Information Center, and camera infrastructure already in place at the City.
- **Department Specific:** *Enterprise Land Management* - The City will acquire and implement a system that will provide workflow automation and transaction processing for its emergency

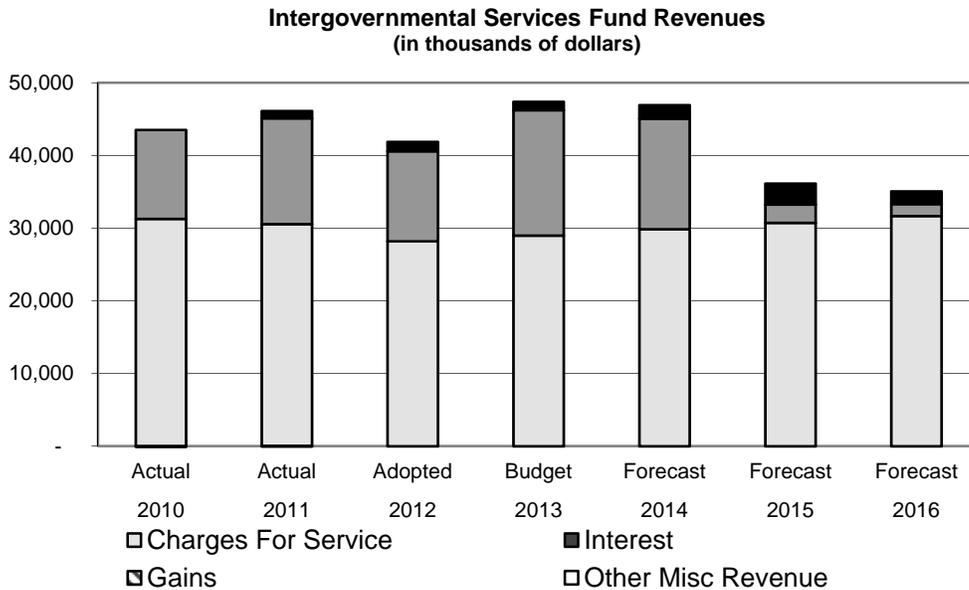
response resource management, regulatory enforcement, inspections, permitting, development, planning, and constituent self-service and other land management and reporting processes, among many other department-specific projects.

The net asset position in this fund will increase as it continues to provide services to City departments with charges determined through its cost recovery model and to collect fees for services with PMO. The cost recovery model assigns costs to customers on a “level of effort” basis and has been used to charge customer departments the allocated costs since 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 \$(21.7) million. Although this negative adjustment caused fund net assets to have a balance of \$(40.8) million at year-end 2002, it provided a better representation of 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 and at year-end 2011, net assets improved to \$22.2 million representing an increase of \$5.3 million from the 2010 ending balance of \$16.9 million.

The fund's cash balance has also increased as projected in the long-term financial plan. From 2003 to 2011 the cash balance increased by \$14.9 million from a deficit of \$(3.2) million to an \$11.7 million balance at year-end 2011. It should be noted that the cash balance primarily consists of deferred revenue, or cash received from other City departments as prepayment for future technology projects.



## 2013 Budget

### Revenues

The 2013 revenue budget is \$47.4 million, an increase of 2.0% from the 2012 projected revenue. To fund the cost of providing information technology services, the original financial plan required that this fund receive an annual transfer from the general fund. In 2011, the fund received \$11.1 million from the general fund and \$2.5 million from the bond redemption fund. Revenue transfers from the general fund in 2012 and 2013 are \$10.1 million and \$14.2 million respectively. In addition, the fund will receive transfers from the bond redemption fund of \$1.1 million in 2012 and \$2.1 million in 2013. For fiscal years 2011 through 2016, the Self Insurance Fund transfers \$1.0 million to the Intergovernmental Services Fund annually.

Charges for service are expected to increase in 2013 compared to the 2012 original budgeted amount due to additional revenue received from City departments through the cost allocation model and from charges directly to City departments for additional IT services.

### Allocation Model Implications

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

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

Revenue Assumptions (2013)	
Number of PC's	2,676
Number of telephones	2,868

### Expenses

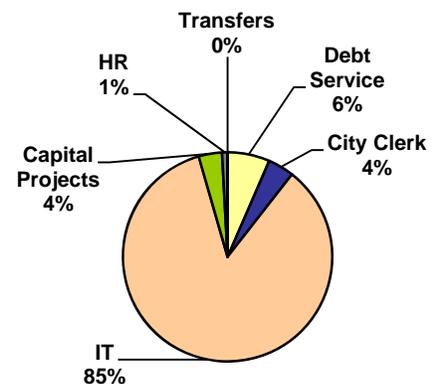
The 2013 expense budget is \$31.9 million, a decrease of 26.7% from the 2012 projected expense budget. The decrease is due primarily to the reduction in the fund's debt payment from \$9.6 million in 2012 to \$2.1 million in 2013.

Operating expenses in the Intergovernmental Services Fund are comprised of the following: salaries/benefits, contractual, operating, and equipment. Of the total operating budget for 2013, the IT expense budget comprises 94.6%. A portion of the operating expenses of the City Clerk's office and Human Resources are also included in this fund and comprise 4.5% and 0.9%, respectively, of the total operating budget.

Capital expense for information technology investments are also budgeted in the

Intergovernmental Services Fund. Capitalized assets are reported in this fund as is the related depreciation expense. For 2013, the capital budget is \$1.2 million, a decrease of 9.8% from the 2012 budget. In 2011, the fund began to 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  
(\$31.9 million)**



### *Transfers*

Transfers into this fund for 2013 include a transfer from the general fund of \$13.5 million in accordance with the long-term financial plan, \$0.2 million to fund City Hall rent, \$0.5 million for the general fund wireless allocation, a \$2.1 million transfer from the general debt service fund, and a \$1.0 million transfer from the Self Insurance Fund. Beginning in 2013, the City proprietary funds will no longer need to continue to transfer payments to the Pension Debt Service fund related to debt service for the Minneapolis Employees Retirement Fund's (MERF) unfunded pension liability. In 2012, bonds related to this debt were retired resulting in substantial savings to the City and creating a large one-time debt payment for the various City funds. The Intergovernmental Services Fund will use fund balance as a revenue source for this payment and recover this cost through the cost allocation model in years 2013 through 2015.

### *Debt Service*

In 2013, the fund will have a beginning bond liability of \$3.1 million. A debt service payment of \$2.1 million in 2013 including \$117,750 of interest will leave an ending balance of bonds payable of \$1.1 million at year end.

### *Net Assets and Cash Balance*

The financial policy related to the net asset balance for the Intergovernmental Services Fund determines that the net asset balance should not fall below two times the fund's annual depreciation. The annual depreciation for 2011 is \$12.1 million and the year-end net asset balance is \$22.2 million which brings the fund within \$2.0 million of the benchmark amount of \$24.2 million. As the net asset balance continues to improve, it is anticipated that the benchmark amount will be met in future years.

The financial policy for cash balance states that the minimum cash balance should be equal to 15.0% of the operating budget. The year end cash balance for 2011 is \$11.9 million and the fund had a 2011 total operating budget of \$25.3 million resulting in a benchmark amount of \$3.8 million. At year end 2011, the fund's cash balance exceeded the benchmark by \$8.1 million. The fund's cash balance is expected to significantly exceed the target cash reserve in the foreseeable future.

### **Mayor's Recommended Budget**

The Mayor does not recommend any changes to the 2013 budget for the Intergovernmental Services Fund.

**City of Minneapolis  
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Financial Plan (in thousands of dollars)**

**Intergovernmental Services Fund**

	2010 Actual	2011 Actual	2012 Budget	2012 Projected	2013 Budget	% Chg From 2012 Projected	2014 Forecast	2015 Forecast	2016 Forecast
<b>Source of Funds:</b>									
Charges For Service	31,275	30,565	28,187	33,000	28,983	-12.2%	29,852	30,748	31,671
Other Miscellaneous Revenue	(78)	(6)	-	-	-		-	-	-
Operating Transfers In	12,245	14,549	12,407	12,186	17,255	41.6%	15,223	2,499	1,658
Proceeds of Long term Liabilities	-	1,000	1,275	1,275	1,150	-9.8%	1,850	2,900	1,750
<b>Total</b>	<b>43,442</b>	<b>46,108</b>	<b>41,869</b>	<b>46,461</b>	<b>47,388</b>	<b>2.0%</b>	<b>46,926</b>	<b>36,147</b>	<b>35,079</b>
<b>Use of Funds:</b>									
Transfers	395	448	1,072	1,072	-	-100.0%	-	-	-
Debt Service	9,438	10,302	9,604	9,604	2,073	-78.4%	736	504	-
City Clerk	1,342	1,237	1,303	1,250	1,286	2.9%	1,325	1,364	1,405
Human Resources	153	179	261	300	268	-10.7%	276	284	293
Information Technology	26,443	25,619	26,674	30,000	27,106	-9.6%	27,950	28,824	29,673
Capital Projects	(39)	(60)	1,275	1,275	1,150	-9.8%	1,850	2,900	1,750
<b>Total</b>	<b>37,732</b>	<b>37,725</b>	<b>40,188</b>	<b>43,501</b>	<b>31,882</b>	<b>-26.7%</b>	<b>32,137</b>	<b>33,877</b>	<b>33,121</b>
<b>Change in Net Assets</b>	<b>3,225</b>	<b>5,321</b>	<b>1,681</b>	<b>2,960</b>	<b>15,506</b>		<b>14,789</b>	<b>2,270</b>	<b>1,958</b>
<b>Net Assets</b>	<b>16,903</b>	<b>22,225</b>	<b>23,906</b>	<b>25,185</b>	<b>40,690</b>		<b>55,479</b>	<b>57,749</b>	<b>59,707</b>
<b>Cash Balance<sup>1</sup></b>	<b>8,438</b>	<b>11,860</b>	<b>12,041</b>	<b>13,320</b>	<b>27,325</b>		<b>40,614</b>	<b>41,384</b>	<b>41,592</b>
<b>Target Cash Reserve</b>	<b>4,369</b>	<b>3,800</b>	<b>4,175</b>	<b>4,175</b>	<b>4,038</b>		<b>4,160</b>	<b>4,286</b>	<b>4,410</b>
<b>Variance Cash to Target Reserve</b>	<b>4,069</b>	<b>8,060</b>	<b>7,866</b>	<b>9,145</b>	<b>23,287</b>		<b>36,454</b>	<b>37,098</b>	<b>37,182</b>

<sup>1</sup> The cash balance for years 2012 through 2016 is reduced by \$1.5 million for repayment of Minneapolis Convention Center loan. At year end 2011, fund 06400 has a liability balance of \$13.3 million in deferred revenue resulting from prepayments by City departments for future IT projects. These prepayments result in an increase to the cash balance.

<sup>2</sup> The target cash reserve is in accordance with the financial reserve policy for internal service funds. The cash reserve for the Intergovernmental Services Fund should be at a minimum equal to 15% of the operating budget.