

**City of Minneapolis
2014 Budget
Financial Plan**

Intergovernmental Services Fund

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 account for 94.8% of the operating activities in the fund. The fund also records transactions for operations within the City Clerk's office related to central mailing and printing services, representing 4.2% of operating activities. A portion of the Human Resources budget that is designated for internal training is included in this fund, representing the remaining 1.0% of operating activities.

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 \$27.1 million in 2012. For 2013, the fund is projected to increase net assets by \$14.9 million for an ending balance of \$42.3 million.

The former 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 to pay off the debt. Debt service payments of \$10.7 million in 2011 and \$9.6 million in 2012 retired all debt related to the past deficits. In 2012, an additional \$1.28 million of net debt bonds were sold to fund technology projects, resulting in a total outstanding debt at year-end of \$3.30 million. The outstanding debt will be paid through transfers from the bond redemption fund.

In 2012, IT incurred \$4.7 million of expense for technology projects. The PMO office 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 and 2014, the City Council approved \$1.2 million and \$1.9 million, respectively, for technology capital projects. The majority of the funding for technology projects is derived from grants and City departments' operating budgets. Additional projects will be funded through the Capital Asset Request System (CARS) with resources provided by the General Fund.

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

- **Citywide:** *Information Operations Platform*, 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 of Minneapolis.
- **Department Specific:** *Enterprise Land Management*, The City will acquire and implement a system that will provide workflow automation and transaction processing for the City's 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.

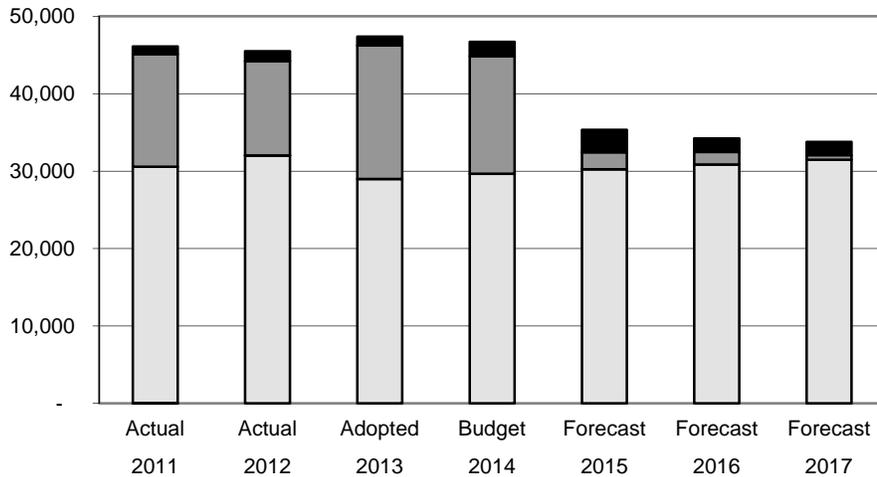
The net asset position in this fund will remain positive as it continues to provide services to City departments with charges determined through its allocation model and collect fees for service with PMO. The allocation model assigns costs to customers on a “level of effort” basis and began charging customer departments the allocated rates in 2005. The net asset position of the fund increases primarily as a result of the capitalization of technology projects.

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 represented 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 2012, net assets improved to \$27.4 million.

The updated long-term financial plan projected the net asset balance at year-end 2012 to increase to \$25.1 million. The actual net asset balance at year-end 2012 is \$27.4 million, representing an increase of \$2.9 million from the 2011 ending balance of \$24.5 million. The fund's cash balance has also increased as projected in the long-term financial plan. From 2003 to 2012 the cash balance increased by \$19.0 million from a deficit of \$3.2 million to a positive of \$15.8 million at year-end 2012. 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.

Information Technology Fund Revenues
(in thousands of dollars)



Charges For Service
 Other Misc Revenue
 Transfers In
 Proceeds of long-term liabilities

2014 Budget

Revenues

The 2014 revenue budget is \$47.2 million, a decrease of 4.4% from the 2013 projected revenue of \$49.4 million. 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 2012, the fund received \$10.3 million from the general fund and \$1.1 million from the bond redemption fund. Revenue transfers from the general fund in 2013 and 2014 are \$14.2 million and \$13.8 million respectively. In addition, the fund will receive transfers from the bond redemption fund of \$2.1 million in 2013 and \$0.7 million in 2014. Beginning in 2015, the fund will not receive a transfer from the general fund to finance the payment for outstanding net debt bonds. The outstanding debt significantly decreased from 2012 to 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 increased in 2014 as compared to the 2013 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 in recognition of the full cost of providing these services, including contractually obligated increases in maintenance and other costs.

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:

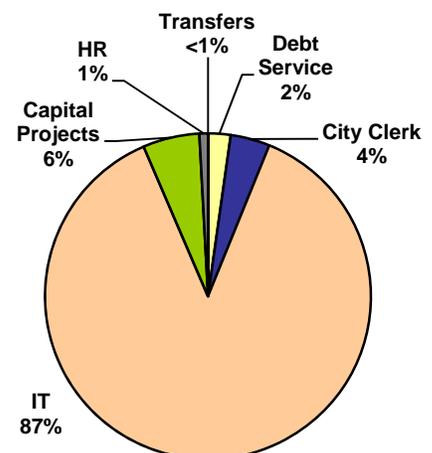
- IT operating costs at a level that conforms to the Council-adopted financial plan.
- Debt service resulting from phone system purchase.
- A small portion for City Clerk data center operations and Human Resources operations.

Revenue Assumptions (2014)	
Number of PC's	2,725
Number of telephones	2,877

Expenses

The 2014 expense budget is \$33.1 million, a decrease of 4.0% from 2013 projected expense amount. The primary reason for the decrease is a reduction in the debt payment from \$2.1 million in 2013 to \$0.7 million in 2014. Operating expenses in the Intergovernmental Services Fund are comprised of the following: salaries/benefits, contractual, operating, equipment. Of the total operating budget for 2014, the IT expense budget comprises 94.8%. A portion of the operating expenses of the City Clerk's office and Human Resources are included in this fund and comprise 4.3% and 0.9%, respectively, of the total operating budget. Capital expense for information technology investments are budgeted in the Intergovernmental Services Fund. Capitalized assets are reported in this fund as is the depreciation expense. For 2014, the capital budget is \$2.1 million, an increase of 60.9% from the 2013 budget primarily due to an additional \$0.65 million

**Intergovernmental Services Fund
Use of Funds by Department
(\$32.9 million)**



appropriated for the Police Report Management System Upgrade. 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.

Transfers

Transfers into this fund for 2014 include a transfer from the general fund of \$13.1 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 \$0.7 million transfer from the general debt service fund, and \$1.0 million transfer from the Self Insurance Fund. Beginning 2013, the City proprietary funds will discontinue transferring payments to the Pension Debt Service fund related to debt service of 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 2014, the fund will have a beginning bond liability of \$1.2 million. A debt service payment of \$.7 million in 2014 including \$56,000 of interest will leave an ending balance of bonds payable of \$0.5 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 2012 is \$12.3 million and the year-end net asset balance is \$27.4 million which brings the fund's net asset balance \$2.8 million over the benchmark amount of \$24.6 million. The financial policy for cash balance states that the minimum cash balance should be equal to 15.0% of the fund's total budget. The year-end cash balance for 2012 is \$15.8 million and the fund had a 2012 total budget of \$40.2 million resulting in a benchmark amount of \$6.0 million. At year-end 2012, the fund's cash balance exceeded the benchmark by \$9.8 million.

Mayor's Recommended Budget

The Mayor did not recommend any changes to this fund.

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Intergovernmental Services Fund

	2011 Actual	2012 Actual	2013 Budget	2013 Projected	2014 Budget	% Chg From 2013 Projected	2015 Forecast	2016 Forecast	2017 Forecast
Source of Funds:									
Charges For Service	30,565	32,018	28,983	31,000	29,681	-4.3%	30,275	30,880	31,498
Other Miscellaneous Revenue	(6)	13	-	-	-		-	-	-
Operating Transfers In	14,549	12,185	17,255	17,255	15,514	-10.1%	2,152	1,625	606
Proceeds of Long term Liabilities	1,000	1,275	1,150	1,150	2,050	78.3%	3,150	2,950	1,350
Total	46,108	45,491	47,388	49,405	47,245	-4.4%	35,577	35,455	33,454
Use of Funds:									
Transfers	448	1,103	-	-	-		-	-	-
Debt Service	10,302	9,241	2,057	2,057	736	-64.2%	504	-	-
City Clerk	1,237	1,269	1,286	1,160	1,286	10.9%	1,312	1,338	1,365
Human Resources	179	245	268	340	277	-18.5%	283	288	294
Information Technology	25,619	26,401	27,106	29,800	28,764	-3.5%	29,412	30,052	30,716
Capital Projects	(60)	(23)	1,150	1,150	2,050	78.3%	3,150	2,950	1,350
Total	37,725	38,236	31,866	34,507	33,112	-4.0%	34,660	34,628	33,725
Change in Net Assets	5,321	2,904	15,522	14,898	14,133		917	827	(271)
Net Assets	24,506	27,410	42,932	42,308	56,441		57,358	58,185	57,914
Cash Balance¹	11,860	15,805	29,827	29,203	41,836		41,253	40,330	40,059
Target Cash Reserve	3,800	6,028	4,780	5,176	4,967		5,199	5,194	5,059
Variance Cash to Target Reserve	8,060	9,777	25,047	24,027	36,870		36,054	35,136	35,001

¹ The cash balance for years 2013 through 2016 is reduced by \$1.5 million for repayment of Minneapolis Convention Center loan. At year end 2012, fund 06400 has a liability balance of \$12.2 million in deferred revenue resulting from prepayments by City departments for future IT projects. These prepayments result in an increase to the cash balance.

² 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 fund's total budget.