

**City of Minneapolis
2012 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, the managed services contract with Unisys, the Project Management Division (PMD), and telecommunications operations. The total of BIS activities accounts for 94.5% 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 4.6% of operating activities. A portion of the Human Resources budget that is designated for internal training is included in this fund, representing 0.9% 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 \$16.9 million in 2010. For 2011, the fund is projected to increase net assets by \$2.0 million for an ending balance of \$18.9 million, ahead of the updated long-term financial plan projection of \$18.4 million at year-end 2011.

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 to pay off the debt. In 2009, \$16.8 million of bonds were refunded and in 2010 another \$4.56 million of bonds were refunded resulting in interest savings of \$.59 and \$.16 million respectively which helped to reduce the deficit. 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 debt outstanding will be \$1.84 million and will be paid for with transfers from the bond redemption levy.

In 2010, BIS incurred nearly \$11.9 million of expense for technology projects. The PMD 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 \$1.0 million for technology projects in 2011 and the Mayor recommended \$1.275 million for 2012 funded through net debt bonds. The majority of the funding for technology projects are derived from grants and City departments operating budgets.

This fund 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 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,

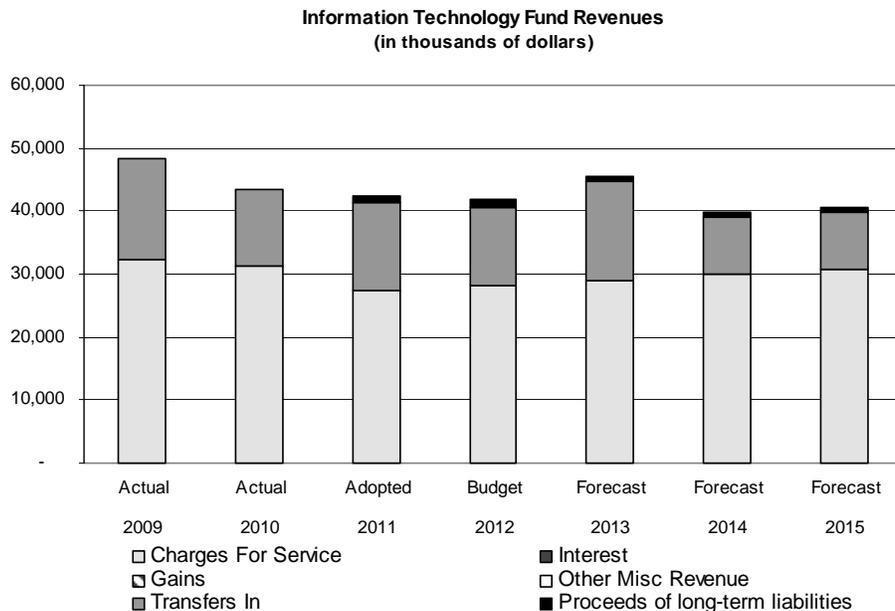
permitting, development, planning, and constituent self-service and other land management and reporting processes, among many other department-specific projects.

The net asset position in this fund will increase as it continues to provide services to City departments with charges determined through its allocation model and collect fees for service with PMD. The allocation 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 2010, net assets improved to \$16.9 million.

The long-term financial plan projected the net asset balance at year-end 2010 to increase \$8.9 million from \$800,000 at year end 2009 to \$9.7 million. The actual net asset balance at year-end 2010, \$16.9 million, represents an increase of \$12.0 million from the 2008 ending balance. The fund's cash balance has also increased as projected in the long-term financial plan. From 2003 to 2010 the cash balance increased by \$11.7 million from a deficit of \$3.2 million to a positive of \$8.4 million at year-end 2010.



2012 Budget

Revenues

The 2012 revenue budget is \$41.9 million, a decrease of 8.4% from 2011 projected. 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 transfer to the fund in 2012 is \$12.4 million including \$10.3 million from the general fund, \$1.1 million from the bond redemption fund and \$1.0 million from the Self Insurance fund.

Charges for service are increased in 2012 reflected by the additional revenue received by City Departments through the allocation model and charges directly to City departments for additional BIS services.

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:

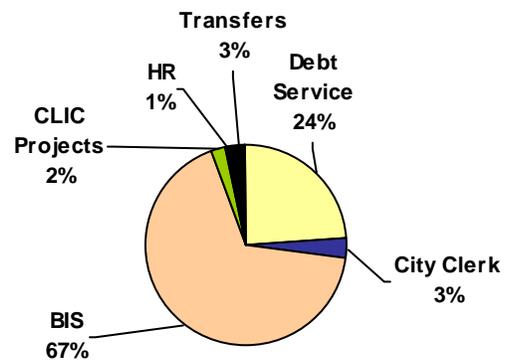
- BIS operating costs at a level that conforms to the Council-adopted financial plan.
- Debt service resulting from phone system purchase.
- A small portion for City Clerk data center operations and Human Resources operations.

Revenue Assumptions (2012)	
Number of PC's	2,678
Number of telephones	2,902

Expenses

Expenses in the Intergovernmental Services Fund are comprised of the operating expenses (salaries/benefits, contractual, operating, equipment) of BIS (94.5% of operating activities in the fund), a portion of the operating expenses of the City Clerk's office (4.6%), and Human Resources (0.9%). Capital expenditures for information technology investments are budgeted in the Intergovernmental Services Fund. Capitalized assets are reported in this fund as is the depreciation expense. The 2012 expense budget of \$40.2 million, a decrease of 8.1% from 2011 projected. 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
(\$40.2 million)**



Transfers

Transfers-in for 2012 relates to a transfer from the general fund of \$9.5 million to subsidize BIS debt service payments, \$0.3 million to fund city hall rent, \$0.5 million for the general fund wireless allocation, a \$1.1 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 \$1.1 million for debt service related to the Minneapolis Employees Retirement Fund's (MERF) unfunded pension liability. The City will retire bonds related to this debt service in 2012 resulting in substantial savings, while creating a large one-time increase to this debt payment for the proprietary funds. The BIS Department will use fund balance as a revenue source for this payment and recover this cost through the allocation model.

Debt Service

In 2012, the fund will have a beginning bond liability of \$11.1 million. A debt service payment of \$9.6 in 2012 including \$389,000 of interest will leave an ending balance of bonds payable of \$1.9 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 2010 is \$11.0 million and the year-end net asset balance is \$16.9 million which brings the fund within \$5.0 million of benchmark amount of \$22.0 million. 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 2010 is \$8.4 million and the fund had a 2010 operating budget of \$37.7 million resulting benchmark amount of \$5.7 million. At year end 2010, the fund's cash balance exceeded the benchmark by \$2.7 million.

Mayor's Recommended Budget

The Mayor recommended an acceleration of the General Fund transfers to the Intergovernmental Services Fund from the adopted plan as well as an overall reduction of \$3.6 million over the life of the transfers based on the performance of the fund. The proposed transfer schedule is \$9.495M in 2012; \$13.280M in 2013; \$6.582M in 2014 and \$6.780 in 2015. By accelerating the transfer schedule, capacity is created in the near future to hold down property tax levy increases, while maintaining the financial integrity of the fund.

Council Adopted Budget

The Council adopted the Mayor's recommendations.

**City of Minneapolis
2012 Budget
Financial Plan (in thousands of dollars)**

Intergovernmental Services Fund

	2009 Actual	2010 Actual	2011 Budget	2011 Projected	2012 Budget	% Chg From 2011 Projected	2013 Forecast	2014 Forecast	2015 Forecast
Source of Funds:									
Charges For Service	32,258	31,275	27,510	31,188	28,187	-9.6%	29,033	29,904	30,801
Other Miscellaneous Revenue	(99)	(78)	-	-	-		-	-	-
Operating Transfers In	16,115	12,245	13,974	13,539	12,407	-8.4%	15,745	9,028	9,007
Proceeds of Long term Liabilities	-	-	1,000	1,000	1,275	27.5%	800	850	900
Total	48,274	43,442	42,484	45,727	41,869	-8.4%	45,578	39,782	40,708
Use of Funds:									
Transfers	277	395	423	448	1,072	139.3%	-	-	-
Debt Service	10,816	9,438	9,703	10,713	9,604	-10.4%	768	736	504
City Clerk	1,157	1,342	1,133	1,174	1,303	11.0%	1,342	1,382	1,424
Human Resources	145	153	256	340	261	-23.4%	268	276	285
Business Information Services	26,777	26,443	26,396	30,061	26,674	-11.3%	27,524	28,326	29,150
Capital Projects	1,202	(39)	1,000	1,000	1,275	27.5%	800	850	900
Total	40,374	37,732	38,911	43,736	40,188	-8.1%	30,702	31,570	32,263
Change in Net Assets	8,810	3,225	3,573	1,991	1,681		14,875	8,211	8,445
Net Assets	13,678	16,903	20,476	18,894	20,575		35,450	43,661	52,107
Cash Balance¹	1,699	8,438	10,511	8,929	9,110		19,585	23,396	27,442
Long Term Financial Plan Target Cash²	16	1,693	2,566	2,566	3,503		9,653	13,889	16,144
Variance Cash to Financial Plan	1,683	6,745	7,945	6,363	5,607		9,932	9,507	11,298

¹ The cash balance for years 2011 through 2015 is reduced by \$1.5 million for repayment of Minneapolis Convention Center loan, Convention Center; 2012 onward is reduced by \$9.4 million for unearned revenue and increased by \$6.5 million for notes receivable.

² The cash projections for 2009 onward are based on the updated long-term financial plan for this fund, adopted by Council in 2008.