## **FINANCE**

#### MISSION

Provide essential financial services and guide decisions to ensure the City's lasting vibrancy and financial strength.

## **FINANCE SERVICES**

The Finance Department has six primary services:

- Pay Employees
- Order, Receive and Pay for Goods and Services
- Bill and Collect Revenues, Cash Management and Investment
- Strategic Financial Services to the Enterprise
- Financial Services to Departments
- Risk Management

## **ORGANIZATION CHART**

#### **Chief Financial Officer** Risk Controller Management Procurement Management Treasury Development & Budget & Claims Finance Managerial Contract · Workers' • Revenue Development Budget Compensation Accounting Enterprise Management Collection Planning & Financial Disaster Tort Claims Analysis Financial Cash Development System Analysis Planning Insurance Management Support Capital & Debt Loans & Purchasing Investments Loss Central Payroll Management Contracts Prevention Financial • CPED Reporting Budgeting

#### RESULTS MINNEAPOLIS MEASURES, DATA AND TARGETS TABLE

	2005	2006	2007	2008	2009	2011
Measure Name	Data	Data	Data	Data	Actual	Target
Bond ratings	AAA	AAA	AAA	AAA	AAA	AAA
	Aa1	Aa1	Aa1	Aa1	Aa1	Aaa
	AAA	AAA	AAA	AAA	AAA	AAA
Total debt as a percentage of Assessor's					Est.	
estimated market value	3.6%	3.2%	3.0%	3.0%	3.0%	3.0%
General fund performance (minimum fund					Est.	
balance of 15%)	16%	16%	15%	14%	19%	15%

	2005	2006	2007	2008	2009	2011
Measure Name	Data	Data	Data	Data	Actual	Target
Net assets of internal service funds with				<b>#</b> 40		
workout plans (dollars in millions)	-\$55	-\$35	-\$18	\$13	\$25	\$50
Collections effectiveness indicator (CEI)	68%	61%	74%	70%	74%**	71%**
Percent of receivables in CEI	74%	76%	83%	85%	85%	85%
Utility billing electronic payments as						
percent of utility billing revenues	18.0%	19.7%	25.7%	25.8%	27.8%	29.0%
Investment return (operating funds) total	2.5%/	4.4%/	5.5%/	2.8%/	1.7%/	
return/benchmark	1.7%	4.0%	5.8%	3.1%	0.3%	NA
Citywide liability claims paid out (in						
thousands)	\$457	\$396	\$446	\$381	\$228	\$404
Citywide workers' compensation claims						
paid out (in thousands)	\$5,899	\$5,393	\$5,646	\$6,915	\$4,180	\$5,073
Average Number of Days to Pay an Invoice						
- All Vendors (new in 2008)				35	34	20
Percent of Payments Meeting Best						
Practices Payment Terms (new in 2008)				23%	32%	80%
Percent of Targeted Supplies that are						
"Green" Purchases - Office Supplies (new						
in 2008)				19%	60%	69%
Percent of Targeted Supplies that are						
"Green" Purchases - Fine Paper (new in						
2008)				81%	90%	94%

<sup>\*</sup> Data for 2011 targets assume no budget reductions.

## 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:

• Nine years (2003-2011) of budget reductions have severely impacted the ability of the Finance Department to maintain current service levels. Since 2003, Finance has reduced growth to the department budget by \$1.34 million (including \$204,000 for 2011) to meet the five-year financial direction and an additional \$4.42 million to meet budget targets and respond to cuts in Local Government Aid. Together, spending cuts since 2003 total \$5.76 million. Finance has lost a total of 38 FTEs since 2003 (twenty of which occurred during the 2009 and 2010 budget processes). In addition, Finance has internally reallocated \$6.7 million toward payment of the City enterprise resource system (financial and human resources information) since 2005 and will continue annual \$1.2 million in contributions from the department's operating budget through 2015.

As a result of budget reductions, the remainder of the department's staff has taken on more work and stress levels have increased. In general, Finance has reduced its capacity to advise policymakers and managers about financial decisions, but has maintained essential services (payroll, purchasing, financial reports, claims administration, revenue collection, investment and cash management) at adequate levels. The reduction of Finance's capacity for independent analysis has led some departments to add financial support positions, resulting in a loss of enterprise focus. Finance also has developed additional process improvement strategies to work more

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

efficiently and use financial resources better. Unfortunately, these strategies are unable to keep pace with the rate of budget cuts. Finance has come to a point where further reductions will most certainly result in reductions to or elimination of services.

• Continue business process improvements (simplification, automation, or elimination) to reduce costs and improve customer service. Finance continually seeks to improve its business processes to reduce costs and improve customer service. Over the last two years, Finance has participated in four City Business Process Improvement program initiatives related to contracting, procure-to-pay, paying employees and position management, and is actively working to change processes surrounding these critical department services. Finance also has implemented several process improvements through centralizing accounts payable and citywide accounts receivable, more efficient cash handling practices, and streamlining the process to contract for professional services.

Major efforts are underway in 2010 to change the way that City staff submit and process biweekly payroll information to reduce the amount of time and resources directed toward this activity. Additional process improvement initiatives currently underway include streamlining of the process for reconciling city credit card transactions, development of an electronic invoice library, improving services surrounding processes used to order goods and services, implementation of Web-based ordering for certain large-volume vendors and automated, electronic processing of invoice payments.

• Significant investment has been made in technology information systems to help facilitate and support the work of the Finance department. Finance has four critical information systems: the COMPASS financial system, the enQuesta utility billing system, the OpenScape enterprise call center system, the Cognos budget and reporting module. Finance also has a workers' compensation claims processing and tracking system. These technology systems are complex and have become integral for Finance to provide services to its customers and require much more time from Finance staff to perform system maintenance formerly provided by technology staff. As technology has become more widespread throughout the marketplace, customers have become accustomed to quick and easy ways to do their business and get the information they need –expectations no different for government organizations for customers.

Finance staff has engaged in several projects to make improvements in technology systems and will continue these efforts. Aside from keeping pace with regular updates or version upgrades for information systems, Finance is also currently working to select and implement a new system for processing and tracking workers' compensation claims, to implement the Time and Labor module within the COMPASS financial system for processing biweekly payroll and labor contract rules, to provide more options to vendors doing business with the City to allow them to submit electronic invoices and autoprocess them, and to setup online ordering for City staff with certain high-volume vendors. One-time appropriation increases received through the 2010 supplemental budget process have allowed Finance to continue moving forward on process improvement work. Without these additional funds, Finance would not have had the funds to implement these critical improvements. Finance will continue to explore ways to use technology; however, budget reductions are now to a point where they are outpacing efficiencies gained from technology improvements.

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

Finance has had discussions with several smaller City departments including the Assessor, Communications, Human Resources and Intergovernmental Relations to explore the potential for sharing Finance Department administrative services. It was determined that sharing these services would not result in efficiencies or service enhancements for these departments. Finance is continuing to explore whether procurement or workers' compensation claims administration services could be provided to external public sector organizations such as the Minneapolis Public Schools.

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

Finance has an established practice of evaluating programs and services to improve business operations and foster quality service provision to customer departments. Finance has taken the following actions relating to its financial resources:

- **COMPASS.** Since 2005, Finance has reallocated \$1.3 million annually (\$6.7 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 2015.
- 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, bi-weekly payroll processing and labor contract rule administration, and
  position management. Several of the recommendations from these BPI initiatives have
  been implemented. Finance will continue to evaluate and identify where business
  process improvements are possible.
- 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. Further work will be done in 2010 to support departments in the process for ordering goods and services using a purchase order. Finance staff currently spend a significant amount of time tracking down missing information from goods and services ordered without a purchase order, which delays payments to vendors and is much more resource intensive.
- Improve revenue collection processes. 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 by closing the cash counting facility and moving to a lockbox check processing environment, which eliminated significant manual processing of City payments. In 2009, Finance's Treasury Division centralized revenue collection throughout the City enterprise to increase and speed up revenue collection. Additional steps are being taken in 2010 to redesign the process for reconciling credit card transactions to save staff time and reduce the possibility for error and minimize potential for fraud.
- 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 funded four financial analyst positions to support the high value initiatives of pension reform, compensation analysis,

- financial planning, cost allocation models, and support for labor negotiations. Due to budget cuts, one of these positions has since been eliminated.
- 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. Mitigation work will focus on higher department users.
- Finance Department core services. The Finance department also must continue to maintain and provide core services across the Enterprise (services no other department can be expected to provide), which include paying employees, paying vendors, administering the process for procuring goods and services, general, daily cash management, collecting revenues, investing cash reserves, administering statutory driven claims for torts, employee injuries and re-employment compensation, and issuing bonds. In addition, Finance must provide support to managers and policymakers for decision-making including preparing, distributing, and interpreting basic financial reports, answering questions, assisting in the development and preparation of the annual budget, and developing long-term financial plans and policies.

As described in preceding paragraphs, Finance continually strives to be more efficient in providing services to customer departments and citizens. Through process improvements and strategic use of its technology systems, Finance has or will realize efficiencies in several service areas.

What actions will the department take to meet the current service level reductions? Please include a description of any revenue proposals. Identify Results Minneapolis measures where you anticipate a service level impact based on cuts. Specifically include charts that show 2011 projections of no cuts and target reductions.

As noted previously, the Finance Department has experienced a reduction in financial resources totaling \$5.8 million since 2003 and has redirected \$6.7 million of the department operating budget since 2005 toward repayment of the COMPASS system internal loan with additional payments totaling \$7.2 million through 2015. Further reductions to the Finance department will result in the following:

- Further reduce Finance's ability to provide independent analysis for Mayor and City Council financial decisions. Policymakers must rely on department managers for information and analysis in support of financial decisions.
- Greater risk of fraud and theft due to insufficient financial controls.
- Higher likelihood of negative audit findings from the State Auditor.
- Loss of revenues and investment income.
- Public communication and response to public inquiries on financial information will be curtailed.
- Inability to provide accurate and timely financial information for managers and policymakers.
- Inability to respond to certain financial trends, events and implementation of strategic controls to reduce costs.

To put some perspective on the impact of further General Fund reductions on the Finance budget, it is helpful to illustrate how the department is funded. Finance charges out for services provided to other departments throughout the City Enterprise through the General Fund

Overhead Allocation model. Only a portion of the Finance department budget is actually supported by charges to the General Fund -- Finance now funds 23% or \$5 million of its budget from the General Fund model (see table below):

Distribution of Finance Department General Fund Charges by Service Activity

	2010 GFOH Gen Fund	2010 GFOH All Other Funds	2010 GFOH Total
Service Activity	Allocation	Allocation	Allocation
Bill and Collect Revenues, Cash			
Management and Investment	\$792,437	\$5,869,121	\$6,661,558
Financial Services to Departments	\$1,267,324	\$3,194,449	\$4,461,773
Order, Receive and Pay for Goods and			
Services	\$1,010,201	\$3,426,683	\$4,436,884
Pay Employees	\$1,210,826	\$883,224	\$2,094,050
Strategic Financial Services to the Enterprise	\$700,952	\$1,357,855	\$2,058,807
Risk Management	\$0	\$2,458,764	\$2,458,764
Total:	\$4,981,740	\$17,190,096	\$22,171,836

<sup>\*</sup> Note: 2011 GFOH data is not yet available; 2010 data is for illustrative purposes.

Reductions of the CSL as outlined in 2011 budget instructions represent an 8 percent cut, to the Finance General Fund-supported portion of its budget. As department reductions across the last several years have been targeted at cuts to services provided to General Fund departments, a disparity has been created in service levels for the "haves" and "have-nots." Departments supported by revenue outside of the General Fund are able to afford financial services and those within the General Fund are not.

Finance has prepared a contingency plan to address the current service level reductions as instructed, which includes two different revenue initiatives. Again, financial services to other departments outside of the General Fund are not impacted by 2011 budget proposals; however, a 1.0 vacant Administrative Analyst FTE that previously provided services to the Business Information Services department (a non-General Fund department) was eliminated for 2011 as BIS chose not to fund this service.

The 2011 budget proposal includes two revenue initiatives as described below:

- Implementation of a procure-to-pay surcharge (\$64,000). Finance department Accounts Payable staff continues to spend additional time tracking down missing information on invoices submitted by vendors for payment. Invoices lacking necessary information have not been entered into the financial system and did not get pre-approval prior to purchase of the good or service. Finance staff enter the information after the fact and after goods or services have already been received and search for missing information such as the purchasing department and for verification that the items were actually received. Finance is working on a process improvement to help support departments adhere to the three-way match process when ordering goods or services, which will be in place by the end of 2010. Departments that do not follow the three-way match process will be charged a fee to cover the costs associated with the extra time needed for Finance staff to process these payment transactions.
- Improved recovery of costs associated with services provided to support grants (\$50,000). The Finance department does not currently recoup costs for all services provided to support departments who expend grant funds. Use of grant dollars carry with

them certain guidelines for how the money is spent as well as specific reporting requirements to verify how the money is spent. Finance staff directs a higher level of resources to track grant expenditures and prepare required reports. Up to this point, City departments have not budgeted in costs to pay for charges associated with administrative overheads such as financial accounting. The 2011 budget proposal includes implementation of overhead charges to grant funds to increase revenues to the General Fund for these services.

#### CSL Reductions

The CSL reduction level will require Finance to cut \$403,000 of the department's General Fund portion of the budget and includes cuts beyond the required Five-Year Financial Direction target in order to meet budget guidelines. A total of 5.0 FTEs would be eliminated under this scenario.

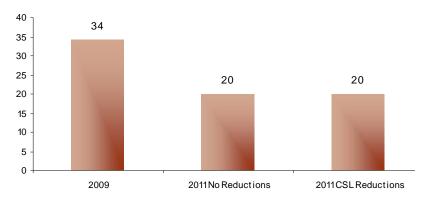
Finance anticipates being able to make most of the CSL reductions through implementation of process improvements related to paying employees and ordering goods and services. These process improvements are expected to reduce the staff time involved with these critical finance department functions and were made possible by the additional one-time appropriation increase received through the 2010 supplemental budget process. Without these one-time funds, Finance would not have been in a position to pay for these process improvements. Implementation of the reductions outlined for the Service impacts will result, however, in the area of cash management. Oversight of the cash reconciliation process will be reduced and result in slower processing time and open up a greater possibility for inappropriate use of City funds.

CSL Scenario Service Activity	CSL Reduction	CSL Reduction Staffing Impact	% Reduction to Service Activity (Gen Fund)
Bill and Collect Revenues, Cash Management and Investment	\$203,000	3.0	26%
Order, Receive and Pay for Goods and Services	\$130,000	1.0	13%
Pay Employees	\$70,000	1.0	6%
Total Gen Fund Reduction:	\$403,000	5.0	8.0%

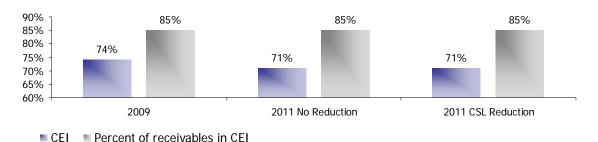
#### **Results Implications**

The following are estimated impacts to the department's performance based on the CSL and alternative scenario reductions.

### Average number of days to pay an invoice



## Collections Effectiveness Indicator (CEI) and Percent of Receivables in the CEI



<sup>\*</sup> Note: Data includes Park Board receivables. The Park Board does not currently submit full payment for all billings.

## FINANCIAL ANALYSIS

#### **EXPENDITURE**

For 2011, the department's expense budget for all funds is \$22.0 million, a 2.0% reduction from the 2010 revised budget, keeping the department in line with the five-year financial direction. In 2010, \$500,000 in one-time process improvements funds was included. Part of the reduction in fringe benefits is due to an adjustment to more accurately reflect health insurance expenditures. The remainder of the difference is primarily due to a change in how the MERF contributions are accounted for in the budget.

#### REVENUE

The revenue budget for the Finance Department is \$258,608, 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 (\$19.3 million or 88%) with \$2.4 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.

#### MAYOR'S RECOMMENDED BUDGET

The Mayor recommended a reduction to growth of \$287,000 including 6 FTE. The Mayor further recommended approval of the proposed revenue initiatives.

#### COUNCIL ADOPTED BUDGET

The Council approved the Mayor's recommendation. One FTE was added in Treasury outside of the budget process to support department functions, leaving Finance with a net 5 FTE reduction.

The Council directed the department to work with the Neighborhood and Community Relations Department to allow neighborhoods to contract up to 50% of the un-contracted balance of their Phase II allocation (excluding Phase II allocated but not contracted reserve funds), as of City Council adoption of the 2011 budget, but not to exceed a total contracted amount of 50% of their Phase II allocation.

The Council further directed the Department to report to the Ways and Means/Budget Committee no later than February 1, 2011, with a plan to provide property tax relief in 2012 and 2013 by capturing 50% of the value of the properties in the consolidated TIF district in these two years. This report should also include impacts on Target Center funding and neighborhood funding. In addition, Finance staff, working with the Neighborhood and Community Relations Department, the NCEC, the Intergovernmental Relations Department, and the City Attorney's Office, is further directed to identify options for property tax relief for the years 2012 and 2013 should legislative authority to consolidate neighborhood programs not be achieved, and report these options to the Ways and Means/Budget Committee by February 15, 2011. This report shall also include the impacts of limiting revenue generated by the TIF district funding neighborhood programs and the Target Center debt relief to \$10 million annually, with any increment over and above \$10 million used to fund Phase II plans.

The Council further directed the Department to assist the BIS Department to identify a plan to achieve a long-term, structurally balanced budget and report the plan to the Ways and 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 Council also directed the Department to assist CPED in developing a plan to fund ongoing development activities, including prioritizing the services CPED provides.

The Council also directed the Department to work with the Human Resources and BIS departments to bring forth a funding plan for the Enterprise Resource Planning System to the Ways and Means/Budget Committee by June 1, 2011.

The Council also directed the Department to work with Public Works to simplify the Property Services allocation model for implementation in the 2012 budget process.

The Council further directed the Department work with Regulatory Services to report on the nuisance abatement revolving account within the General Fund and develop fund balance policy recommendations for the account and report back to the Ways and Means/Budget Committee by February 1, 2011.

The Council also directed the Finance and BIS Departments to work with Regulatory Services to estimate the ongoing costs of the proposed Land Management System and propose an allocation to the departments for ongoing operating costs no later than July 1, 2011.

The Council also directed Finance staff to increase the Office of Internal Audit's allocation in the Five-Year Financial Direction based on the adjustment made for departmental salaries.

The Council also directed the Finance and Intergovernmental Relations Departments to work together to determine the impacts of not addressing the over-obligation of CDBG resources related to Block E. This information is to be presented with the City's 2010 final report to the Ways and Means/Budget Committee in the first quarter of 2011.

The Council also directed the Finance Department to amend the expense and revenue appropriations of the Fire and Regulatory Services departments to reflect the transfer of Fire Inspection activities from the Fire Department to Regulatory Services in the Five-Year Financial Direction.

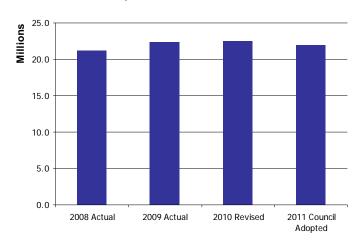
Finally, the department was directed to revise the Five-Year Financial Direction to reflect no increase in City salaries for a two-year period. For contracts that are settled in 2011, budgets should be adjusted in 2012 and 2013.

## FINANCE DEPARTMENT EXPENSE AND REVENUE INFORMATION

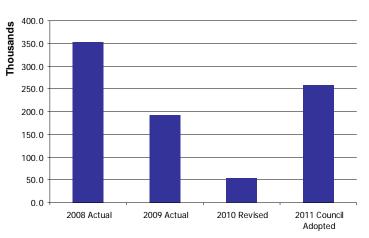
EXPENSE	2008 Actual	2009 Actual	2010 Revised Budget	2011 Council Adopted	Percent Change	Change
AGENCY						
OPERATING COSTS	(37,385)	(51)			0.0%	0
TOTAL AGENCY	(37,385)	(51)				0
GENERAL						
SALARIES AND WAGES	9,796,070	9,618,502	9,554,381	9,406,605	-1.5%	(147,776)
FRINGE BENEFITS	3,181,421	3,339,624	3,791,690	3,598,673	-5.1%	(193,017)
CONTRACTUAL SERVICES	4,999,054	5,442,251	5,693,960	5,595,949	-1.7%	(98,011)
OPERATING COSTS	759,638	786,368	667,338	684,580	2.6%	17,242
CAPITAL	16,211	1,995	7,415	7,489	1.0%	74
TOTAL GENERAL	18,752,394	19,188,740	19,714,784	19,293,296	-2.1%	(421,488)
SPECIAL REVENUE						
SALARIES AND WAGES	218,865	246,081	200,289	207,954	3.8%	7,666
FRINGE BENEFITS	57,470	60,878	72,006	73,842	2.5%	1,836
CONTRACTUAL SERVICES	318	62	3,209	10,199	217.8%	6,990
OPERATING COSTS	32	779			0.0%	0
TOTAL SPECIAL REVENUE	276,685	307,800	275,503	291,995	6.2%	16,492
INTERNAL SERVICE						
SALARIES AND WAGES	507,473	617,912	641,069	638,770	-0.4%	(2,300)
FRINGE BENEFITS	183,369	204,262	226,003	220,032	-2.6%	(5,971)
CONTRACTUAL SERVICES	1,117,139	1,089,670	991,372	954,699	-3.7%	(36,673)
OPERATING COSTS	397,776	928,677	594,400	600,940	1.1%	6,540
CAPITAL			5,921	5,980	1.0%	59
TOTAL INTERNAL SERVICE	2,205,757	2,840,521	2,458,766	2,420,420	-1.6%	(38,346)
TOTAL EXPENSE	21,197,451	22,337,010	22,449,054	22,005,712	-2.0%	(443,342)

REVENUE	2008 Actual	2009 Actual	2010 Revised Budget	2011 Council Adopted	Percent Change	Change
AGENCY						
INTEREST		(10,649)			0.0%	0
TOTAL AGENCY		(10,649)			0.0%	0
GENERAL						
LOCAL GOVERNMENT	17,781	6,012	15,000	5,000	-66.7%	(10,000)
CHARGES FOR SERVICES	5,857	300	6,000	1,500	-75.0%	(4,500)
CHARGES FOR SALES	8				0.0%	0
SPECIAL ASSESSMENTS	(129)				0.0%	0
OTHER MISC REVENUES	35,350	(756)	12,109	52,108	330.3%	39,999
TOTAL GENERAL	58,867	5,556	33,109	58,608	77.0%	25,499
INTERNAL SERVICE						
CHARGES FOR SERVICES	286,400	198,593	20,000	200,000	900.0%	180,000
OTHER MISC REVENUES	7,149				0.0%	0
TOTAL INTERNAL SERVICE	293,549	198,593	20,000	200,000	900.0%	180,000
TOTAL REVENUE	352,416	193,501	53,109	258,608	386.9%	205,499

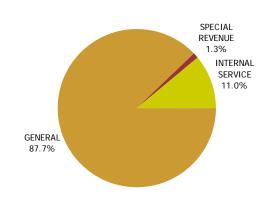
## Expense 2008 - 2011



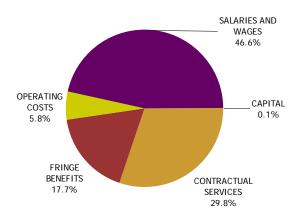
#### Revenue 2008 - 2011



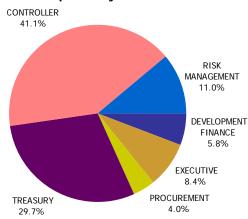
## **Expense by Fund**



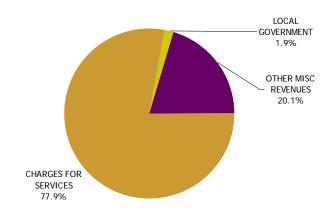
**Expense by Category** 



## **Expense by Division**



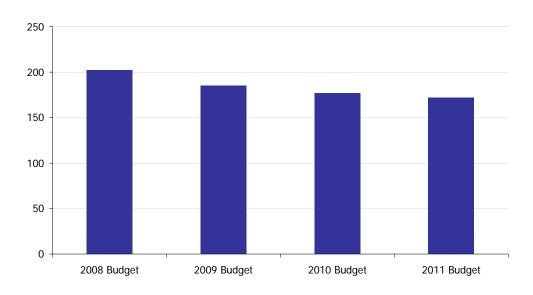
**Direct Revenue by Type** 



# FINANCE DEPARTMENT Staffing Information

Expense	2008 Budget	2009 Budget	2010 Budget	2011 Budget	% Change	Change
DEVELOPMENT FINANCE	15.00	12.00	10.00	10.00	0.0%	
EXECUTIVE	9.00	10.00	10.00	10.00	0.0%	
TREASURY	59.00	53.00	52.00	50.00	-3.8%	(2.00)
RISK MANAGEMENT	9.00	9.00	9.00	9.00	0.0%	
CONTROLLER	100.00	92.00	87.00	84.00	-3.4%	(3.00)
PROCUREMENT	10.00	9.00	9.00	9.00	0.0%	
TOTAL	202.00	185.00	177.00	172.00	-2.8%	(5.00)

## Positions 2008-2011



## **Positions by Divison**

