

CITY OF MINNEAPOLIS

# Charges for Services/Fees Internal Service Funds

**Ways & Means Committee**

**July 28, 2014**



**Minneapolis**  
*City of Lakes*

# Charges For Services/Fees

## Definition

- Charge for Service: Exchange transaction for immediate/direct provision of service (example: sale of GIS information)
- Fee: Charge associated with reimbursement of cost of previously-provided service or anticipated service
  - License Fee
  - Permit Fee
- Both calculated on “Full Cost” basis
  - May not charge more than full cost
  - Not required to charge full cost

# Charges For Services/Fees

## Basis – Direct and Indirect Costs

- Direct Costs: Costs or expenses that are specifically associated with a service, program, or department and, thus, is clearly identifiable with a particular function (example: building inspector salary/wages, water meter)
- Indirect Costs: Costs or expenses that typically cannot be specifically associated with a given service, program, or department and thus, cannot be clearly associated with a particular functional category (examples: departmental administration costs, building depreciation)

# Charges For Services/Fees

## Indirect Costs-Basis

- Cost Allocation is the basis for calculation/determination of amount charged or “allocated” to the direct function.
- Cost allocation is the assigning of a common cost to consumer of that function. The goal is to allocate or assign the costs based on the root causes of the common costs .
- Cost allocation is tool that helps track all costs associated with the ongoing operation more efficiently, since each cost is associated with specific departments or groups of departments within the organization.
- Cost allocation is a means of identifying and properly assigning costs, this approach to allocation helps to provide focus and structure to *financial planning* in a way that would be extremely difficult otherwise.

# Charges For Services/Fees

## Indirect Cost Examples

- Cost of departmental administration (supervisor, director, support staff, materials & supplies)
- Cost of organizational administration (City Coordinator, Clerk, Mayor)
- Cost of facilities and support (Property Services, building rent & depreciation, fleet management, Finance/Payroll, Human Resources, Information Technology & software, insurances)

# Charges For Services/Fees

## Internal Service Funds

- The City uses Internal Service Funds to account for and monitor organizational support activities.
  - Engineering Materials & Testing –used to account for operations of the City’s paving products laboratory.
  - Intergovernmental Services – This fund is used to account for information technology service, central mailing and printing services, and the City’s telecommunication operations.
  - Property Services – used to account for the physical management and maintenance of various City buildings, except for the City Hall/County Court House building (MBC).
  - Equipment Services (Fleet) –used to account for the ownership and operation of various equipment and vehicles.
  - Public Works Stores –used to account for centralized procurement, warehousing and distribution of stocked inventory items.
  - Self-Insurance –used to account for employee benefit programs and administrative costs, occupational health services and severance payments to employees who have retired or resigned, a tort liability program and a workers’ compensation program

# Charges For Services/Fees Other “Internal Services”

- General Fund Overhead
  - Many of the City’s support functions are housed in departments that are funded within the City’s General Fund: Finance, Coordinator, HR, 311, Clerk, Civil Rights, IGR
  - Annual calculation performed to parse out associated costs to various other departments (which may include other support departments)
  - Costs not charged out to other General Fund departments
    - Costs are charged to Special Revenue funded department functions, Enterprise Fund activities, and Internal Service Fund activities
  - General Fund overhead costs used to help determine full “cost of service” when determining fees and charges for external customers

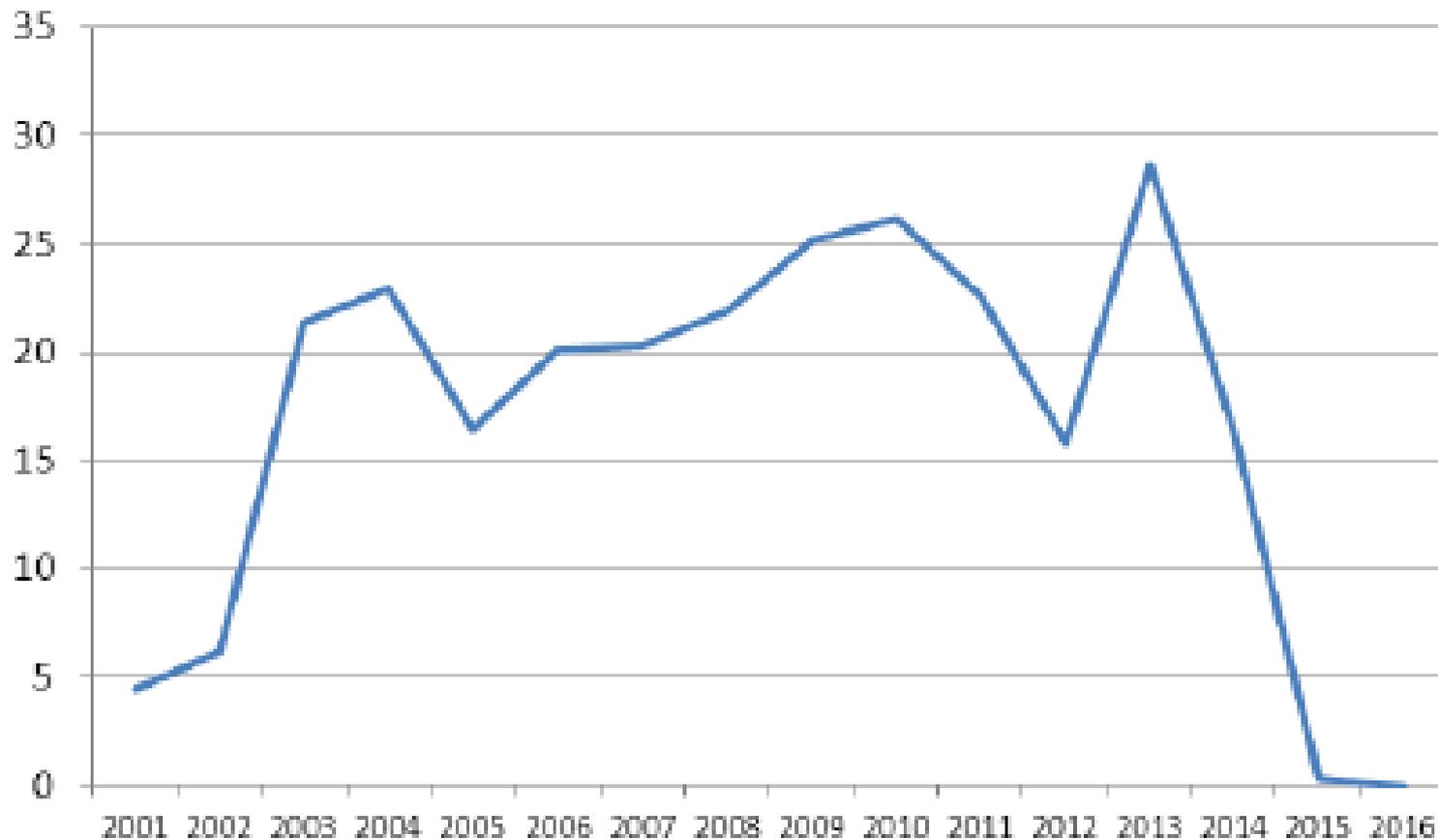
# Charges For Services/Fees

## Internal Service Funds-History

- In the past, many charges and budgets determined by Service Level Agreements (SLAs)
  - Allowed departments to “purchase” the services they wanted from the internal service provider
  - Led to higher cost per service
  - Departments opted out of service when there were budget challenges
  - Discretionary use of Internal Services led to significant deficits in the Internal Service Funds as costs were not able to be fully allocated and/or charged back (\$61.7M deficit in 2000)
  - Workout plan implemented and completed in 2014 (compared to original plan of 2019)

# Charges For Services/Fees Internal Service Funds-History

General Fund Support for Internal Service Funds



# Charges For Services/Fees

## Internal Service Funds-History

- Changes in Funding Methodology support long-term financial stability in the Internal Service Funds
  - Beginning with 2014 budget, departments not required to balance budget with internal service charges
  - Adoption of “full allocation” principles
  - Departments provided with necessary budget appropriation to fund allocated internal service charges
  - Internal Service levels determined in the aggregate at the internal service function level

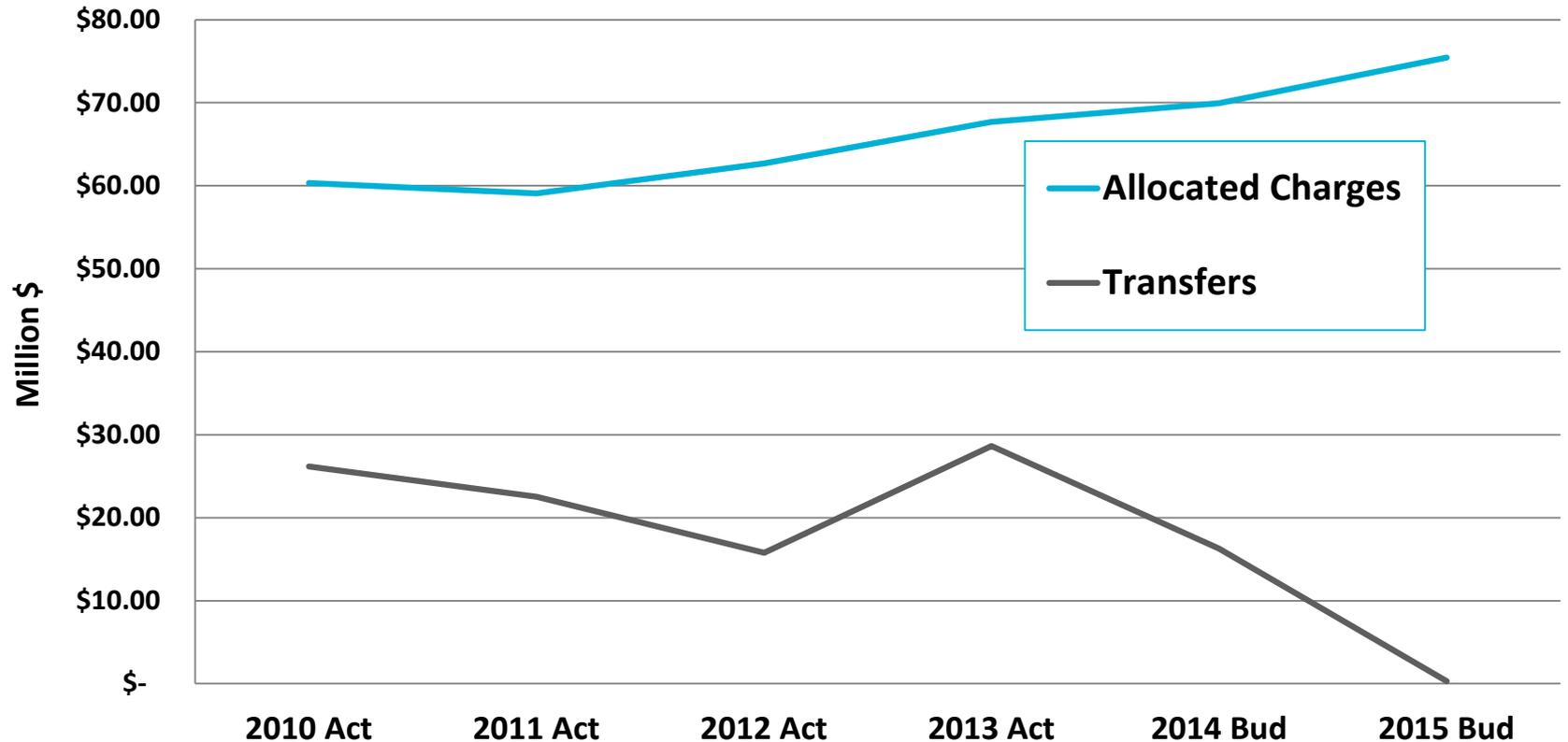
# Charges For Services/Fees

## Internal Service Funds-Budget

- Internal Services considered part of the Current Service Level (CSL) budget
  - Costs considered before additional programs and enhancements
  - Requires transparency in on-going/long-term costs of operations
    - Depreciation
    - Equipment Replacements
    - Software Maintenance
    - Contractual Obligations

# Charges For Services/Fees Internal Service Funds-Budget

General Fund Support for Internal Service Funds  
(2010 Actual - 2015 CSL)



# Charges For Services/Fees

## Internal Service Funds-Future

- Continue to fully allocate costs
- Refine fund balance policies
- Monitor growth – recalibrate as necessary



CITY OF MINNEAPOLIS

# Charges for Services/Fees Internal Service Funds

# Questions