



Request for City Council Committee Action From the Finance Department

Date: October 27, 2004
To: Ways and Means Committee
Referral to: None

Subject: General Fund Overhead-Rate Model

Recommendation

1. Approval of General Fund Overhead Rate Model
2. Referral of Rate Model to 2005 Budget Markup

Previous Directives

None.

Prepared or Submitted by Charles Elliott, Controller, 673-2621

Approved by: Patrick Born, City Finance Officer _____

John Moir, City Coordinator _____

Presenters in Committee Charles Elliott, Controller

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain): To be implemented in 2005 and approved during 2005 budget mark-up
- n/a Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (use any categories that apply)

- Neighborhood Notification
- City Goals
- Comprehensive Plan
- Zoning Code
- Other
- Not applicable

Background

The collection of General Fund overhead has existed within the City for decades. The philosophy behind General Fund overhead is to charge City departments outside the General Fund for management services they receive from General Fund departments. For instance, the Water division within Public Works paid for HR, Finance, City Clerk and Communications services received.

The problem with the existing method of collection is that it was based on an 3.5% calculation of a customers operating and capital expenses for the year. The City has received criticism for this arbitrary method of collection from the State Auditor, MNDOT and other external reimbursing agencies as well as its own internal customers.

Starting in 2003, the City began building a General Fund overhead rate model that used a widely accepted practice known as "Activity Based Costing." The process involved meeting with service providers within the General Fund and asking them to describe their business and the services they provide for internal customers. Once departments had determined the services provided for their customers they were asked to determine how to allocate their line item budgets to the service activities they had chosen. This was done primarily by estimating a percentage of time and materials allocable to each activity. Once this was done, departments had successfully converted their line item budget to an activity based budget. The final step was to drive the activity costs to internal, non-General Fund customers. This step was determined by each individual department and by choosing the fairest, most logical way to allocate their service activities. For instance, Human Resources chose to allocate their costs by FTE count, Finance by percentage of budget to total, etc...

The Activity Based Costing methodology was used for the BIS rate model, the General Fund overhead model and will be used more extensively to develop rate models for the remaining Internal Service Funds and will also be used in the study of Regulatory Services permit fees.