



# City of Minneapolis 2005 Budget General Fund Model

## Overview

## *Overview of the General Fund Overhead Rate Model*

- Initially developed in the summer of 2003 using an Activity Based Costing Approach
- We conducted interviews to determine service activities that General Fund management service departments provide for internal and external customers
- Replaces the previous 3.5% General Fund Overhead charge which was viewed as an arbitrary approach that was based on a policy dating from the mid-60's
  - This policy has resulted in management letter comments from OSA, an inability to charge overhead to grants, an inability to capture revenue from MNDOT contracts, and generally was viewed as an arbitrary approach for collecting General Fund revenue.

## *Overview of the General Fund Overhead Rate Model*

- Provides a mechanism for supporting overhead charges embedded in fees, permits and reimbursements
- Offers a baseline for evaluating costs of services and sources of funding

*The following General Fund Agencies were deemed in-scope for the analysis and the overhead charge:*

- Assessor
- City Coordinator
- City Council
- Civil Rights
- Communications
- CPED
- Finance
- HR
- IGR
- Mayor

Customer	Amount of GF Services Provided	Proposed GF Overhead Collection Levels in 2005	Difference between Services Provided and 2005 Proposed Overhead Charge	Difference between 2005 Charge and PY Charges
<b>Internal Service Funds</b>				
Sub-total for Internal Service Funds	\$4,527,370	\$1,412,815	(\$3,114,555)	\$0
<b>Enterprise Funds</b>				
Sewer Sub-total (Fund 7300)	\$3,446,055	\$3,446,055	\$0	(\$326,281)
Water Sub-total (Fund 7400)	\$4,316,419	\$4,316,419	\$0	\$601,004
Parking Sub-total (Fund 7500)	\$1,129,279	\$1,129,279	\$0	(\$231,258)
PW - Solid Waste (7700)	\$2,154,793	\$2,154,793	\$0	(\$246,921)
Sub-total for Enterprise Funds	\$11,046,547	\$11,046,547	\$0	(\$203,455)
<b>Capital Project Funds</b>				
Capital Project Funds	\$1,998,880	\$1,998,880	\$0	(\$359,984)
<b>Grant Funds</b>				
Sub-total for Grant Funds	\$1,947,301	\$0	(\$1,947,301)	\$0
<b>Component Units</b>				
Library	\$619,435	\$330,000	(\$289,435)	\$0
Park	\$1,723,117	\$828,252	(\$894,865)	\$0
Board of Estimate and Taxation	\$54,475	\$0	(\$54,475)	\$0
Neighborhood Revitalization Program	\$62,358	\$0	(\$62,358)	\$0
Minneapolis Public Housing Agency	\$76,345	\$35,000	(\$41,345)	\$0
Youth Coordinating Board	\$67,784	\$0	(\$67,784)	\$0
MBC - Capital	\$86,706	\$44,381	(\$42,325)	\$0
MBC - Operating	\$256,841	\$45,000	(\$211,841)	\$0
Sub-total for Component Units and Independent Bds	\$2,947,062	\$1,282,633	(\$1,664,429)	\$0
<b>Convention Center</b>				
Convention Center Sub-total (Fund 0760)	\$1,177,360	\$1,177,360	\$0	(\$46,793)
Police Department Special Revenue Fund	\$104,480	\$104,480	\$0	\$104,480
CPED	\$4,272,988	\$4,272,988	\$0	\$911,681
<b>Total</b>	<b>\$ 28,021,988</b>	<b>\$ 21,295,704</b>	<b>(\$6,726,285)</b>	<b>\$ 405,930</b>

Net Impact to the General Fund based on this approach (Phase In ) is a net effect of approximately \$25,000

## *Difference between Services Provided and 2005 Proposed Overhead Charge*

### ■ Internal Service Funds

- Amounts are held constant for balance charged in previous years to adhere to the Council adopted workout plans.
- Additionally, changes in overhead charges would impact the other rate models developed by these individual funds.
- The General Fund is the primary customer of Internal Service Funds – thus, adapting charge levels would complicate the overhead model with no financial benefit.

### ■ Grant Funds

- The majority of existing grant agreements have not been negotiated to allow for overhead charges.
- Future grant agreements will include an indirect cost provision.
- All efforts will be made to collect overhead revenue in 2005, however further analysis of grant agreements and funding availability must be performed before budgeting for this charge in the General Fund.

## *Difference between Services Provided and 2005 Proposed Overhead Charge*

### ■ **Independent Boards and Agencies**

- Our preliminary recommendation is to limit the overhead costs to Independent Boards and Agencies in 2005 to amounts already established with existing funding levels.
- Understanding this discussion is occurring late in the budget cycle, we propose establishing a “phase-in” period to allow for adequate time to plan and budget for these future charges. A incremental period for phasing in the collection of these charges would be 20% increases over 5 years starting in 2006.

## *Potential Options for Collecting Overhead*

- **Option 1: Require all customers to pay their share**
  - **Result:** Potentially unplanned General Fund revenue from \$1.8 million to \$3.7 million
  - **Risks:** Adversely impact smaller boards and agencies due to late timing in the budget process.
  
- **Option 2: Ask certain funds to subsidize underpaying funds**
  - **Result:** Potentially unplanned General Fund revenue (varied based on level of subsidization)
  - **Risks:** Degrades integrity of the rate model and potentially decreases acceptance by departments and external entities
  
- **Option 3: Phase in Charges**
  - **Result:** Minimal change to planned General Fund revenue. Provides independent boards and agencies to plan for changes in charge levels and allows grant managers to negotiate new agreements with grantors.
  - **Risks:** Potentially least risky option.