



CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

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To: Mayor Sam Adams
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From: Jack D. Graham, Chief Administrative Officer

Subject: Internal Service Funds and General Fund Overhead

On January 4, 2012, in a letter to City Council, the Laborers' Local 483 communicated their concerns regarding the balances of the City's internal service funds and General Fund overhead. This memorandum is to provide Council with background information on the City's internal service funds and General Fund overhead in response to this letter.

Internal service funds

The City's internal service funds include: Technology Services, Printing and Distribution, CityFleet, Enterprise Business Solution, Facilities Services, Insurance and Claims, and Workers' Compensation. In the City's Comprehensive Annual Financial Report (CAFR) the Health Fund is also considered an internal service fund.

As outlined in the Laborers' Local 483 letter to City council, the June 30, 2010 fiscal year-end Statement of Net Assets lists a balance of \$110,186,791 for the internal service funds. This balance from the CAFR represents the net of assets minus liabilities at that point in time. However, the Ending Fund Balances used for budgeting purposes were \$129 million on June 30, 2010, exclusive of the Health Fund.

As of June 30, 2011, the internal services funds, exclusive of the Health Fund, had Ending Fund Balances of \$137 million. The funds' balances have grown over the last fiscal year as money was collected for future projects and the replacement of assets.

The internal service funds' balances are needed to meet the financial obligations of the internal service providers. It is important to note that many of these funds have restrictions in place regarding their use:

An Equal Opportunity Employer

To help ensure equal access to programs, services and activities, the Office of Management & Finance will reasonably modify policies/procedures and provide auxiliary aids/services to persons with disabilities upon request.

- The City is self-insured, and as a result is required to maintain actuarial reserves for both the Insurance and Claims fund (\$14.2 million on June 30, 2011) and the Workers' Compensation fund (\$8.5 million on June 30, 2011).
- City Bureaus pay annual replacement rates for many of their assigned assets. Bureaus prefer the financial practice of paying annually to establish a replacement fund for significant planned replacements, instead of paying the entire cost for replacements at one time. Examples include vehicles, computers, and copiers. Resources collected from Bureaus are accumulated until needed in replacement accounts. As of June 30, 2011, the Technology Services Fund had \$15.3 million, the CityFleet Fund had \$16.6 million, and the Printing and Distribution Services Fund had \$602,000.
- Internal service funds can carry balances for in progress, Council approved projects. On June 30, 2011, the funds held \$1 million for debt financed projects, \$18.6 million for customer projects (primarily Public Safety System Revitalization Project (PSSRP) projects) and \$2.5 million for their own rate supported projects.

For many of their assets, Facilities Services, Enterprise Business Solution, and Technology Services collect funds annually through rates that are dedicated to current or future year's major maintenance/asset preservation projects. Examples include Portland Building elevator upgrades in Facilities, server replacement in Enterprise Business Solution, and Geographical Information System upgrades in Technology Services (\$28.5 million on June 30, 2011).

- The City's insurance funds (Insurance and Claims and Workers' Compensation) have balances dedicated to stabilizing rates over a five year projection period (\$19.6 million on June 30, 2011).

On June 30, 2011, the funds held \$11.3 million in operating and capital reserves. Of this amount, \$1.3 million is being transferred to City bureaus as outlined in Council's FY 2011-12 Adopted Budget.

These operating and capital reserves serve as a financial back stop for the fund's operations and assets to avoid mid-year rate increases or requests for funding due to unanticipated expenses or losses of revenues. Examples include:

- Higher than planned inflation rates for salaries, contracted service, or utilities.
- The loss of revenues from outside agencies that go elsewhere for services.
- Unanticipated costs like increased security to address events, higher utilities usage, and unforeseen project expenses.
- Changes in costs allocated by other interagency (IA) providers due to methodology changes.

General Fund overhead

The General Fund overhead cost allocation model is governed by the City Comprehensive Financial Management Policy 2.08 Cost Allocation. The list of City operations receiving funding through General Fund overhead include:

- City Attorney
- Elected officials
- OMF Accounting, Business Operations, Financial Planning, Human Resources and Procurement
- Bureau of Emergency Management

If a major bureau did not pay in to General Fund overhead, either significant cuts would be necessary to the operations listed above, including staff cuts, or other General Fund overhead payers would be required to pay a disparate share of the costs, which could result in reductions to their operations.

I hope you find this information useful in understanding the Ending Fund Balances of our Internal Services funds, including restrictions and guiding principles. Please let me know if you have questions.