



OFFICE OF THE CITY COUNCIL

CHERYL L. BROWN

DIRECTOR
OFFICE (904) 630-1452

FAX (904) 630-2906
E-MAIL: CLBROWN@coj.net

117 WEST DUVAL STREET,
SUITE 425
4TH FLOOR, CITY HALL
JACKSONVILLE, FLORIDA
32202

**NOTICED MEETING AMENDED MINUTES
COUNCIL PRESIDENT WEBB AND MEMBERS OF THE TRUE COMMISSION
RE: INTERNAL SERVICE FUNDS
November 10, 2010
12:00 p.m.**

Location: City Council Conference Room A, Suite 425, City Hall – St. James Building; 117 West Duval Street,

In attendance: Council President Webb (dep. 12:55), TRUE Commissioners Joe Andrews and Marc El Hassan (dep. 1:10)

Also: Jeff Clements – City Council Research; Michael Givens, Patricia Coleman and Angela Moyer – Administration and Finance Department; Adam Mathews – Inspector General’s Office; Suzie Loving – ECA; Tony Bates and Ted Wendler – pending TRUE Commission appointee

Meeting Convened: 12:02 p.m.

Council President Webb convened the meeting and introduced the topic of internal service funds. His interest is that the funds are frequently mentioned in the course of budget hearings and he would like to have the TRUE Commission’s assistance in studying the internal service funds as a potential avenue for identifying efficiencies and cost savings that may help to forestall a property tax millage increase for the FY11-12 budget.

The group discussed the Banking Fund, one of the internal service funds, at length, particularly in the context of pending ordinance 2010-840 which would increase the Banking Fund borrowing cap. Ms. Coleman explained that the bill resulted from the accidental omission of a project listing for \$76.5 million in borrowing capacity for this year’s courthouse construction expenses. The project is authorized in the FY10-11 budget and in the 5-year CIP, but was not included on the Banking Fund project authorization list. Mike Givens explained that a conscious decision was made to list and account for the courthouse funding separately so that every expenditure could be easily and clearly tracked.

In response to a question about why a large debt issue (like the courthouse bonds) should be included in the Banking Fund when it could be done as a stand-alone issuance, Ms. Moyer

explained that the intention of the Banking Fund is to recapture the project funds through accelerated repayment of the internal loan of the funds to a department for a project so that the funds can be re-lent for another internal purpose and recaptured before the repayment of the external borrowing is due. To date there has not been much early recapture of internal loan repayments because of tight budgets and the inability to accelerate repayments. After the first few years of the Banking Fund it was realized that the Banking Fund cap would continue to grow each year if it was accounted for as the accumulation of all previous years' borrowing authorizations. As of this year the cap is now based on a new calculation that considers the previous authorizations plus new project authorizations, minus projects that are de-authorized and projects that are completed.

Mr. Givens explained that the City's annual debt service cap is set at 11.5% of the General Fund budget, which is based on a median of the debt ratios of other AA- and AAA-rated local governments. The debt cap is one of five ratios, codified in Ordinance Code Chapter 110, which the City calculates every year. The ratios measure debt *affordability* (how much can we prudently afford to borrow) rather than debt *capacity* (what is the maximum amount that we could possibly borrow).

In response to a question from Mr. Wendler about why the City's pension obligations don't figure into the debt calculations, Mr. Givens stated that the City follows current General Accounting Standards Board requirements for calculating and reporting its future financial obligations and, at present, future pension liabilities are not required to be reported in that format. The GASB is in the process of developing new standards for reporting future liabilities and it is entirely possible that within the next couple of years the City will have to change its reporting methodology to meet the new standards, which may have a very substantial impact on the budget. President Webb noted that the City's ability to deal with pension benefits for employees, especially those covered by collective bargaining agreements and those with already accumulated benefits, is limited to what state law allows. Changes may need to be forthcoming from Tallahassee before the City can make substantial changes in its current pension plans.

Ms. Moyer explained that internal service funds may tend to get more scrutiny than other types of funds because they bill other city departments, show up in each department's budget, and therefore may be more visible. What is allocated to and billable to the customer agencies is based on the expense budget of the internal service, net of interest earnings, external revenues, and other non-direct uses. The goal of an internal service fund is to break even at year-end. If they fall short of full cost recovery, then the internal service charge is increased the next year; if there is a revenue excess then that overage is applied to the next year's budget and rates are adjusted accordingly. Service charges are based on prior performance and an averaging of the total cost of service provision divided by the number of units of service or items provided. Billed costs include overhead costs for the provider department. Internal service funds contain numerous self-sufficient subsidiary cost centers (i.e. Fleet Services includes a cost center for fuel and parts, a cost center for repair and maintenance services, and a cost center for vehicle acquisition and disposal).

Mr. Andrews stated that President Webb had expressed some concerns about whether the internal service funds are operating efficiently or not. Mr. Mathews stated that the place to look for efficiencies in the internal service funds is in the operation of the provider departments, not so much with the user agencies. The user departments could reduce their costs somewhat by reducing their use of internal services (fewer phones, less gasoline, less copying), but the real savings are to be found in reducing the operational costs and overhead charges in the provider agencies. In response to a question about the most likely places to look within the internal service

funds for cost saving opportunities, Mr. Mathews suggested that the Information Technology Department probably holds the greatest potential for cost savings. He cautioned that any real operational cost savings will require operational changes for every city department and division, both provider and user agencies. Every employee and department will have to learn to do things differently and more efficiently in order to make substantial savings possible. It may take increased technology costs (i.e. more electronic transmittal of documents to save copying and postage costs; more electronic transactions to reduce numbers of employees working at customer service counters; etc.) to achieve these savings, but note that ITD's expenses may increase in order for the user departments' costs to be reduced.

The meeting was adjourned at 1:40 p.m.

Jeff Clements, Council Research Division
11.17.10
Posted: 3:00 p.m.