



**TO:** T.C. Broadnax, City Manager  
**FROM:** *TW* Tadd Wille, Director, Office of Management and Budget  
Andrew Cherullo, Finance Director  
**COPY:** City Council and City Clerk  
**SUBJECT:** Ordinance – Repurpose of Fund 5800 – November 15, 2016  
**DATE:** October 17, 2016

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**SUMMARY:**

The purpose of this ordinance is to amend the name, purpose and the scope of Fund 5800 currently designated as the “Data Processing Division Intragovernmental Service Fund”. This fund was established in 1977 pursuant to Ordinance 21241 and was dedicated primarily to Information Technology services. This ordinance, if adopted, would expand the scope of Fund 5800 to include components from many different departments that provide internal services, e.g. City Attorney, City Manager, City Council, Human Resources, Office of Management & Budget, Hearing Examiner, Environmental Services (Sustainability), and Finance. These components are currently accounted for in the General Fund. The new name for the Fund will be the General Government Internal Services Fund.

**STRATEGIC POLICY PRIORITY:**

Accounting for internal services within Fund 5800 will encourage and promote an efficient and effective government, which is fiscally sustainable in two ways:

1. The City will be better able to account for the cost of internal services, both in terms of the total cost of the internal service itself and the full costs of the programs they support.
2. This method of accounting increases financial controls and transparency into the cost allocation mechanism.

**BACKGROUND:**

Over the past year, a team of City staff has been working to more fully implement recommendations from several consultants regarding the mechanism for recovering costs for shared services. In order to more accurately account for these costs and to calculate a clear and equitable distribution, staff recommends moving the majority of the internal services provided by the City to Fund 5800.

Each department represented within Fund 5800 will have a separate sub-fund that will collect the costs of the department’s shared service activities and distribute those costs out to the benefitting departments based on a variety of allocation factors.

**ISSUE:**

The mechanism the City uses to account for and allocate the cost of its shared services to benefitting departments is complex, non-transparent, cumbersome, and leads to a sub-optimal distribution of the costs.

**ALTERNATIVES:**

As an alternative, the costs for these shared services could continue to be accounted for within the General Fund. Maintaining the current structure in this way would continue the ambiguity around internal services, the cost of their programs, and the allocation methodologies used to distribute their costs to customers. While the overall effect of this change is cost-neutral to the City, failing to repurpose Fund 5800 would also result in continued sub-optimal allocation of internal services costs between different funds within the City.



**RECOMMENDATION:**

Staff recommends repurposing Fund 5800 to include accounting for shared costs of services provided from one department to another within the City beginning on January 1, 2017.

By accounting for each department's activity within a discrete sub-fund, the City will be best suited to equitably distribute the costs to all benefitting funds. Moreover, accounting for internal services in this way will lead to more detailed and insightful data regarding not only the operations of internal services, but the operations of the departments and programs they support. Overall, the long range impact of this decision will be a better understanding of City operations leading to improved efficiency and better data for management to make operational decisions within all areas of the City.

**FISCAL IMPACT:**

There is no direct fiscal impact to the City as a whole. Accounting for shared services within the internal service fund will allow the City to more accurately distribute the costs to benefitting departments which will cause shifts in costs between funds. However, there is zero net impact because there are no new costs incurred; rather, existing costs will simply be accounted for in a new way.