

# What We Talk About When We Talk about Internal Service Funds

How we do the things we do

# Internal Service Funds

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- Internal service funds account for the things that County employees need to provide public services:
  - Buildings
  - Cars and trucks
  - Computers
  - Phones
  - Insurance coverage
  - Supplies and equipment

# Internal Service Funds, part deux

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- Internal Service Funds have their own section of Oregon Budget Law! 294.470
  - Purpose of the fund
  - How it should be budgeted
  - Charges to cover all costs of service provided
- Internal Service Funds are considered to be a financial management “best practice.”
  - They make it easy to capture, report on, and make decisions about the costs of various things.

# Internal Service Funds, last part

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- ◉ County Financial Policies describe the County's internal service funds.
  - Services are to be provided on a cost reimbursement basis
  - The County may provide services to other agencies *and may charge external agencies a different rate*
  - Rates will include asset replacement charges
  - Rates will be compared to other agencies periodically to check pricing

# County Internal Service Funds

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- The County maintains five internal service funds:
  - Risk Fund
  - Fleet Fund
  - Information Technology Fund
  - Mail Distribution Fund
  - Facilities Fund
- Combined, payments to these funds in FY 2012 total \$161,514,266, or 13.75% of County expenditures.
  - That's a lot of money!

# Risk Fund

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- Service reimbursements to the Risk Fund total \$86,937,029. These funds pay for employee medical & dental insurance and for other insurance coverage.
  - The bulk of this amount is for medical and dental insurance for employees, retirees, and family members.
  - The remainder covers liability insurance, worker's comp, unemployment, and disability/life insurance.

# Fleet Fund

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- Service reimbursements to the Fleet Fund total \$5,774,419. These funds pay for operating, maintaining, and replacing our fleet of vehicles; and for electronics services.
  - Payments for Fleet operations are less than 0.5% of County expenditures.
  - The Fleet Replacement Reserve is maintained in this fund.

# Information Technology Fund

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- Service reimbursements to the IT Fund total \$29,907,122. These funds pay for the County's IT and phone infrastructure and operations.
  - Information Technology service reimbursements are 2.54% of total County spending

# Facilities Fund

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- Service reimbursements to the Facilities Fund total \$35,970,955. These funds pay for operating our buildings—for utilities, debt service, property management, lease payments, and repairs and maintenance.
  - Additionally, the County maintains two capital funds for facilities capital projects
  - Facilities service reimbursements are 3.06% of total County spending

# Distribution Fund

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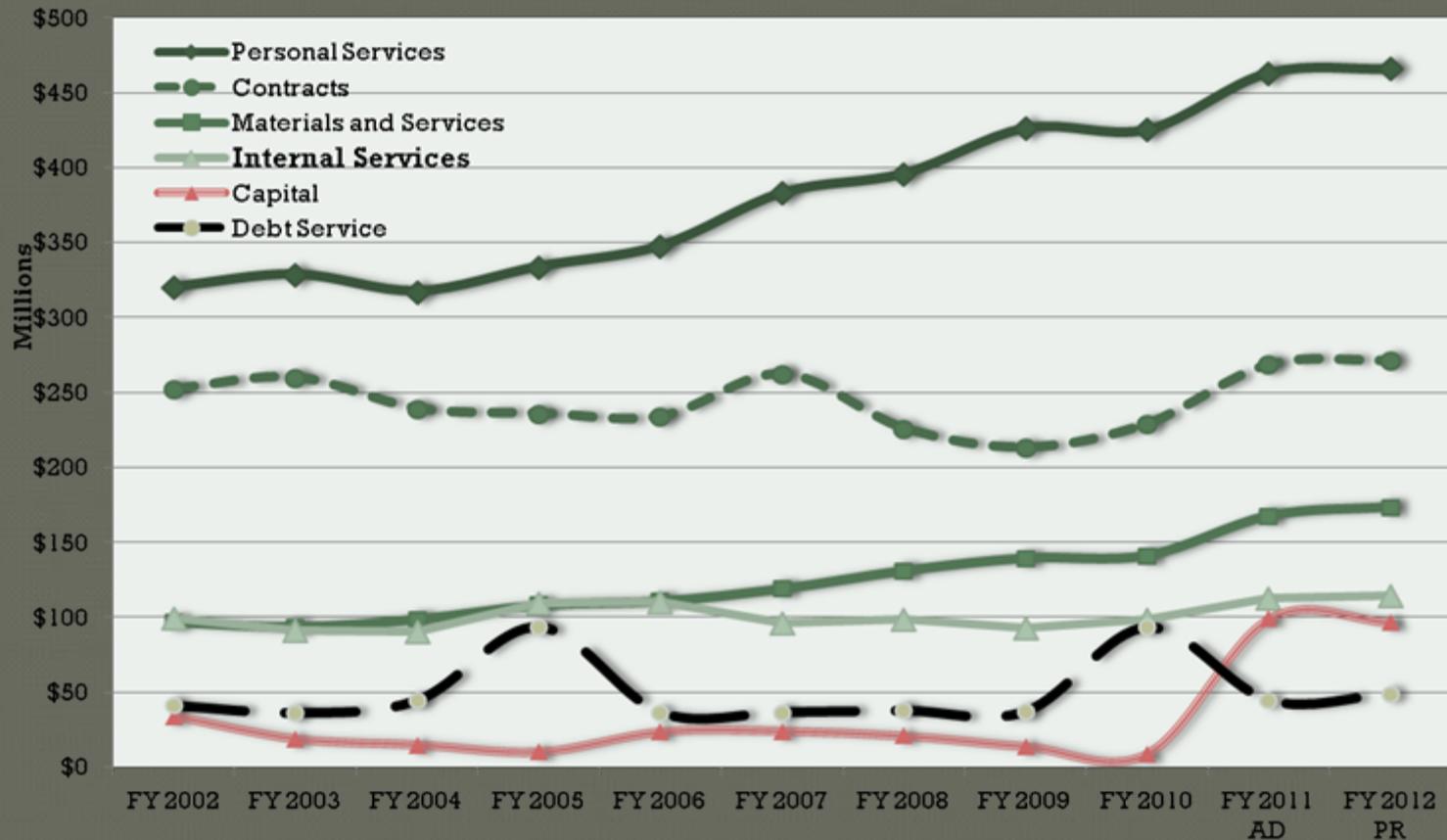
- Service reimbursements to the Distribution Fund total \$3,174,670. These funds pay for mail handling and distribution, records management and storage, and Central Stores.
  - These three services combined constitute 0.27% of County spending.
  - Central Stores is slated to close at the end of FY 2012.

# What about fund balances?

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- County policy allows internal service funds to maintain reserves of not more than 10%
  - Most funds maintain contingency accounts of 5% of operating expenses.
  - Excess fund balance is used to “buy down” rates. A large buy-down in one year can cause a jarring increase in the next year.
  - Some fund balances are designated reserve accounts, per County policy.

# Managing Internal Service Costs



# Not a Bad Picture...

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- The County's internal service costs\* have remained more or less constant over the past ten years.
- This cost curve does not suggest nearly the amount of heat and light that internal service costs have generated in the recent past.
  - \*Health insurance is a very large expense, but this problem is not unique to Multnomah County.
  - Our debt levels and associated costs are low, which, among governments these days, IS unique to Multnomah County!

...depending on your vantage point

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- ◎ Every department is different!
  - Departments with lots of employees in lots of buildings—like the Library and the Health Department—spend relatively more of their budgets on service reimbursements.
  - Departments with fewer employees but more contract payments—like DCM and DCHS—spend relatively less of their budgets on service reimbursements.
- ◎ This is not a cost problem. It is a function of how we choose or have chosen to deliver services.

...and depending on what you are looking at

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- ◎ Every internal service is different!
  - All of our buildings are different.
  - We use technology differently in different places.
  - Each of us consumes varying amounts of internal services.
- ◎ The more we “drill down” on individual items, the more questions we have.
  - This is distracting.

# Finding leverage

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- It has proven hard for us to find the “sweet spot” where the available cost data allows us to identify solvable problems.
  - Aggregate cost data does not support the pain points we feel.
  - Discrete cost data leads us toward solutions that do not alleviate the pain points we feel.
  - Constraining or limiting price increases has distorted cost data so it is now harder to see where our pain points are, specifically.

# Here it is!

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- Internal services are **how** we provide direct services.
  - Not *instead of* providing direct services.
- To minimize the cost of County internal services, we need to use our resources to their best effect. We can apply the right leverage to the right things by:
  - Increasing efficiencies in our direct service operations
  - Moderating our consumption of services
  - Carefully choosing new services and technologies
  - Being willing to let go of old services or technologies or locations or ways of doing things.

# There's more!

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- Costs do not always go down, at least not right away.
  - Investing in new technologies or processes up front improves our cost curve in the longer term
    - Electric cars
    - Mobile workforce
  - Sometimes investing in current assets or technologies is necessary and the right thing to do
    - Courthouse
    - Employee training & development

# Final Thoughts

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- Internal service funds provide a useful framework for organizing our County business costs.
- Those costs aren't going to make us or break us as an organization.
- DCA gives us the opportunity to improve and streamline our internal services.
  - Multnomah Evolves activities
  - Facilities Strategic Asset Plan
  - Continuing to invest in, update, and improve information technologies we use.

# Last Slide

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- ◉ Questions?
- ◉ Follow up?
- ◉ More information?