



Task Force on Consolidated Government

Jacksonville City Council

Council Member Lori Boyer, Chair

April 24, 2014

MEETING SCHEDULE

- 9:00-9:05** **Welcome**
Lori Boyer, Chair
- 9:05-9:25** **Feedback Regarding the Recommendations to Eliminate Internal Service Charges**
Kirk Sherman, City Council Auditor
- 9:25-9:45** **Review of Undecided Issues**
1. Central Service - Recommendation #1
 2. Special Taxing Districts – Recommendation for No Change #1
 3. Employee Health – Ordinance Code Change #1
 4. Office of General Counsel – Charter Amendment #14 & #15
- 9:45-11:45** **Continue Review of Governance & Mission Committee Recommendations**
- 11:45-12:00** **Public Comment**
- 12:00** **Adjourn**

Next meeting:

Thursday, May 1, 2014, 9 a.m.
Council Chamber, 1st Floor, City Hall

Undecided Issues:

1. Capital Improvement Process
2. Budget – Ordinance Code Change #1

New Issues to Review:

1. Taxation and Provision of Services in Municipal Service District 1
2. Collective Bargaining Language in Article 19 of the City Charter
3. Minority Contracting

Issues Not Completed During Committee Process

1. Alternative Revenue Sources/Grants
2. Civil Service/High Quality Workforce
3. Long-range Planning within the City



Task Force on Consolidated Government

Jacksonville City Council

Council Member Lori Boyer, Chair

24,
April 17, 2014

MEETING MATERIALS

Undecided Issues

Central Service

Recommendation:

1. The Mayor should review the possibility of privatizing central service type activities for the purpose of finding cost savings and increased quality of services, but maintaining the departments and staff that are currently responsible for these activities.

Special Taxing Districts

Recommendation for No Change:

1. The committee has reviewed the issue of special taxing districts and concluded that their use is a specific act of deconsolidation and runs contrary to the intent of City Charter. ~~While this does not mean there is no use for special taxing districts~~ Therefore, the creation of one a special taxing district should be done with caution and other means of maintaining the authority of the City Council and the Mayor should be attempted first, so as to avoid ~~Special taxing districts create a slippery slope effect. The creation of one will lead to the push for the creation of others, all likely legitimate, but at the cost of our consolidated form of government and will diluteing the authority of the City Council to establish the City budget and financial priorities, among others. This recommendation does not intend to include geographically bound tax increment financing districts.~~

Employee Health

Ordinance Code Change Council Resolution:

1. ~~The City of Jacksonville~~ The City Council should pass a resolution creating a task force, with the participation of the Mayor, for the purpose of studying and developing ~~should pass an ordinance instructing and authorizing the Mayor to contract with a third party vendor, by a Request for Proposal or otherwise,~~ create a plan to staff and operate a network of primary care clinics for use by City of Jacksonville employees, employees of the school board, and employees of the independent authorities.

Office of General Counsel

Charter Amendments:

14. The Charter should be amended to require that the General Counsel may be removed by the mayor, but such removal shall be only for misfeasance, malfeasance or criminal conduct rather than for cause alone, and the removal of a General Counsel by the Mayor shall be concurred by 13 members of the Council rather than a majority.
15. The Charter should be amended to allow for the General Counsel to be removed by the council, but such removal by the Council shall be only for misfeasance, malfeasance or criminal conduct. The removal of a General Counsel by the City Council shall be by resolution of the City Council approved by 15 members of the City Council.

Form of Government

City Council

Charter Amendments:

1. The Charter should be amended to increase the term limits of City Council Members to three consecutive four-year terms.
2. The Charter should be amended to require the election of City Council Members, and all other local elections currently held in the spring, be held in the fall of the “off-off” year in between presidential and gubernatorial elections.

Recommendations of No Change:

1. The Committee recommends no change to the number of council members.
2. The Committee recommends no change to the terms of City Council Members, aside from those listed above. Specifically, the Committee makes no recommendation with regard to staggering the terms of Council Members.
3. The Committee recommends no change to the use of at-large seats on the City Council, generally or with regard to the racial impact of their use.
4. The Committee recommends no change to the term of the Council president.
5. The Committee recommends no change to the timing of when the Council President takes office.
6. The Committee recommends no change to the compensation of City Council Members, even for the purpose of allowing them to devote full time to their Council duties.

Mayor

Charter Amendments:

1. The Charter should be amended to increase the term limits of the Mayor to three consecutive four-year terms.
2. The Charter should be amended to require the election of the Mayor, and all other local elections currently held in the spring, be held in the fall of the “off-off” year in between presidential and gubernatorial elections.

Recommendations of No Change:

1. The Committee recommends no change to the strong mayor form of government, aside from those listed herein.
2. The Committee recommends no change to the specific duties of the Mayor.
3. The Committee recommends no change to the scope of the power of the Mayor.

City Manager/ Chief Administrative Officer/ Chief Financial Officer

Charter Amendments:

1. The Charter should be amended to require the Mayor hire a Chief Administrative Officer (CAO) and Chief Financial Officer (CFO).
2. The Charter should be amended to require the Mayor's appointments to the position of Chief Administrative Officer meet the following professional requirements.
 - a. The Chief Administrative Officer shall have a Bachelor's degree from an accredited post-secondary institution in Business Administration, Public Administration, or a similar field, and seven (7) years experience in an administrative capacity in municipal government, three of which are in a management capacity, and a thorough understanding of the principles of municipal administration and of applicable provisions of the Laws of the State of Florida; or an equivalent combination of education and experience.
3. The Charter should be amended to require the Mayor's appointments to the position of Chief Financial Officer meet the following professional requirements.
 - a. The Chief Financial Officer shall have a Bachelor's degree from an accredited post-secondary institution in Finance, Accounting, Business Administration, Public Administration, or a similar field, and seven (7) years experience in public or governmental finance, three of which are in a management capacity, and a thorough understanding of the principles of municipal finance, budgeting, and accounting, and of applicable provisions of the Laws of the State of Florida; or an equivalent combination of education and experience.
4. The Charter should be amended to require the Mayor's appointments to the position of Chief Administrative Officer have the following job responsibilities.
 - a. The Chief Administrative Officer shall be responsible for overseeing all operating departments; managing the day-to-day affairs of the City of Jacksonville; and overseeing the implementation of the City's annual operating budget and capital improvement plan.
5. The Charter should be amended to require the Mayor's appointments to the position of Chief Financial Officer have the following job responsibilities.
 - a. The Chief Financial Officer shall be responsible for overseeing the Finance Department of the City of Jacksonville, including the Office of Treasurer, the Budget Office; establishing, controlling, and directing the City of Jacksonville's annual operating and capital improvement budgets; and overseeing and managing the authorized financial borrowing of the City of Jacksonville.

No Recommendation

1. The Committee makes no recommendation regarding the use of a City Manager independent of the Mayor.
2. The Committee makes no recommendation requiring the mayor to fill the CAO and CFO, as well as department heads within a certain time period.

Independent Authorities

Recommendation of No Change

1. The Committee makes a recommendation of no change regarding the numbers and selection processes for Board members to insure Board members are accountable to the public and to City government for their decisions.
2. The Committee makes a recommendation of no change regarding the missions of each authority whether they clearly define how they are integrated with the greater mission of the City.
3. The Committee makes a recommendation of no change regarding how development activities, or ancillary business enterprise activities, of the authorities impact City tax rolls and private business opportunities, or whether they should be restricted in any way or require some approval?
4. The Committee makes a recommendation of no change regarding the City's budget review process with respect to the authorities?
5. The Committee makes a recommendation of no change regarding the accountability of the independent authorities' board members to the City and the authority on which they serve.
6. The Committee makes a recommendation of no change regarding JEA being split into two authorities, one for electric utility and the other for sewer and water.

Police & Fire Pension Board

No Recommendation

1. The Committee makes no recommendation regarding the Police and Fire Pension or its board. The Committee discussed the pension issues and believed the Pension Task Force was taking a much closer look at the issue and if given the opportunity they would review their recommendations to see if they had effects on the issues this committee has been tasked with but would otherwise not address the issue.

Inter-local Agreements with the Beaches & Baldwin

Recommendation of No Change

1. The Committee makes a recommendation of no change regarding the inter-local agreements between the City of Jacksonville and the Cities of Atlantic Beach, Neptune Beach, Jacksonville Beach, and the Township of Baldwin. The full Task Force heard during public comment that the Beaches and Baldwin are content with the agreements as they are structured now. The Committee decided they would not address these agreements given the lack of issues and lack of complaints regarding them.

City Charter

Charter Amendments

1. The Charter should be amended to require all ordinances except those required for the annual budget shall be codified in the City's published ordinance code.
2. The Charter should be amended to require a vote of thirteen (13) council members to waive the ordinance code.
3. The Charter should be amended to include the Florida legislature as an option for amending sections of the Charter which cannot be amended through ordinance. This recommendation expresses how the law is currently.



BEST PRACTICE

Pricing Internal Services (Budget) (2013)

Background. Internal services are those responsibilities a government provides to support its own internal operations. Common examples of internal services include information technology, payroll, motor pool, budgeting, legal, accounting, and human resources. Certain management objectives are served by creating a system to assign prices for the use of these internal services, which are then assessed to the departments that use the services. However, there is a cost to develop and maintain internal pricing systems. Governments must weigh the benefits of an internal services costing system against the cost and complexity of system design choices. Please note that this best practice is intended to apply to internal service charges regardless of whether it is accounted for in an internal service fund or as a general fund overhead allocation.

Recommendation. GFOA recommends that governments follow these steps when considering an internal service pricing system: 1) Identify goals of internal service pricing; 2) Develop allocation strategy; 3) Define level of costing detail; 4) Determine cost of service; 5) Decide basis of allocation; and 6) consider potential drawbacks.

Identify goals of internal service pricing. As a first step, GFOA recommends that governments identify the goals they hope to achieve through a pricing system for internal services. The goals will guide the design of the system. Potential goals for a pricing system include:

1. *Govern demand for a service.* If the customers of an internal service are not charged based on their level of use they may have an incentive to over-use the service. Alternatively, charges may cause customers to limit their use of the service.
2. *Develop enterprise rate models.* Government enterprises (e.g., a water utility) may use services provided by the general government. A pricing system could provide an input into the rate model used to calculate fees for the customers of the enterprise.
3. *Calculate indirect cost reimbursement for grants.* Some grants may allow indirect costs to be reimbursed. An internal pricing system provides support for the reimbursement request.
4. *Provide input for full-costing model.* A full costing model provides the total cost of a given service, which enables better informed budgeting and planning. The “full cost” of a program is equal to the direct cost of program plus the indirect costs. Internal service pricing is essential to calculating indirect costs.
5. *Promote discussion about the value of the service provided.* Charging customer departments for use of a service will raise questions about the value received from the service and what the best service delivery model is (e.g., centralized, decentralized, outsourced, etc.). A pricing system can facilitate comparisons with alternative methods of service delivery, including outside providers.
6. *Examine value of a shared service model.* Shared services are thought to deliver greater efficiency through economies of scale. A solid pricing model is important for determining if a shared service model is delivering on this promise.
7. *Promote competition in service delivery.* Internal services could be run much like a private business, including service level agreements with customers and competition from outside providers (e.g., private firms). Accurate internal charges are essential for a level competitive field.¹
8. *Ability to customize service levels for different customers.* A detailed rate model makes it easier to provide a higher level of service to a customer that demands it because they can be charged a higher fee.

¹ However, it should be noted that comparing internal charges to a potential external service provider’s proposed fee cannot be the basis for a sound outsourcing decision because the external provider’s proposed cost must be compared to the internal costs the government will avoid (i.e., no longer have to incur) by using the external provider (known as “avoidable costs”). For example, there may be overhead costs included in an internal charge that will not be eliminated (avoided) by using an external provider.

Develop allocation strategy. After the goals have been identified, the organization must decide which internal services will be priced and allocated to user departments. To make this decision, it may be useful to differentiate between “market” services and those that have more of a policy or regulatory character.

1. *Market services* are those where the user departments play the role of consumer. Examples of market services include IT, fleet, and perhaps facilities.
 - a. The charges for market services have application to goals like promoting competition in service delivery, governing demand, and/or examining the value of a shared service model. Charging user departments for regulatory/policy services could be necessary for goals like developing a full costing system or calculating indirect cost reimbursement for grants.
2. *Policy or regulatory services* are used to establish organization-wide policies or ensure compliance with standards. Users of these services cannot be as easily described as “customers,” but more accurately as “regulated.” Examples of policy/regulatory services include budgeting, internal auditors, or a chief executive.

Define level of costing detail. Governments need to determine the level of detail associated with costing services.

1. A *low level* of detail might define internal services at the department level (e.g., finance department, IT department). A low level of detail might be sufficient for a costing system with limited goals, such as developing enterprise rate models or obtaining reimbursement for indirect costs under a grant.
2. A *high level* of detail would define services at the level of programs or other subunits (e.g., the various subdivisions of finance and IT cited earlier). A high level of detail might be needed for goals like governing the demand for service or promoting discussions about the value of a service.

In summary, a higher level of detail will lead to a more accurate costing system since the activities represented by the internal service categories will be more specified. However, more detail also leads to a more complex internal services pricing system. The government must decide if greater complexity (and its associated costs) will be worth the benefits.

Determine cost of service. With the internal services identified at either a high or low level of detail, the next step is to determine the cost of the service. The elements of the cost that should be considered include:

1. *Direct costs.* Direct costs are the most essential cost element. This includes the service’s personnel, materials, supplies, and contractors.
2. *Interest costs from internal loans.* If the internal service takes loans from other parts of the government then a market interest rate may be applied.²
3. *Services used from other support services.* A cost model can be designed such that the cost of the internal service reflects not only its direct costs, but also the indirect cost from other support services that it uses (e.g., an IT service uses payroll). This aspect of costing can be performed at varying levels of complexity – methods that fully reflect how each internal service uses the services of other internal providers can become much more complex than those that provide less precise estimates.³

Decide basis of allocation. With cost of the service decided, the bases for allocating costs from the internal service to customers must be decided. Table 1 provides examples of internal services and cost allocation bases. Below are general principles that should be observed when determining bases.

1. *Cause-and-effect relationship.* Costs should be allocated based on usage or causal factors relating to costs incurred by service provider. See Table 1 for examples of how cost bases for internal services can be related to the usage of various internal services.

² If used, the interest rate should be consistent with any governing laws/regulations.

³ For example, “single step allocations” are the least complex, but is less precise, while “reciprocal allocations” are more precise, but much more complex. For a complete explanation of these methods please consult. R. Gregory Michel. *Cost Analysis and Activity-Based Costing for Government*. (Chicago, Illinois: GFOA) 2004

2. *Benefit received.* The basis for allocation should bear a relationship to the benefit the customer receives from the service. For example, while “miles driven” might be a good barometer of the benefit that police patrol receives from its vehicles, “hours used” might be a better measure for public works.
3. *Fairness.* The method of cost allocation that will be used must be seen as fair and legitimate by the users of the costing system. The fee should be charged equitably based on use and other considerations.⁴ Users must understand how the costs are calculated and should have a role in determining how the price system will be structured.⁵
4. *Legal constraints.* State laws may place constraints on how charges are developed. For example, if the charge for providing a service exceeds the true cost of the service, it could be construed as a tax under the law. Also, federal regulations on grants may place limits on internal charges against grant programs.⁶

Table 1 – Examples of Internal Services Cost Allocation Bases

| Internal Service | Allocation Basis |
|-------------------------|--|
| Payroll processing | Number of employees, number of checks |
| Budgeting | Labor hours, size of budget |
| Insurance | Number of employees, experience |
| Legal services | Direct labor hours |
| Office space / rent | Square feet of space occupied |
| Procurement services | Number of P.O.s, dollar volumes, direct labor |
| Vehicle costs | Miles driven, hours used |
| Information technology | Number of devices, server time, number of calls to help desk, direct labor hours |

A government might also consider the accounting mechanism for the internal charge. An internal service fund provides the most detailed accounting, but also entails the most administrative effort. If the goals of the internal charge are modest (e.g., not charging back to federal grants, full cost recovery is not a goal), then it may be easier to simply recognize the charge as a general revenue in the general fund (or some other fund as may be appropriate to the circumstances).

Governments should also regularly review their internal charge rates against actual experience for appropriate adjustments. Governments should also develop guidelines to determine what will happen to excess funds should an internal charge generate cost recovery proceeds in excess of actual costs.

Consider potential drawbacks of internal costing systems. Finally, governments should be aware of the drawbacks of internal costing systems below and should consider mitigating strategies.

1. *Diminished trust between providers and customers.* A charge system could create a suspicion among customers about how charges are developed and/or administered, especially if the basis of the charges is not adequately communicated to customers.
2. *Subverting processes or not using shared services.* If customers perceive charges to be too high or unfair, they may respond by developing their own service capabilities. This can lead to duplication of resources and wasted effort.
3. *Acrimony and debate over the charge system.* Even if users do not subvert the system, a costing system that is viewed negatively by users could generate a great deal of debate and discussion – energy that could be better spent on other pursuits.
4. *Costs exceed the benefits of the system.* A precise internal costing system can be relatively complex. Complexity entails cost, such as training managers to use cost information. Whether this complexity and cost is worth it should be seriously considered in light of the goals for the system and system design choices.

⁴ For example, the customer may provide value back to the internal service in some way that justifies a lower charge.

⁵ IT governance systems are an example of a means for giving customer departments input into rate modeling decisions. See GFOA’s publication *IT Budgeting and Decision Making (2009)*

⁶ For example, the Federal Office of Management and Budget circular A-87 outlines standards for determining costs which can be charged to Federal grants and reimbursement contracts.

5. *Unmet expectations.* Managers can become frustrated with the system if they do not understand what it can and cannot accomplish. For example, if internal charges cause users to lower their consumption of a service they may see their per unit cost rise as the fixed cost of service is now allocated over a lower volume.

Approved by the GFOA's Executive Board, February, 2013.

GFOA
Government Finance Officers Association

Internal Services

Goals of Internal Service pricing/billing:

1 Govern demand for a service

If the customer is not charged based on their level of use they may have an incentive to over-use the service.

If I pay the utility bill I am more likely to keep the thermostat at 78 in the summer time.

The cost for the cell phones, internet, postage, fuel...sit in the internal service providers budget. The internal service providers are placed in a horrible position. The internal service provider has minimal control over its largest cost drivers. And interestingly enough is one of the same complaints that internal service users have against internal service billings.

If someone in Public Works has \$5,000+ in roaming charges on his/her city cell phone in a month the internal service provider has to pay the bill. Since the employee does not work for the internal service provider the responsibility lies with Public Works. With a monthly internal service billing: The Department would be aware of this charge and would be more motivated to address the issue..and keep it from happening again.

When the call comes to reduce budgets who determines what gets cut or reduced? By having the costs in the Departmental budgets, during the budget review the Departments can defend their usage/need.

2 Develop enterprise rate models

Without billing enterprise funds for their use of central services their billing rates would be understated and general fund revenues would be subsidizing them.

3 Calculate indirect cost reimbursement for grants

Grants may allow indirect costs to be reimbursed so a standardized billing methodology is necessary for the reimbursement request.

4 Provide input for full-costing model

A full costing model provides the total cost of a given service which enables better informed budgeting and planning.

A full costing model is essential in determining areas of possible outsourcing.

5 Promote discussion about the value of the service provided

Charging users for their use of a service raises questions about the value of the service.

It provides checks and balances for the provider by having its users see/review their billings. If you don't pay the bills are you as likely to make sure they changed the oil in your car or rotated your tires? Since you're not paying the bills, you wouldn't pay for the extra repairs when the engine blows up either.

The cost for the cell phones, internet, postage, fuel...sit in the internal service providers budget. When a Department adds 50 cell phones during the fiscal year that Department has effectively increased that internal service providers budget...a budget that the internal service provider will have to defend in front of Council.

6 Examine value of a shared service model

A solid pricing model is important for determining if a shared service model is delivering economies of scale.

7 Promote competition in service delivery

Accurate internal charges are essential for determining if it really can be done cheaper outside.

Keep in mind that it's not only the services but the infrastructure and various intangibles that the internal service provider pays for and maintains. These costs also go into their total costs. So going "outside" means a vendor would need to provide for those things as well in order to be apples to apples.

8 Ability to customize service levels for different customers

Detailed rate models make it easier to provide a higher level of service to a customer that demands it because they can be charged a higher fee.

If the Department wants to increase the bandwidth at its locations at an additional cost of \$1 million, the Department needs to be the one to justify that cost and request to increase the internal service providers budget for it. But that increased cost should be associated and shown in that Department as well.

Potential Drawbacks of Internal Costing Systems

1 Diminished trust between providers and customers

Issues may arise if the basis of the charges are not adequately communicated to customers.

Moving the billings out of the Department budget reduces the amount of unpleasant discussions but it doesn't help the city. As painful as it is, it provides a good opportunity to discuss this and vent any issues. I believe that these discussions have made our internal service providers more efficient, responsive and cost effective.

The discussion should be about each Department's costs to the internal service provider aka city. If the Department is concerned with their costs there are ways to reduce them (turn in cell phones and mobile equipment, agree to be issued smaller more fuel efficient vehicles, decrease networking costs, discontinue maintenance agreements on hardware/software, go paperless, email things instead of printing them).

2 Subverting processes or not using shared services

If the charges are perceived to be too high or unfair, customers may respond by developing their own service capabilities.

Private companies merge call centers, offices and operations centers for a reason. If done right, it brings greater efficiency / continuity and is cost effective. Current users of central services should be required to do a cost benefit analysis and get Council approval before any attempts are made to pull away. Departments and independent authorities who are not part of central services should be required to do a cost benefit analysis to see if it is really better for the tax payers that they remain separate.

The emotion needs to be taken out of the conversation.... These are tax payer dollars.

3 Acrimony and debate over the charge system

4 Costs exceed the benefit of the system

The cost to the general fund for not having these costing systems would be \$20 million on the low end.