

Tacoma Public Utilities Board Study Session

4/10/2024

2025-2026 CITY OF TACOMA

**BIENNIAL OPERATING
& CAPITAL BUDGET**

CORE SERVICES
CONTINUOUS IMPROVEMENT
CREDIBILITY

Agenda

- Internal Services
 - What is an Internal Service?
 - How do we share the costs for Internal Services?
 - How much do Internal Services costs?

Internal Services

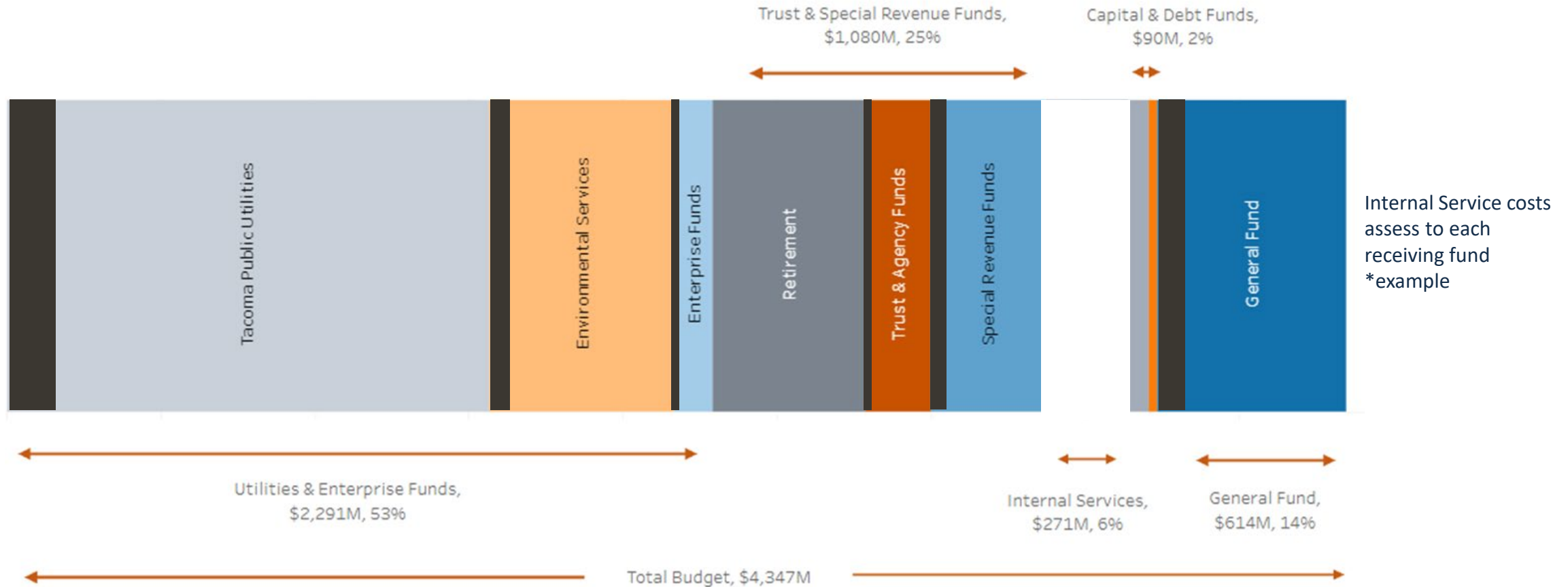
- **Internal Service** Departments provide services that are often more efficiently provided by a centralized provider. Typically, Internal Services support **external-facing** Departments, who directly provide services to community members. Internal services may also be called indirect costs.
- Internal Services include:
 - City Attorney
 - City Manager – Government Relations, Media & Communications, Strategy, Equity & Human Rights
 - Finance
 - Human Resources
 - Information Technology
 - Public Works – Real Property Services (GG Fleet & Facilities)
 - TPU – Customer Services, Public Records Office (TPU Only Management Services, Facilities, Fleet)
- Some of Internal Service Departments manage external facing services as well as internal services – Finance has Tax & License, Public Works provides Real Property Services, Fleet & Facilities

Rationale for assessing Internal Service Costs

1. To share the costs of support/internal services
2. To help identify the actual (“fully-loaded”) cost of services
3. To ensure accuracy of cost-based user fees, including rates

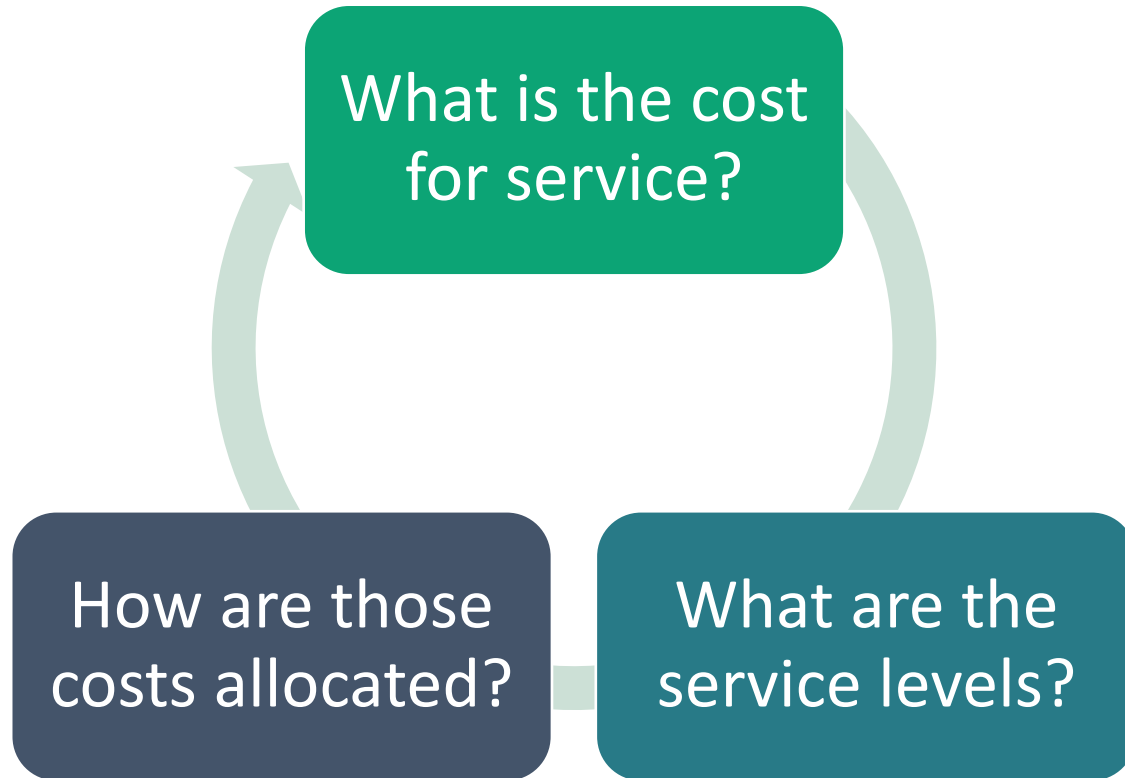
More information at [MRSC](#) or [GFOA](#)

2023-2024 Adopted Budget



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Three Primary Questions



- Office of Management and Budget transparently provides information on the cost of services and the allocations of costs
- Service level conversations are best had department to department to discuss specific services (Governance processes as an example). This is a consideration as budget proposals are made by the Department Directors and City Manager decisions.

Assessments of Assessments

Miller and Miller (Consultants) – 2008

- Reduce number of assessing cost centers
- Discontinue splitting methodologies for single cost centers
- Use management communication during budget development processes to understand internal service costs

FCS (Consultants) – 2014

- Bill based on prior year actuals except for IT which should bill based on current budget
- Reduce or combine cost centers and cost elements to reduce number of calculations required

Continuous Improvement Project (Cross Departmental Project) – 2016

- Provide Predictability – departments needed a more predictable system to help them manage their budgets (live actuals varied significantly) so move to budget
- Provide Transparency – unclear and complicated methodologies, so we simplified the system to allow people to understand how costs are shared

Assessment Advisory Committee and Stakeholder Methodology Reviews – 2018

- Deputy Director of Utilities, Finance Director, Budget Officer

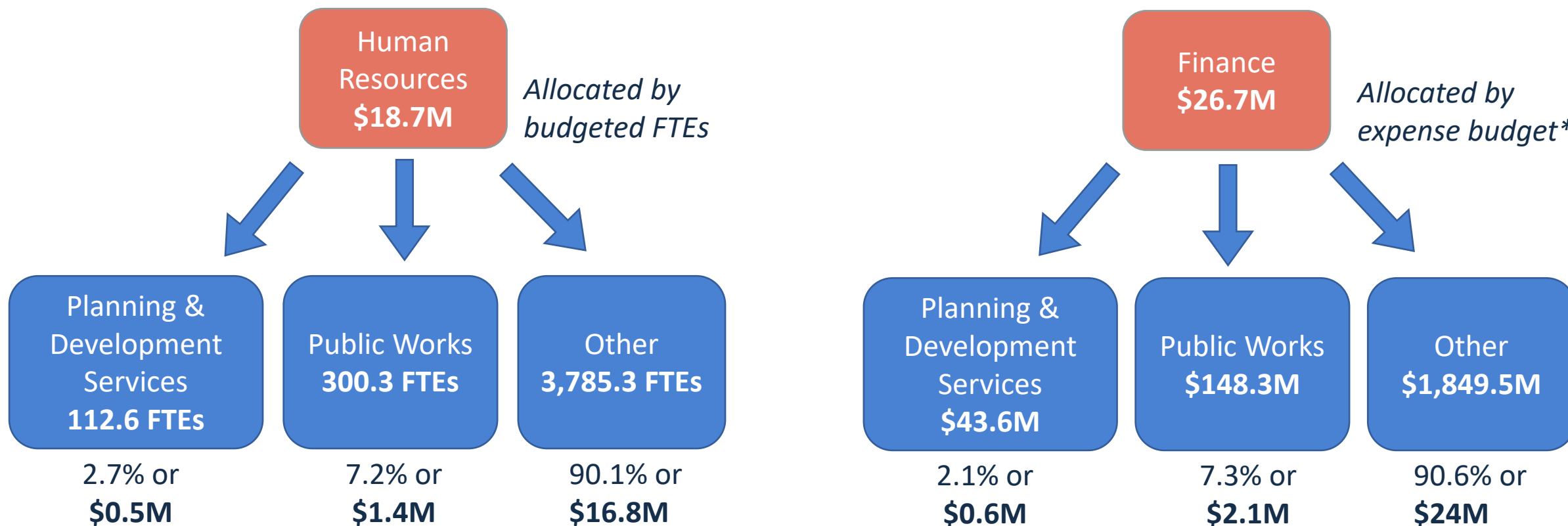
Regular Audit Reviews

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Allocation Methodologies Criteria

Connection between the measure and the service received (equity)
All beneficiaries pay
Stable and predictable
Easy to develop
Clear and Comprehensible
Customers can Impact Costs
Drives Appropriate Behavior

Some examples of how costs are shared



**Debt and internal transfers removed
Understanding Assessments document details the methodologies*

Why do internal service costs change?

- **Internal Service Department Change**
 - Like external service providers, internal service costs grow due to labor cost growth (approximately 70% of expenses), project costs, licensing cost growth, and need to grow as other services grow
- **External Service Department Change**
 - If a Department has more FTEs, or a larger budget, compared to last biennium, then most likely FTE-based and budget-based assessments will increase
- **Other Departments Change**
 - If other Departments took cuts, or did not grow at the same rate, then a Department that grew or stayed the same may have increased costs since they represent a larger share of beneficiaries

Often, it involves more than one of these reasons.

Internal Service Use of Cash

- Costs are shared based on the budgeted expenses.
 - Therefore, if actual expenses are lower than budgeted the internal services funds can build reserves.
- Reserves are used to fund one-time projects or offset the costs of internal services in the next biennium.
 - These decisions are made by the City Manager and informed by departmental feedback and OMB recommendations.
 - \$9.9M of cash was used in the 2023-2024 Adopted Budget to fund \$6.3M in one-time costs and \$3.6M in offsetting costs
- OMB tracks these changes in SAP and has shared this process with the City's departments

Next Steps for 2025-2026 Budget Development

Baseline Finalized (April)

- Incorporates methodology changes, personnel cost projections, baseline adjustments for contracts
- Does not include proposals

Internal Service Proposal Review (May)

- Meetings with Deputy City Manager and City Manager and Utility Director
- Draft Proposal Decisions and Estimates for 2025-2026 Internal Service Costs with proposals

Internal Service Costs Proposed Budget (August-September)

- First, decisions finalized
- Second, final internal service costs calculated based on 2025-2026 proposed budgets

Budget Proposed to City Council (October) and Ordinance Adopted (November)

Handouts

2025-2026 CITY OF TACOMA

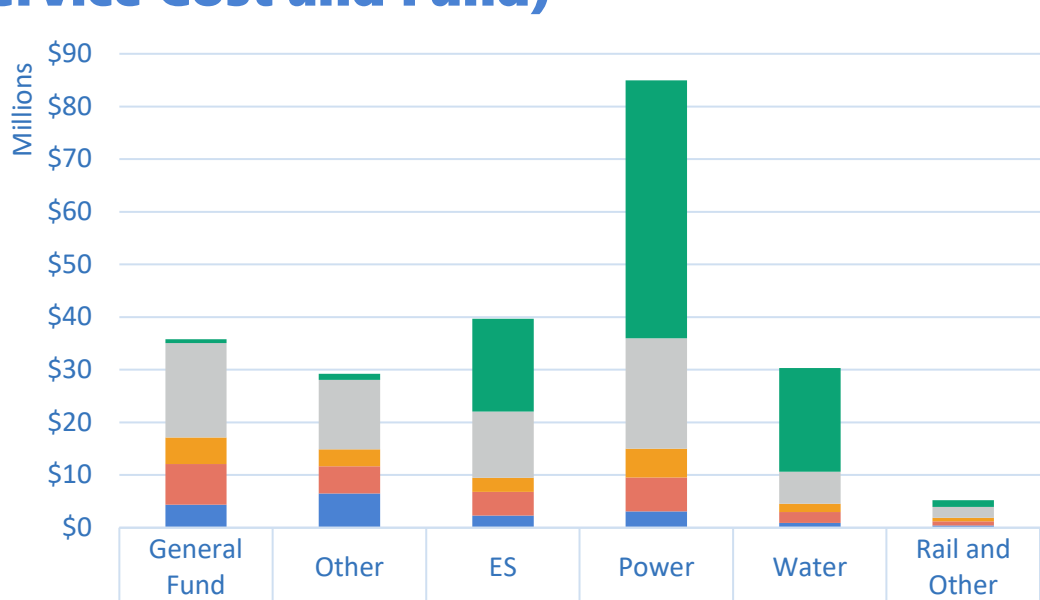
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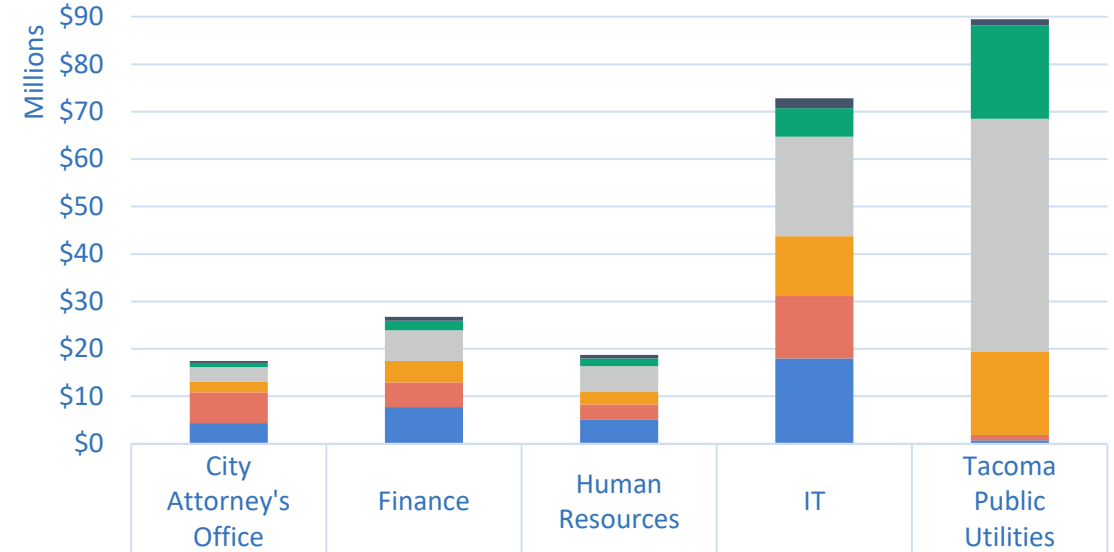
CORE SERVICES
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Detailed Handouts

How much does each fund pay of internal service costs? (Flipped by Internal Service Cost and Fund)



	General Fund	Other	ES	Power	Water	Rail and Other
■ Tacoma Public Utilities	\$0.7M	\$1.1M	\$17.6M	\$49.0M	\$19.7M	\$1.3M
■ IT	\$18.0M	\$13.2M	\$12.6M	\$21.0M	\$6.1M	\$2.0M
■ Human Resources	\$5.0M	\$3.2M	\$2.6M	\$5.5M	\$1.6M	\$0.7M
■ Finance	\$7.7M	\$5.2M	\$4.5M	\$6.4M	\$2.1M	\$0.8M
■ City Attorney's Office	\$4.4M	\$6.5M	\$2.3M	\$3.1M	\$0.9M	\$0.4M

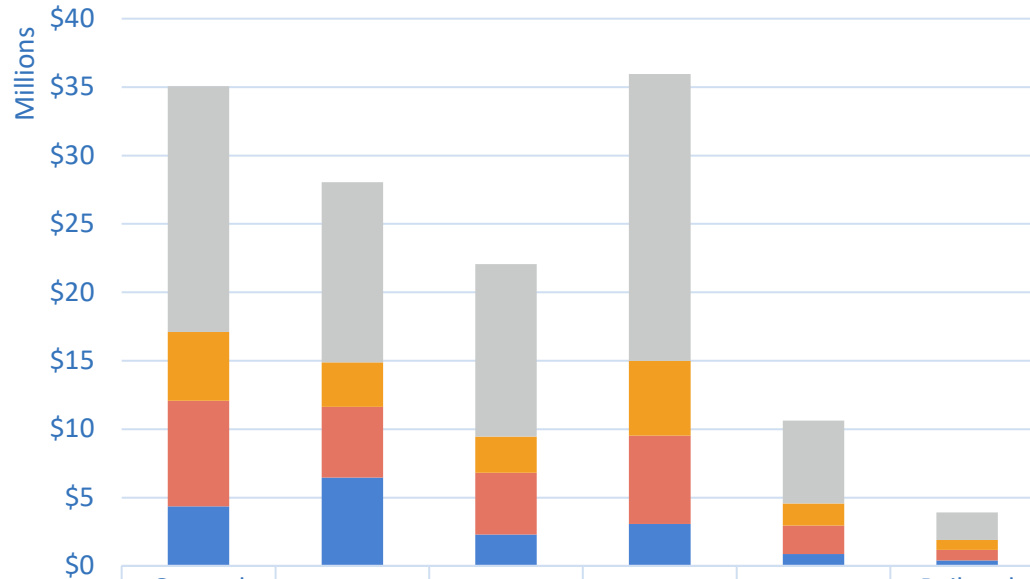


	City Attorney's Office	Finance	Human Resources	IT	Tacoma Public Utilities
■ Rail and Other	\$0.4M	\$0.8M	\$0.7M	\$2.0M	\$1.3M
■ Water	\$0.9M	\$2.1M	\$1.6M	\$6.1M	\$19.7M
■ Power	\$3.1M	\$6.4M	\$5.5M	\$21.0M	\$49.0M
■ ES	\$2.3M	\$4.5M	\$2.6M	\$12.6M	\$17.6M
■ Other	\$6.5M	\$5.2M	\$3.2M	\$13.2M	\$1.1M
■ General Fund	\$4.4M	\$7.7M	\$5.0M	\$18.0M	\$0.7M

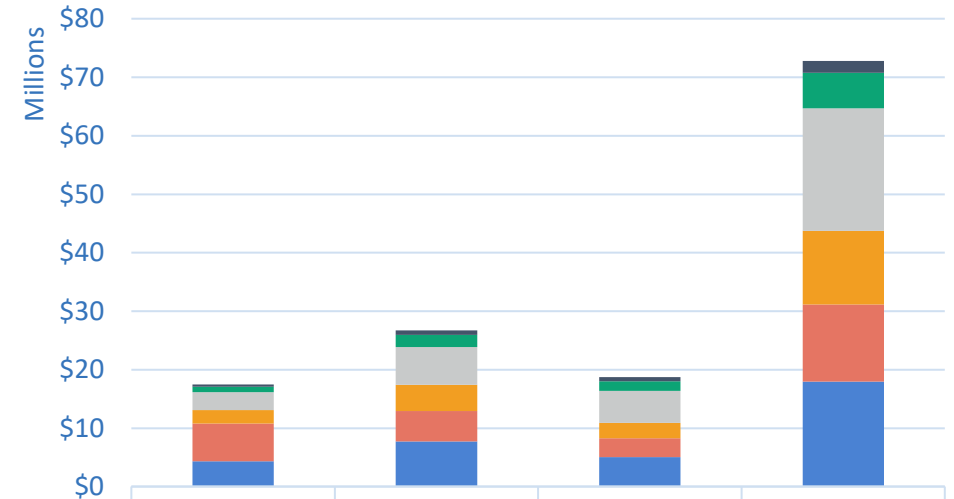
Major Internal Services shown (Adopted 2023-2024 Budget)
 Program based budgets on the [City's online budget book](#)

Detailed Handouts:

How much does each fund pay of internal service costs? (Flipped by Internal Service Cost and Fund)



IT	\$18.0M	\$13.2M	\$12.6M	\$21.0M	\$6.1M	\$2.0M
Human Resources	\$5.0M	\$3.2M	\$2.6M	\$5.5M	\$1.6M	\$0.7M
Finance	\$7.7M	\$5.2M	\$4.5M	\$6.4M	\$2.1M	\$0.8M
City Attorney's Office	\$4.4M	\$6.5M	\$2.3M	\$3.1M	\$0.9M	\$0.4M



Rail and Other	\$0.4M	\$0.8M	\$0.7M	\$2.0M
Water	\$0.9M	\$2.1M	\$1.6M	\$6.1M
Power	\$3.1M	\$6.4M	\$5.5M	\$21.0M
ES	\$2.3M	\$4.5M	\$2.6M	\$12.6M
Other	\$6.5M	\$5.2M	\$3.2M	\$13.2M
General Fund	\$4.4M	\$7.7M	\$5.0M	\$18.0M

Major Internal Services that use assessments shown (excluding TPUs internal costs)
 Adopted 2023-2024 Budget
 Program based budgets on the [City's online budget book](#)

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