

INTERNAL SERVICE FUNDS

PROPOSED BUDGET

Fiscal Year

2019-2020

Internal Service Funds

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Internal Service Funds

INTRODUCTION

The City maintains Internal Service Funds to track services provided between departments on a cost reimbursement basis.

The City has various arrangements for medical, dental, and life insurance coverage for all full-time employee groups, as well as some programs relative to retirees. Employee and employer contributions are recorded as revenues, with the premiums paid to the insurance providers recorded as expenses to the Employee Benefit Plan Fund. The employer-only costs associated with the insurance plans are then assigned back to the department from which the employee or retiree is associated.

The City is exposed to various risk of loss claims related to workers' compensation, property damage, torts, errors and omissions, etc. The financial activity related to these risks is run through the Safety and Risk Management Fund and then is charged back to the appropriate departmental budget to recoup those costs via a contra-expense entry, in keeping with government accounting standards.

The Self-Funded Flexible Fund is the flow-through of voluntary withholdings from employees' paychecks for a Section 125 plan, which are immediately remitted to the third party administrator.

Starting with the new fiscal year, the City will establish the Information Technology (IT) Internal Service Fund which will account for all IT related costs such as staff, support and maintenance contracts, and soft/hardware renewals and replacement. Similar to the Safety and Risk Management Fund, on a monthly basis the costs will be charged to the departments benefiting from the services via a contra-expense entry.

OVERVIEW

The FY20 Internal Service Funds budget calls for \$7.15 million in revenue, expenses (net of contra-expense) totaling \$7.15 million, and no transfers-in or out.

Revenues	\$7,150,000
Expenses	-7,150,000
Surplus / Deficit before transfers	0
Transfers In	0
Transfers Out	0
Surplus / Deficit after transfers	0

Internal Service Funds

DISCUSSION

The revenues for FY20 reflect an \$8.5 million, or 54% decrease, and expenses increase 8%, or \$544 thousand compared to the prior year budget. Over a 5-year period, including the FY20 proposal, revenues average \$9.8 million and expenses average \$5.3 million, net of contra-expense entries.

	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Amended Budget	FY20 Proposed Budget
Revenues	8,525,930	8,737,525	9,159,036	15,643,000	7,150,000
Expenses	-7,497,969	-8,174,034	2,884,882	-6,606,000	-7,150,000
Net Transfers	3,086		-900,000	-8,750,000	0
Surplus/ Deficit	1,031,047	563,491	11,143,918	287,000	0

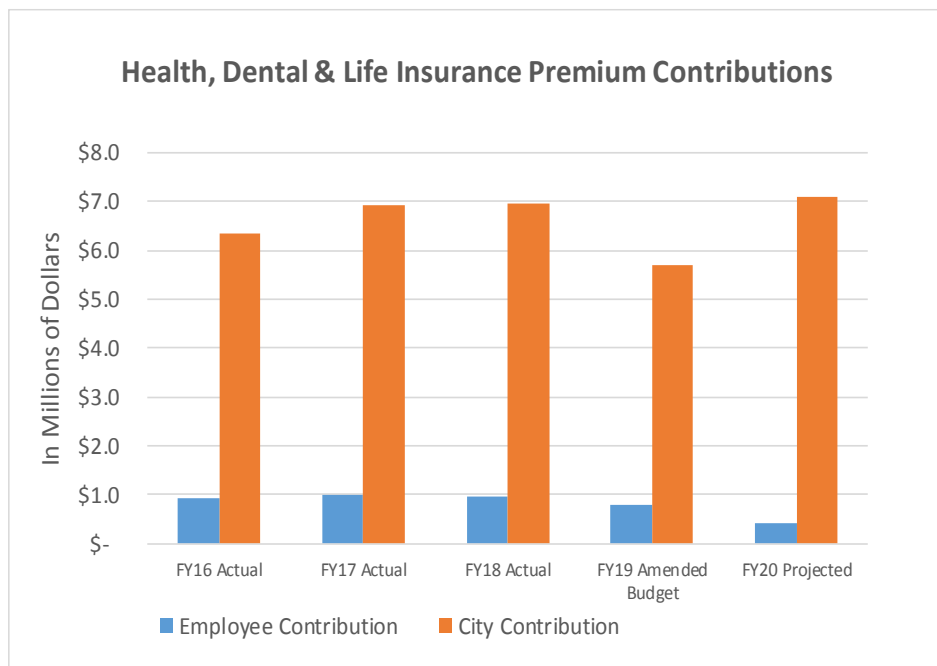
ACCOUNTING TREATMENT

Due to the accounting treatment in these specialized funds, revenues and expenses are often netted against contra-revenue and contra-expense accounts in keeping with accounting standards; therefore, the actual cash activity in these funds is much higher than the revenue and expense amounts shown above. The important component of these funds is the goal to net to zero by fiscal year end, meaning all costs have been passed-through to the department generating or benefitting from the service. For example, a Fire Department workers compensation claim related activity including temporary disability payments to the injured employee, payments to the medical providers treating the injured employee, and costs associated with nurse case managers, lawyers and the like are processed via the Safety and Risk Fund. At the end of the month, the sum total of those disbursements are charged back to the General Fund's Fire Department cost center as one entry to Workers Compensation expense within the Personnel Benefits category, and the same amount is credited to Claims Contra-Expense to net the Internal Service Fund to zero. In this manner, the "expense" is not double-counted, but rather will finally reside in the Fund and Department which "owns" the expense. In FY18, a large surplus is reflected due to year-end credits to recorded liability claims payable for police related matters which were resolved at lower amounts than previously estimated and recorded in FY17. The large revenues and transfer out reflected in FY19 relates to a Judgement Bond being issued to pay for the settlement of a large police related claim, which ultimately was charged-back to the General Fund Police Department cost center. Based on discussions with the City's legal and risk management team, no such large variances are anticipated for FY20.

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SOURCES

The Employee Benefit Fund revenues include employer contributions and employee contributions. City employees are provided medical, dental, and life insurance as part of their benefit package. Local 150 employees, mainly in the Public Works Department and the Water Plant, participate in a union health insurance plan for which the City pays 100% of the premium with no employee contribution. The rest of the City’s workforce is offered plans which include HMO and PPO options sponsored by the City. Prior to FY19, only non-union employees and higher ranking sworn unions (Police Sergeants and Lieutenants, Fire Lieutenants and Captains) had a 90% employer / 10% employee cost sharing medical insurance program, with patrol officers, firefighters, and SEIU employees being offered an 80% / 20% program. This was the program structure included in the amount reflected in the FY19 budget, along with a more favorable renewal rate intended to drive overall health insurance costs downward from the previous fiscal year. However, as part of the Patrol Officer Union settlement, covering 100+ employees and approved by City Council during FY19, the cost sharing was changed from 80% to 90% paid by the City as employer. Therefore, the City employer contributions for health insurance are anticipated to exceed the budget for FY19 shown below. It is further anticipated that this increase in benefit may also be granted to other employee groups, coupled with the City likely realizing a premium increase upon renewal, therefore the employer contribution is budgeted to move much higher in FY20 as demonstrated in the chart below. Conversely, the employee share of premiums is expected to decline by 50% when compared to prior year.



Internal Service Funds

USES

The expenses associated with the employee benefits have averaged \$7.4 million annually for the past five-years, and are expected to be \$7.5 million for FY20. Workers' Compensation and liability claims expense, including premiums for stop-loss coverage, have averaged \$3.8 million annually when excluding large one-time police liability lawsuit settlement outliers, and is expected to reach \$4.1 million for FY20. The Information Technology Fund has a budget of \$2.9 million for FY20, with \$651 thousand in wages and benefits, and \$2.2 million for costs in commodities, contractual, and capital expenses. In previous fiscal years these costs would have been accounted for in various funds and cost centers.

The City's addition of a full time Risk Manager in FY19 allow for a focus on mitigating exposures associated with employee injury and potential liabilities that occur from providing police, fire, paramedic, and other public services. Finally, by pulling all IT related services and projects into one fund, it is anticipated that IT may become more adept and see savings generated by executing programs and projects across the City's various business units in a more efficient and effective manner.

HEADCOUNT

The Risk Manager is accounted for in the Safety & Risk Fund, and in FY20 the Information Technology staff is changed from the General Fund to the IT Internal Service Fund. While accounted for in a different fund in FY20 than in FY19, there is no overall increase in headcount for either of these functional departments.

<u>Internal Service Funds Central Services</u>						
	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020 Proposed</u>	<u>Change</u>
Assistant IT Director					1.00	1.00
Comm / Utility Manager					1.00	1.00
Information Sys Director					1.00	1.00
Systems Administator					2.00	2.00
Risk Manager	-	-	-	1.00	1.00	-
	-	-	-	1.00	6.00	5.00

Internal Service Funds

LINE ITEM DETAIL

Proposed Budget
FY20

SAFETY & RISK MANAGEMENT FUND 660

Personnel Services

660 169821788 Director of Risk Management 96,000

Personnel Benefits

660 169822456 Hospitalization 14,000

660 169822461 Employer Portion OASDI 6,000

660 169822462 Employer Portion Medicare 1,000

660 169822467 Life Insurance 1,000

660 169822610 Employer IMRF 13,000

660 169822702 IL WC Comm Assessment 4,000

Contractual Services

660 169824423 Telephone 2,000

660 169824428 Rental/Lease Purchase 1,000

660 169824429 Conference & Travel 2,000

660 169824431 Training & Schooling 5,000

660 169824432 Postage 1,000

660 169824434 Printing 1,000

660 169824438 Other Professional Services 20,000

660 169924456 Claims Expense 4,100,000

Commodities

660 169825465 Office Supplies 1,000

660 169825466 Gasoline & Oil 3,000

660 169825480 Miscellaneous Expense 5,000

Capital Outlay

660 169826498 Office Furniture 5,000

Non-Cash Expense

660 169928419 Contra Claims Expense -4,281,000

SAFETY & RISK MANAGEMENT FUND TOTAL 0

EMPLOYEE BENEFIT PLAN FUND 680

Premium Contributions

680 58100 Employee Contrib PPO -62,000

680 58110 Employee Contrib Dental PPO -17,000

680 58150 Employee Contribution HMO -62,000

680 58160 Employee Contribution Dental HMO -17,000

680 58200 City Contrib. - PPO -2,587,000

680 58210 City Contrib. - Dental PPO -59,000

680 58300 City Contrib. - HMO -2,587,000

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680 58310	City Contrib - Dental HMO	-234,000
680 58350	City Contrib - MOE Fringe Benefit	-1,300,000
680 58500	Employer Contri	-125,000
<i>Contractual Services</i>		
680 189424466	Dental Insurance	325,000
680 189424467	Insurance Premium	125,000
680 189424470	HMO/PPO Premium	6,500,000
680 189424503	Insurance Admin	100,000
EMPLOYEE BENEFIT PLAN FUND TOTAL		0

SELF FUNDED FLEXIBLE SPENDING FUND 685

<i>Premium Contributions</i>		
685 58507	Medical Saving	-100,000
<i>Contractual Services</i>		
685 189524503	Insurance Admin	7,000
685 189524530	Claims Expense-	93,000
SELF FUNDED FLEXIBLE SPENDING FUND TOTAL		0

IT INTERNAL SERVICE FUND 695

<i>Personnel Services</i>		
695 169821713	Systems Adminis	147,000
695 169821757	Management Info	118,000
695 169821803	Comm/Utilities	83,000
695 169821806	Assistant IT Di	85,000
<i>Personnel Benefits</i>		
695 169822456	Hospitalization	70,000
695 169822461	Employer Portio	27,000
695 169822462	Employer Portio	63,000
695 169822467	Life Insurance	2,000
695 169822610	Employer IMRF	56,000
<i>Contractual Services</i>		
695 169824060	Central Admin IT Services	245,000
695 169824061	Building Dept IT Services	194,000
695 169824062	Fire Dept IT Services	168,000
695 169824063	Police Dept IT Services	130,000
695 169824064	Planning Dept IT Services	4,000
695 169824065	Public Works IT Services	335,000
695 169824066	E911 IT Services	446,000
695 169824067	Other Special IT Services	5,000
695 169824068	Water & Sewer IT Services	105,000

Internal Service Funds

695 169824069	Water Collection IT Services	207,000
695 169824070	Parking IT Services	20,000
695 169824407	Bank Service Charges	1,000
695 169824412	Equipment Maint	165,000
695 169824423	Telephone	31,000
695 169824428	Rental/Lease Purchase	9,000
695 169824431	Training & Schooling	16,000
695 169824432	Postage	1,000
695 169824438	Other Professional Services	125,000
<i>Commodities</i>		
695 169825466	Gasoline & Oil	16,000
<i>Non-Cash Expense</i>		
695 169528419	Contra Claims Expense	-2,874,000
IT INTERNAL SERVICE FUND TOTAL		0
Report Final Totals		0